

FINAL TRANSCRIPT

Thomson StreetEventsSM

EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

Event Date/Time: Jul. 31. 2008 / 11:00AM ET

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

CORPORATE PARTICIPANTS

Ann McCorvey

Eastman Kodak Company - VP, Director IR

Antonio Perez

Eastman Kodak Company - Chairman, CEO

Frank Sklarsky

Eastman Kodak Company - CFO

CONFERENCE CALL PARTICIPANTS

Shannon Cross

Cross Research - Analyst

Ananda Baruah

Banc of America - Analyst

Jay Vleeschhouwer

Merrill Lynch - Analyst

Ulysses Yannas

Buckman Buckman & Reid - Analyst

Carol Sabbagha

Lehman Brothers - Analyst

PRESENTATION

Operator

Good day and welcome everyone, to the Eastman Kodak second quarter sales and earnings conference call. Today's call is being recorded. At this time, for opening remarks and introductions, I'd like to turn the program over to the Director and Vice President of Investor Relations, Ms. Ann McCorvey. Please go ahead, ma'am.

Ann McCorvey - *Eastman Kodak Company - VP, Director IR*

Good morning, and welcome to our discussion of the second quarter sales and earnings. I'm here this morning with Antonio Perez, Kodak's Chairman and CEO, as well as Chief Financial Officer, Frank Sklarsky. Antonio will begin 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 in this presentation may be forward-looking in nature, or forward-looking statements as defined in the United States Private Securities Legislation Act of 1995. For example, reference to the company's expectations for investments in product lines, impact of commodity and raw material costs. Product installations, new product development, rationalization costs, share repurchases, taxes, cash, declines in our traditional business, interest income, segment and total company revenue, revenue growth, earnings and earnings growth are forward-looking statements. These forward-looking statements are subject to a number of important risk factors and uncertainties which are fully enumerated in our press release issued this morning and our second quarter Form 10-Q filed this morning. Listeners are advised to read these important cautionary statements in their entirety as any forward-looking statement needs to be evaluated in light of these important factors and uncertainties.

Antonio?

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

Antonio Perez - Eastman Kodak Company - Chairman, CEO

Thanks, Ann and good morning everyone. The second quarter shows that we are continuing to make progress, despite a challenging economic environment and significant increases in commodity costs. We are achieving our strategic objective of becoming a growing and profitable digital company. With that in mind, we have made some decisions on how we will use a portion of our excess cash and I would like to share those decisions with you. To drive incremental organic growth, we are investing an additional \$125 million above this year's plan to grow our consumer inkjet retail systems solutions digital printing and work flow product lines. These additional investments are reflected in our updated earnings and cash guidance. I believe now is the time to make these additional investments. Our consumer inkjet business has involved to the point where the start-up phase is behind us, and we're now ready to put in place investments that will deliver higher volumes than previously planned in 2009.

Our stream technology works and that was proven emphatically at DRUPA. We will now put to work additional investments to bring the full stream press to market three months earlier than we said at DRUPA. A critical element of GCG's proposition is work flow, as our customers told us during DRUPA, and we will invest to expand our product offerings in this important piece of the portfolio. Finally, the demand for our Apex dry lab and kiosk solutions continues to grow, and we will provide additional commercial capital to facilitate the momentum. These are four of our most important organic opportunities and we will invest to accelerate their growth. In addition, we completed two small acquisitions, aimed at enhancing our work flow capabilities for a total of \$36 million. Moving forward, we are open to pursuing similar M&A opportunities that further strengthen our digital businesses.

Also, in June, we announced \$1 billion stock buyback program. The expanded investment in our promising digital franchises and the stock buyback program are strong indicators of the confidence that the Board and I have in Kodak's future success. Given the first half results and the new organic investments, the overall company forecast for the year remains in line with the February forecast for revenue growth, at the low end of the February range from earnings from operations, and it is below the range for cash generation, excluding the receipt of the IRS tax refund. Specifically, we are keeping the top line growth -- the top line growth of 0 to 2% for the total company, which includes growth of 7 to 10% for our digital businesses and the decline of 12 to 14% for traditional. For the full year, inclusive of the asset useful life change, the negative impact of rising commodity costs and taking into account the pricing and recovery actions we're implementing, we expect our full year earnings from operations be at the low end of the 400 to \$500 million range we communicated in February.

I expect the digital businesses in aggregate to be at the low end of the previously forecasted 3 to 4% earnings from operations as a percentage of revenue. We now expect FBG to end the year at approximately 7% earnings from operations as a percentage of revenue, 1 percentage point below our range of 8 to 10%, which has been adjusted for the change in asset useful life. With respect to cash generation before dividends, the new forecasted range is 725 to \$825 million, including the previously announced IRS tax settlement of \$575 million, offset by increased investment and higher commodity costs.

Now let me talk specifically about our two digital segments. I will start with graphic communications group, GCG. GCG second quarter revenue grew 5%, driven by continued growth in consumables, primarily due to the double-digit growth in digital plates. Offset by the throughput related seasonality in equipment across all product lines. Based on the strong showing at DRUPA, we expect a strong second half and we remain confident in achieving our 2008 GCG revenue growth goal of 6 to 7%. GCG's earnings from operations were down \$16 million from last year, and reflects the continued investments in go to market and new product development for digital printing and work flow, partially offset by year-over-year improvement in digital plates.

We were extremely pleased with our experience at DRUPA. The show was very successful, both in terms of sales leads and orders, led by Magnus Computer To Play and Nextpress digital color printing equipment. We have a full order pipeline, and have begun installing equipment ordered at the show, and expect to continue installations into 2009. Inkjet was the star of the show, and the buzz was around product introduction of our new Stream technology. Stream technology will help Kodak change prints forever, providing offset class output that is reliability, productivity, total cost of ownership, substrate variety and image

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

quality, all together, class of course, variable data printing. This is a great opportunity for the future of Kodak. Today, 74 trillion commercial pages are printed each year and over 90% are printed on conventional presses. There are 200,000 commercial printing establishments worldwide who purchase over \$50 billion in presses, inks and other consumables every year from conventional suppliers. Kodak's Stream press is the first high speed inkjet press that merges offset class and variable data printing. The current production color roll fed digital printing market is only 20 billion pages, and it has an addressable vendor market value of \$400 million, as the conventional market transitions to digital printing, we expect this to grow to a multi \$1 billion opportunity with Kodak as the leader. We continue to evaluate the market and plan to update you on the market size and our participation at our annual strategy meeting next February.

Now the Consumer Imaging Group, CDG. CDG delivered another strong quarter of revenue growth, increasing 17% for the quarter, driven by digital capturing devices, consumer inkjet and the new apex dry lab. We are pleased to see good growth in all regions and we are especially pleased to see growth in both the top and bottom line for digital cameras. In July, we introduced a suite of new HD products which included the Kodak ZI6 Pocket Video Camera, that will take advantage of the industry-leading supply chain we have built, allowing us to profitably expand our consumer digital portfolio. Despite increasing commodity cost and the increased investment in consumer inkjet and sensors, CDG's loss of operations of \$49 million was a slight improvement over last year. This reflects strong operational improvements in digital capture and devices. We continue to believe in the progression of our CMOS technology and the market opportunity it offers. Next year, we expect to be in production with the industry first one quarter inch, 1.4-micron 5 megapixel sensor, which is a leap ahead in image quality.

We're pleased with the growth of our consumer inkjet business and the reaction from our customers. This week, the readers of PC Magazine selected Kodak as the favorite ink jet all in one printer for 2008. Readers gave the Kodak printer high marks for our technical support and the quality and cost of our inks. This feedback is important to us and we will continue to expand the product portfolio as we get ready for the big selling season in the second half of the year.

Now we'll focus on our traditional business, FPEG. Year-to-date FPEG revenue declined 13%, in line with our forecasted revenue decline of 12 to 14. The second quarter decline of 14% was at the high end of our projection. This was driven by continued industry volume declines, partially offset by 2% revenue growth in our entertainment imaging business. The global box office remains healthy, growing 6% year-over-year through June. FPEG remains committed to the strategy of taking cost out ahead of volume declines. However, due to the rapid increase across all product lines in silver and petroleum based raw materials and the continued industry volume decline in consumer film and photofinishing, we did not achieve this goal in the second quarter. The result in earnings decline was partially offset by productivity gains from the continued focus on cost discipline and the impact of the change in asset useful life assumptions.

FPEG's second quarter earnings from operations were \$54 million, down \$67 million from last year. It is harder to deal rapidly with rising commodity costs in a declining business. Nevertheless, we have a plan in place and I remain confident in the amount of FPEG management to find the necessary cost actions and the productivity gains required for sustainability. FPEG has the experience and the cost discipline culture required to address the current environment.

Now I'll turn it over to Frank who will provide you more details on our financial performance.

Frank Sklarsky - Eastman Kodak Company - CFO

Thanks, Antonio and good morning, everyone. Second quarter results reflect another step in the journey of creating a sustainable, profitable, digital growth model. To this end, the company posted another quarter of double-digit revenue growth in our digital businesses. That said, overall financial results were impacted by rising commodity costs, increased investments in some of our digital businesses, and the decline in certain traditional businesses. This was partially offset by the company's initiatives in reducing costs, continued strength in our prepress solutions, and document imaging businesses within GCG, and further significant improvements in digital capturing devices within CDG.

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

Also in the quarter, we announced a receipt of a major refund from the Internal Revenue Service and \$1 billion stock repurchase program, enabling us to demonstrate our confidence in the company's future while continuing to provide the flexibility to fund our growth. While we did not execute any purchases of our shares since the announcement in late June, we fully intend to initiate the program in the third quarter. We will of course be sure to update the investment community at the end of each quarter on the dollar amount and the number of shares purchased as required. For the second quarter, the company reported net earnings from continuing operations of \$200 million or \$0.66 per share, an improvement of \$354 million or \$1.19 per share from the prior year loss of \$154 million or \$0.53 per share. This improvement is largely attributable to the interest from the IRS refund and lower restructuring costs, partially offset by a reduction in segment operating earnings in certain areas.

With respect to the IRS refund, we received \$581 million in cash, the benefits to the P&L was \$565 million, of which \$270 million in interest was recorded on the tax line within Continuing Operations and \$295 million was reflected in Discontinued Operations. Consolidated revenues for the second quarter grew by 1%, including a favorable foreign exchange impact of about 6 percentage points. Please note, however, that foreign exchange had had only a modest impact to the bottom line. The revenue growth was driven primarily by a strong performance in our digital cameras, digital picture frames and consumer inkjet printers within CDG, digital plates within GCG, and year-over-year revenue improvement in entertainment imaging within FPEG. This was partially offset by declines in our consumer film and photofinishing businesses.

Second quarter gross profit margin decreased to 23.5% from 26.1% in the prior year. This decline was due primarily to the headwinds associated with commodity costs, including petroleum-based raw material and other costs, along with product mix. Also impacting the quarter were increased investments above our original plans, including equipment placements in consumer inkjet within CDG and in digital printing within GCG. This was partially offset by continued cost improvements and digital capture. The negative impact to pretax earnings for commodities net of hedging activities was significant. Silver and aluminum had a negative impact of about \$17 million, versus the prior year, and there was an impact in excess of that amount from petroleum based raw material, transportation and operating costs. The dollar amount of Kodak's sensitivity to our major commodities, including petroleum-based materials and operating costs, along with silver and aluminum, is a frequently asked question so we want to provide a bit more transparency on that issue. For every \$1 change in the price of oil, Kodak's pretax earnings and operating cash flow are impacted by approximately 1 to \$2 million. For every \$1 change per Troy ounce in the price of silver, the impact is 15 to \$20 million. And for every \$100 change per metric ton for aluminum, the impact is approximately 13 to \$14 million.

It's also important to note that these amounts can be impacted by hedging or forward buy strategies we might pursue so the impact in any given quarter might vary from these general guidelines. For the year, higher commodity costs, including petroleum based inputs are expected to have a negative impact of approximately 150 to \$200 million on our P&L and cash flow versus the prior year. As you can imagine, these costs are very difficult to forecast with precision, so this range is meant to provide our general assessment of the situation. Like many other companies, Kodak is being significantly impacted in this area. And we will be implementing actions on ongoing basis to mitigate the negative impact to earnings from commodities. Consolidated second quarter GAAP pretax results from Continuing Operations improved by \$184 million to a loss of \$13 million as compared to a loss of \$197 million in the year ago quarter. This was attributable to lower year-over-year restructuring charges, partially offset by higher commodity costs, declines in certain traditional businesses and the increased investments in our digital businesses.

On a segment basis, the graphic communications group grew revenue by \$40 million or 5% for the second quarter. This growth was driven primarily by double-digit revenue growth in digital plates. As Antonio mentioned, the GCG business experienced a high degree of success at DRUPA, resulting in a strong sales pipeline for the rest of the year and into early 2009. Earnings from operations in the quarter were \$13 million as compared to \$29 million in the year ago quarter, a decrease of \$16 million. This year-over-year decline is largely attributable to higher than planned investments including R&D and equipment placements in our digital printing businesses, and higher R&D investments in our Enterprise Solutions business. We also experienced some negative impacts caused by higher aluminum and other commodity costs, partially offset by productivity improvements.

Moving on to the Consumer Digital Imaging Group, CDG's revenue for the quarter grew by \$109 million or 17% to \$756 million versus \$647 million a year ago. This was achieved on the strength of digital cameras, digital picture frames, consumer inkjet

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

and our newly introduced Apex dry labs. On the earnings side, CDG posted a \$49 million loss from operations, a slight improvement in EFO of \$2 million versus the year ago quarter. This improvement is due to the strength of a highly competitive product portfolio and an increasingly sufficient supply chain in digital capture and devices business, partially offset by higher petroleum-based raw materials, transportation and operating costs and the increased investment in consumer inkjet.

With respect to FPEG, the film, photofinishing, and entertainment group, revenue was down 14% from the year ago quarter due mainly to industry declines in consumer film and photofinishing, partially offset by a 2% increase in entertainment imaging. EFO for FPEG was \$54 million as compared to \$121 million in the year ago quarter. Higher petroleum based material and silver costs, along with lower consumer film and photofinishing volumes significantly impacted earnings in FPEG. While these were partially offset by improvements in SG&A and other costs. Entertainment imaging revenues were improved, and earnings were steady as compared to the prior year. We would like to note that in prior years, we were able to effectively reduce costs overall ahead of revenue declines in FPEG. In the first half of this year, due to the unprecedented increase in commodity prices, cost reductions were not able to keep up with revenue declines for the period. Going forward, however, we will be aggressively managing the cost side of the equation in FPEG, including the adjustment of our cost structure in ways that will enable a sustainable, profitable business model.

In the area of cash flow, the company made very good progress for the quarter as compared to the prior year. Cash generation before dividends including the IRS refund was \$389 million compared to a use of \$251 million in the year ago quarter, for an improvement of \$640 million. Without the IRS refund, our net cash usage would have been \$192 million, a \$59 million improvement as compared to the prior year usage of \$251 million. This improvement, achieved, despite a decline in segment earnings is due primarily to improved working capital in virtually every category, including substantial progress in the areas of accounts payable, inventory management and past due receivables. We also had had lower carryover restructuring and rationalization payments. These positive factors were partially offset by lower proceeds from the sale of real estate and other assets, and slightly higher capital expenditures as compared to the prior year quarter. We ended the second quarter with about \$2.3 billion in cash and cash equivalents and debt of \$1.355 billion.

We're very pleased with our strong balance sheet and the significant liquidity position it provides us in the current economic environment. I want to provide more details on the updated 2008 financial guidance for the company. On the top line, overall, we are in line with our revenue plan year-to-date. We expect strong revenue performance in the second half of 2008 from our digital businesses, where we typically see askew of the revenue growth in the latter part of the year. That dynamic is particularly true this year in GCG, given the strong showing at DRUPA. That said, we will be closely watching consumer confidence in the back half, and also expect continued declines in the traditional businesses outside of entertainment imaging.

Overall, we feel comfortable affirming our revenue guidance of 0 to 2% growth for the total year 2008. With respect to profitability, we're now forecasting that segment earnings from operations will be closer to the low end of the 4 to \$500 million range previously communicated. There are a few factors impacting this latest projection. As you recall, we estimated a positive full year impact to pretax earnings of about \$96 million from the change in asset useful lives. This positive impact is being negatively offset by approximately 125 to \$175 million from commodities versus plan, along with slightly higher volume declines in our consumer film and photofinishing businesses. On the other hand, the company is taking a number of pricing and cost reduction actions that are expected to partially mitigate the commodity and volume impact. Consequently, we are slightly increasing our 2008 rationalization charges from a range of 60 to \$80 million to a new range of 80 to \$100 million.

In total, our digital businesses, GCG and CDG are together expected to achieve results toward the lower end of the previous guidance of 3 to 4% EFO as a percent of revenue. Our traditional business FPEG is expected to achieve EFO of around 7% of revenue. With respect to taxes, as you can imagine, including the impact of the IRS refund and other valuation allowance impacts, makes the P&L effective rate less relevant this year. We do confirm, however, that our cash taxes are still expected to be in the range of about \$150 million for the year. Based on the current economic conditions and our internal assessment, we now believe that cash generation before dividends for the year will be in the range of 725 to \$825 million including the net cash tax refund of \$575 million. The prior guidance for cash generation before dividends was 4 to \$500 million. Factors impacting cash include higher commodity costs, volume-related declines in the traditional business, increased investments in consumer inkjet, digital

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

printing and work flow, along with increased expenditures for commercial capital to drive continued digital revenue growth. We also expect to have slightly higher rationalization payments, reflecting enhanced emphasis on continued cost reductions that will benefit future periods. Interest income will also be slightly lower, based upon projected cash balances and interest rates.

In addition, certain one-time payments and settlements and the losses associated from the writers strike in entertainment imaging, all of which impacted the first quarter, will flow through to the full year. These factors will be partially offset by pricing and cost reduction actions that will be implemented in the second half of the year along with continued improvements in working capital. Looking forward, we still project the company will generate over \$1 billion of cash in the back half of the year.

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

QUESTIONS AND ANSWERS

Operator

Thank you. The question-and-answer session will be conducted electronically. (OPERATOR INSTRUCTIONS). We'll pause momentarily to allow everyone an opportunity to signal. Our first question comes from Shannon Cross with Cross Research.

Shannon Cross - Cross Research - Analyst

Good morning. Can you talk a little bit about -- I'm trying to get an idea of sort of the end market, what you're seeing the demand. Obviously with your digital revenue growth, you've maintained your expectations, but I would assume some of that also includes some higher than expected benefit. So is that correct?

Antonio Perez - Eastman Kodak Company - Chairman, CEO

Repeat the last thing, we lost you.

Shannon Cross - Cross Research - Analyst

I'm sorry, can you hear me now?

Antonio Perez - Eastman Kodak Company - Chairman, CEO

Yes. Yes, the second part of the question we missed.

Shannon Cross - Cross Research - Analyst

My question was just with regard to currency benefit within the revenue numbers. What did you expect in terms of digital revenue growth when you started the year with your expectations. Because I'm just trying to figure out, you kept your revenue growth, it's costing you a little bit more to get there, but was the currency factored in earlier?

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

Frank Sklarsky - Eastman Kodak Company - CFO

This is Frank. Like I said, 6% for the second quarter, we expected in the mid single digits benefit from FX. That's really no change from our original projections.

Shannon Cross - Cross Research - Analyst

Okay. And then when we look at the inkjet business, Antonio, we think about some of the things you're doing to grow unit volume there. We recently saw on your website where you're basically bundling in what looks like about \$85 worth of ink for an incremental \$20. Can you sort of talk about how we should think about margin profitability in that business, what the reception has been, because obviously that's a very attractive price point for consumers, and any more color you can give on sort of how you're going to approach inkjet this year.

Antonio Perez - Eastman Kodak Company - Chairman, CEO

Really, I don't have anything new that I haven't said before. I mean, those promotions, they come and go. I don't even know when it was or when it will be done. The hundreds of promotions running in different markets, different geographies, different -- and they all have one reason and I can't tell you which one was the reason for that particular one. The objective we have is to attract heavy users, and I think I shared with this audience before that we are very pleased with the burn that we are getting from the install base. We do realize that our installed base is still limited. We sold last year about 500,000 units and, this year, halfway through the year, I don't know how many we have. But it's probably around maybe close to a million units out there. And what we get is a usage that has doubled the average of the industry. Now, the methodologies that the marketing teams are using to attract those people are varied. You asked me about that program. Obviously, that program will be very attractive to someone that prints a lot and I think they're trying to attract those people. But I can't -- the business model has not changed. We continue with our plans. Our objective is to break even with that business during 2010. That hasn't changed.

What we have done with this new investment that we announced today, we're trying to raise the volumes during 2009 because -- and this is due to -- we have now the new platform that we started to introduce at the beginning of this year. As you know, this new platform is a much lower cost the one before, therefore it's much more favorable for us to go to higher volumes versus the previous platforms. So this is a pretty logical sequence when you're trying to build a business. You go through the start-up phase, you have higher costs, you have some issues with connectivity, support, we cleaned those up. We have the new platform. The new platform has been very well-received so this is the time to go for higher volumes and this is what we're doing.

Shannon Cross - Cross Research - Analyst

Okay. Great. Just one final question. Can you give us any indication, because you mentioned several uses of cash, how aggressive you're thinking about being on the share repurchase? I don't know, Frank, if you can provide any color, just so we can sort of think about it within our models and in terms of cash that will be used in this way during the remainder of this year. I mean, is it something where we should expect you to go through most of the tax refund money within the first three quarters or so?

Frank Sklarsky - Eastman Kodak Company - CFO

Well, for a variety of reasons, we don't want to get too specific in terms of the amount or the pacing of the repurchase. The program authorization is available through the end of 2009. We will be entering the market during the third quarter and I think we want to leave it for now that we'll keep the investment community updated at the end of each quarter with respect to the dollars spent and the number of shares repurchased in any given quarter. I think we want to limit the transparency to that for now.

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

Shannon Cross - *Cross Research - Analyst*

Okay. Thank you.

Operator

Thank you. Our next question will come from Ananda Baruah with Banc of America.

Ananda Baruah - *Banc of America - Analyst*

Hi, guys, thanks for taking the question. Just wondering if you could -- your revenue has held up well through the first half of this year. Just wondering if you could walk through I guess -- you mentioned consumer film being adversely affected to some extent this quarter. Just wondering if you could walk through kind of both the US and Europe, sort of maybe the major product categories and I guess I'm thinking kind of cameras and plates, really what you're seeing, what's been the reason for sustainability, consumer spending's coming in kind of in Europe now pretty hard and US has been soft. I guess I'm wondering if there could be another shoe to drop or a first shoe to drop for you guys on the top line as you move through the year and what are some of the reasons you think you haven't really felt it yet.

Antonio Perez - *Eastman Kodak Company - Chairman, CEO*

You've been tracking us, which I know that you have been. We've been introducing a lot of new products in the key categories. Remember, the majority of the revenue of our company comes from three product lines. You mentioned a few of those, plates, it's a consumable business. A consumable business that is driven by the worldwide economy but we haven't seen any reduction in the purchase of those plates. In fact, we keep double-digit growth in digital plates. There are a lot of opportunities still to grow in that business, outside the US and Europe. So we feel confident with the numbers for digital plates. We don't have any reason or any indication. You know, in fact, we got a huge amount of orders during DRUPA.

Remember, we have introduced new plates as well for applications, reactive in the past, so there are many reasons why we don't see that that's going to be lower. We think it's going to keep growing very healthfully for the rest of the year. We have introduced a variety of new products constantly and I believe we have the leading supply chain in the industry, with a difference, with a big difference over our competitors. We have a very low cost distribution, we have a very well-established business model. We can go from design to a product on the shelf in a very rapid time. We have very little inventories that will challenge any of the competitors we have. So we have a very healthy system. We understand that this is a business with lower margins than others, but the answer to that for us is a very good cost structure and value chain. We've seen a very significant growth in the first half of the year.

We obviously are in touch with our customers and with our retailers. At this point in time, I don't have any reason to believe that that's going to stop this year. So I expect a -- so that's why we kept the 7 to 10%. Those two are the larger product lines we have and they're working very well. They have a lot of new products and I expect it will continue to do well for the rest of the year. This is going to take a long time.

Ananda Baruah - *Banc of America - Analyst*

Antonio, I appreciate that. Those are the two I was most interested in. Canon and Sony are reporting, pricing being pretty aggressive in cameras. I know you are positioned in the market sort of in a different place than they are, but still wondering if you're seeing any price aggression creep in as a result of slowing consumer spending into your business or even conversely, if you're getting a sense of maybe you're seeing some folks maybe move down to where you guys are positioned.

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

Antonio Perez - Eastman Kodak Company - Chairman, CEO

In my experience in this type of electronic products what's happening is not just in cameras but any other one, the middle low end becomes very, very powerful, becomes -- the technology, the quality, the features, they keep increasing very rapidly and that is a big threat for the people that used to make all their money in the high end. Because the low end is becoming -- you can buy a phenomenal digital camera now for \$199, a phenomenal digital camera that could challenge many of the very expensive cameras out there. The more people use those cameras, the more realize when they see difference between picture and picture, I think this is pretty good. That's one thing.

The other advantage that I believe we have is that because we were from the beginning located in the mass market, which is below \$300, we created a business model for that market, so our whole structure is based on a very low cost structure, very asset light, very rapid turns and that's not the case when you have high margin products and low volume, much lower volumes that go in the higher part of their market. That's all I can give you. Obviously, I cannot judge why they did what they did. I don't know. I'm just telling you that we feel very comfortable with the business model that we have created for the massive market that we believe is going to be concentrated lower than the \$300.

Ananda Baruah - Banc of America - Analyst

Got you. Appreciate it. Just one follow-up, if I could. I guess on the commodity cost and the impact there, appreciate the additional detail that you guys provide this quarter. Sort of relative to how that flows through the income statement, changes in commodity costs. Just wondering is it time that we reconsider the long-term profitability model that you guys put forth earlier this year, just given that there's uncertainty as to whether commodity costs will abate, certainly the near term but even over the intermediate term or are there things you guys can do such as maybe price increases, hedging, forward buying, that you can do to kind of offset that to some extent such that the long-term model might be able to remain relatively intact.

Antonio Perez - Eastman Kodak Company - Chairman, CEO

We believe firmly that it's the second. We believe that the biggest impact of raw materials, as you've seen, this quarter, was in FPEG because it's harder to deal with sudden changes in raw materials when you don't have growth. It's a lot more difficult. But having said that, that's probably the most experienced thing that we have in dealing with cost issues. We don't really have a plan in place for the rest of the year. Obviously, if the raw material increases are with us, and we have them with us for the next two years. We have seen them. They're going to be with us this year and next year so we have to have a plan to live with those for the next three years, which we do and we will.

So I don't see any reason to change the fundamental business model of the company. We will do tactical things along the way. Obviously, we will have to do, because we expect \$175 million or so this year and I wouldn't be surprised if it is another \$100 million next year. So we -- but now we have time to deal with that. We were caught unfortunately by surprise with the speed of the change in the last six months. We did not expect. But we have plans in place. We don't -- I don't see a reason to say fundamental -- you know, the fundamental elements of our business model are based on differentiation, whether as technology, go to market, supply chain, I don't see any reason to change the business model.

Ananda Baruah - Banc of America - Analyst

Okay. Thank you for your time.

Antonio Perez - Eastman Kodak Company - Chairman, CEO

Thank you.

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

Operator

Thank you. Our next question will come from Jay Vleeschhouwer with Merrill Lynch.

Jay Vleeschhouwer - Merrill Lynch - Analyst

With respect to the incremental \$125 million you spoke of earlier, in terms of additional investment, how is that being apportioned over the course of the year and more importantly, how is it being apportioned across the four focus areas you mentioned, for example, within consumer inkjet, how would its additional spending share compare to the \$50 million increase you had committed to five quarters ago? That's number one. Number two, an operational and cash flow question.

Antonio Perez - Eastman Kodak Company - Chairman, CEO

Why don't you ask me that question, later, Jay.

Jay Vleeschhouwer - Merrill Lynch - Analyst

That's fine.

Antonio Perez - Eastman Kodak Company - Chairman, CEO

Very complicated, if you don't mind.

Jay Vleeschhouwer - Merrill Lynch - Analyst

No.

Antonio Perez - Eastman Kodak Company - Chairman, CEO

Okay. So the first one, most of the 125 will be in the second part of the year, most of it. And we're not going to detail into how much in each one of the product lines. I mean, I can give you why we spend the \$50 million more last year. As you know, when you are building a new business, a new product line, you have some gating elements, you have some milestones. Some of those milestones are heavily dependent on some invention that has to happen or some real proof in the market that things are going a certain way. I have on paper, making those decisions or those investments when I know those decisions are solid, and I have proof that this is a good decision. Last year, the question was when do we bring the new platform forward.

We have plans to bring the new platform forward later during this year. After we knew that the reception of the business model was very good in our mind, we say well, I think it is time to -- if we could move those things faster, we should do that, and that's how you saw that we introduced the first product of the new platform in January and then we introduced another one in March and you're going to see more coming this year. That was the reason why we did that. That second platform was lower cost and much more efficient for us. We still had all along this time issues that I will call start-up issues. They're very normal issues where you create a new business in a company. And they have to do with how we do customer support, how the connectivity was working with all sorts of systems that are in the market, some of the features -- a bunch of things that come, you get a lot of feedback.

We are at a point that we basically concluded as a theme that those start-up issues are over. We have the new platform running, and I think it's time to be more aggressive and you can argue why didn't you do that before. We were not sure that that was

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

the case. We are now and, therefore, the best thing that we can do for our shareholder base is move as fast as we can with a product that we believe has an unbeatable business case and it's proven to be very good for the customers that print a lot. So we're going to go after all those customers as fast as we can.

I could go through the other product lines. Now, we're not going to go and tell you exactly how each one of the dollars go into each one of those. I don't know. I think it will be too complicated to do that. But those are the four product lines that we believe are at a point -- they're both great product lines, by the way. They both are going to be very high margins. They both are going to have a business that is heavily dependent on annuities and this is the right time to do that.

Jay Vleeschhouwer - Merrill Lynch - Analyst

Okay. Thanks. Operational and cash flow question for Frank. Could you be a little bit more specific as to the nature of the cost initiatives or how much you think the ultimate savings might be, not only within FPEG but even within GCG, you've mentioned that you're looking to reduce the portfolio and eke out some more cash like some of your competitors in pre-press. How are you thinking about that?

Frank Sklarsky - Eastman Kodak Company - CFO

I think the best way to characterize that one is to say look at the business model that we set out back in February and while we've got some variation this year, if you look out to where we're headed in the outyears, when we put out that 2011 business model, in terms of the margin structure, the revenue growth, the margin structure, the SG&A structure, that's really where we want to head. And we know that we've got to put some more money towards some rationalization this year because of the commodity headwinds and because of some of the challenges in the traditional business in order to achieve the company model, and the company model and the individual will be used. So just to give you just a little bit more transparency around some of the changes in the cash, we had given guidance for instance earlier in the year that we were going to spend about \$150 million on carryover restructuring and rationalization. Most of that was carryover and about 20% of it was new rationalization actions. We're now thinking that number is probably going to be in the range of \$175 million. So how does that additional 25 or so translate into specific cost reductions in the individual businesses? That's really hard to say at this point. But we know what we want to get to in terms of our model.

We have some specific actions in place. We have things like -- and you refer to it, SKU reductions, which we've got a lot of people mobilized around the company around simplifying the portfolio. That has a lot of benefits. It has benefits in inventory carrying costs, in the supply chain, in cost of goods sold, in costs to go to market. So that's perfect example. Changing our modes of transportation between air and ocean and land and optimizing our distribution lanes. Consolidation of facilities. Productivity projects within individual facilities and continued look at administrative opportunities. That would be a characterization of the kinds of things we're going after in order to firm up our medium-term business model.

Jay Vleeschhouwer - Merrill Lynch - Analyst

Two quick follow-ups. Your press release refers to you're increasing the projected volumes for the consumer inkjet and pulling forward stream by three to six months. What is the new range? And on the latter for stream, how do you accelerate that by up a half a year, just by pouring more money into it?

Antonio Perez - Eastman Kodak Company - Chairman, CEO

Okay. Well you want to be an engineer, you can come and join. When we were in DRUPA, I think I talked to you about this and other people in that room. I think we didn't have any invention that had to be part of the process that I was left to bring the stream press to market really. No inventions. That technology works and it works so well that we got incredible feedback and

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

we were very pleased with that. It's engineering, it's project engineering. It's working with -- it's trying different things in different ways to get that. This is one of those issues that you just put more engineers and more money and more trials for the different parts to make it work. So, so we have accelerated that. That team has now more money to work with and more people to work with and they're going to work in parallel in certain things instead of one after the other and that's how we can get into the market three to six months.

Now, why didn't we do that before? We needed to make it work and we needed to make it work in the eyes of our customers too, and we got a lot of feedback that that is exactly what they want and that is. And so many people that would have bought that unit right there and then. So that was -- that's what motivated the decision. In the case of inkjet, I've been saying while we never gave an exact number of printers, it is very typical in the business like that, like to double every year. So if we sold 500,000 last year, a million, a little bit more than a million will be right thing to do and then 2 million will be a good thing for 2009. We now believe that 2 million for 2009 is too low. That we can go a lot more aggressive, that we have the reception and the cost structure and the capabilities. We don't have an operational plan behind this. All I'm telling you now is that we decided to put this money, and we will have an operational plan with numbers for you in February. But it's going to be more than we had originally planned as I described to you.

Jay Vleeschhouwer - Merrill Lynch - Analyst

And lastly, do you have any reason to believe that the strength you saw in plates, which was substantially more than AGFA reported yesterday was a buy-in in front of your price increase or do you think you're just gaining substantial share or both.

Antonio Perez - Eastman Kodak Company - Chairman, CEO

I don't think it had significant influence for the pricing. Our plans for the rest of the year are very much in line to what you've seen. We do have very good plates, I might say, and we do have the leading market share and we have a great distribution system and maybe other companies are not in such good shape. I don't know. I mean, you make the judgment for that. I don't think any of the growth here is a one-time growth, if that's what you asked me.

Jay Vleeschhouwer - Merrill Lynch - Analyst

Thank you very much.

Operator

Our next question will come from Ulysses Yannas with Buckman, Buckman and Reid.

Ulysses Yannas - Buckman Buckman & Reid - Analyst

I apologize, I came in a little late. Fortunately, Jay did a spectacular job in answering my questions. One question you might have answered: Your recently posted price increases. Can you give us some idea as to what you think we generate revenue.

Antonio Perez - Eastman Kodak Company - Chairman, CEO

We're not going to generate all the effect of the raw materials increases, we know that. And obviously the price increases, they last longer than the six months. So it will have an effect during 2009. But we think there will be between 50 and \$70 million for the second half of the year that we can get back out. It's the combination of price increases and other actions, how we pack products and everything but you can apply that to price increases. So that will be slightly less than half of the impact that we

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

expect from raw materials. Now, this is not across all the product lines. It's mostly -- it's more towards the traditional business than the other businesses. It's more in certain geographies, certain deals, all sorts of things, that's pure marketing. I can't even tell you where and how. It's not across all the product lines. It's more goes to specific products, specific geographies, specific businesses. 125 to \$175 million in cost increases from raw materials, is that after the savings, or just by themselves?

Frank Sklarsky - Eastman Kodak Company - CFO

No, that's before. That's before the savings.

Ulysses Yannas - Buckman Buckman & Reid - Analyst

Before the price increases.

Antonio Perez - Eastman Kodak Company - Chairman, CEO

Yeah, yeah, before the savings. Obviously, we are estimating that. I mean it could be better than this or could be worse than that. We believe that is a good margin.

Frank Sklarsky - Eastman Kodak Company - CFO

That's versus our plan.

Ulysses Yannas - Buckman Buckman & Reid - Analyst

But another question, if I may. There has been continued price deterioration and price investment in the commercial printing area. How much has that affected you?

Antonio Perez - Eastman Kodak Company - Chairman, CEO

I don't know what is said or how he said it. You have to tell me more about that.

Ulysses Yannas - Buckman Buckman & Reid - Analyst

They seemed to be experiencing 10% price declines in their equipment, roughly.

Antonio Perez - Eastman Kodak Company - Chairman, CEO

No, I can't say that that will happen to us, know, I can't say that, no. I mean, there's always pricing pressure and deals, individual deals.

Ulysses Yannas - Buckman Buckman & Reid - Analyst

Yes.

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

Antonio Perez - Eastman Kodak Company - Chairman, CEO

But in many other deals we don't. So I think that is a very strong statement. We don't -- no, I don't -- I wouldn't qualify our situation like that. After saying that, we always have price pressures in every product we sell all the time. I mean, it's a way of life.

Ulysses Yannas - Buckman Buckman & Reid - Analyst

The market today isn't anything like that.

Antonio Perez - Eastman Kodak Company - Chairman, CEO

That will be massive. That is massive. No, I don't -- we don't see that.

Ulysses Yannas - Buckman Buckman & Reid - Analyst

Thank you very, very much. I appreciate you taking my call.

Operator

Thank you. Our next question will come from Carol Sabbagha with Lehman Brothers.

Carol Sabbagha - Lehman Brothers - Analyst

Thank you. Just a couple of quick questions. On the increased investment, the \$125 million, should I assume most of that runs through the P&L or is there something that will just show up on the cash flow and not through the P&L.

Frank Sklarsky - Eastman Kodak Company - CFO

Carol, some of that is a -- it's a combination, really. There will be some like commercial capital is a portion of that, where it will hit the balance sheet but won't necessarily hit the P&L right away. There's other things like equipment placement, like the engineering cost that Antonio alluded to, that will be kind of a one for one between profit and cash flow. Without breaking it out specifically, it is a combination. I'd say probably more of it than less will hit both P&L and cash but there is a portion there that is capital and commercial capital that will merely hit the balance sheet.

Antonio Perez - Eastman Kodak Company - Chairman, CEO

I think it would be fair to say that the majority will hit P&L and cash.

Carol Sabbagha - Lehman Brothers - Analyst

Okay. And then you talked about part of that going to inkjet to help drive increased unit places in '09. For '08 would you still expect that the losses to drive the inkjet business will be less than '07 or does this incremental investment change that?

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

Antonio Perez - Eastman Kodak Company - Chairman, CEO

That's the plan. Yeah, that's the plan. Now, that's the plan that we have in place, I mean, just take this -- just take this 125 and whatever portion of that goes to inkjet. Without that, yeah, the plan is still to be less than last year. But as you know, we're going to face the largest part of the year in the next four months and we have plans for that and the plans we have include losses and investments, whatever you're going to call them, it will be slightly less than last year. Once we get into the market, I don't know how the fourth quarter is going to be like. I don't know what pressures will be like. So I don't want to -- but yes, the plan has not changed but I would like you to take the 125 away from that calculation.

Carol Sabbagha - Lehman Brothers - Analyst

Okay. And then can we talk a little bit about your shelf space in inkjet, where it is now in '08 versus where it ended '07 and sort of what are your plans around the shelf space in order to get those incremental units in '09.

Antonio Perez - Eastman Kodak Company - Chairman, CEO

Most of this investment is going to be actually to make the units. But I don't expect any significant problems getting shelf space. We still have a lot of places that we can go to. That's not really the problem. The problem for us was that every time you sell one printer, you incur a loss because you're selling at variable cost. So how much do you want to do this when you know that you can possibly increase your variable cost, make it lower. A lot of the investment that we're going to make is to actually make those platforms lower cost. That would allow us to be a lot more aggressive than marketing those products.

Carol Sabbagha - Lehman Brothers - Analyst

Got it. That's helpful. And then my last question on cash flow, you kept your EBIT guidance the same but you lowered your cash flow guidance X this tax benefit by \$250 million. I know you've given me a lot of the components, but can you help me sort of close the gap on that 250, what is the difference between holding EBIT and lowering cash flow that \$250 million difference and are any of those differences sort of permanent or longer term we should still expect your cash flow to move along with your EBIT or with your earnings?

Frank Sklarsky - Eastman Kodak Company - CFO

Yeah. In the --

Antonio Perez - Eastman Kodak Company - Chairman, CEO

Answer the second first, which is very important.

Frank Sklarsky - Eastman Kodak Company - CFO

When you talk about permanent versus temporary, obviously the dependency on that is with the things that Antonio was talking about is how quickly we can react to some of the near term headwinds. So for instance, the largest impact is the midpoint of the 125 to 175 we said would be due to commodities, the midpoint being 150, that's obviously a near term hit. To the extent we get our cost rationalization actions in place and simplify our portfolio and do all these things that we say we're going to do, that will mitigate over time unless we get hit with another substantial increment in the next cycle, then obviously we have to dig in deeper for cost reductions and revenue enhancements. So that's the biggest piece. The other pieces, the other \$100 million is really made up of the additional rationalization actions of \$25 million or so that I talked about a few minutes ago.

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

Antonio Perez - *Eastman Kodak Company - Chairman, CEO*

Yep.

Frank Sklarsky - *Eastman Kodak Company - CFO*

We've got those first quarter impacts from the settlements and agreements as well as the writers strike that flow through the year. We've got some additional commercial capital that we talked about in driving revenue growth and particularly important in the current credit environment as we try to attract customers who are still very credit worthy. Just takes them a long time to get financing. We think we can help in that respect. And then we've got some things in the area of all the investment opportunities that Antonio talked about that hit cash flow for the work flow business, for the Apex business, for consumer inkjet and for stream. So those are really the categories and there's a little bit of an impact on interest income but that's only 10 to \$20 million.

Carol Sabbagha - *Lehman Brothers - Analyst*

Thank you very much.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Thanks.

Operator

That would conclude our question-and-answer session. At this time, I would like to turn the program back to our speakers for any additional or closing comments.

Antonio Perez - *Eastman Kodak Company - Chairman, CEO*

Well, thank you very much. Thank you for attending the call. We're moving now to the all-important second half of the year and we realize that we're facing some headwinds because of the economic environment and the commodity costs, as we said. What I want to tell you is we have plans in place. We are committed to address those issues head-on. Those actions plus the expanded portfolio, things we're introducing before now and the rest of the year, you know, give me the confidence for the year. So I'm very proud of my team and I'm very confident that we can execute the strategy that we just described to you. Thank you very much.

Operator

Thank you, everyone for your participation on today's program and you may disconnect at this time.

Jul. 31. 2008 / 11:00AM, EK - Q2 2008 Eastman Kodak Company Earnings Conference Call

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2008, Thomson Financial. All Rights Reserved.