FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

Ann McCorvey
Eastman Kodak Company - Director and VP of IR

Antonio Perez
Eastman Kodak Company - Chairman, CEO

Frank Sklarsky
Eastman Kodak Company - CFO

CONFERENCE CALL PARTICIPANTS

Jay Vleeschhouwer
Merrill Lynch - Analyst

Carol Sabbagha
Barclays Capital - Analyst

Richard Gardner
Citigroup - Analyst

Shannon Cross
Cross Research - Analyst

Ananda Baruah
Banc of America - Analyst

Joan Lappin
Gramercy Capital - Analyst

PRESENTATION

Operator

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

Ann McCorvey - *Eastman Kodak Company - Director and VP of IR*

Good morning and welcome to our discussion of the third 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 this morning with his observations on the quarter and then Frank will provide a review of the quarterly financial performance.

Certain statements in this presentation may be forward-looking in nature or forward-looking statements as define in the United States Private Securities Litigation Reform Act of 1995. For example, references to the Company's expectations regarding commodity costs, restruction and rationalization charges and payments, taxes, cash, cash flow, declines in our traditional businesses, segment and total Company revenue, revenue growth and earnings and earnings growth are forward-looking statements. These forward-looking statements are subject to a number of important risk factors and uncertainty which are fully enumerated in our press release issued this morning and our third 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 uncertainty. I would like to turn the conference call over to Antonio Perez.

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

Thanks and good morning everyone. A lot has changed since we spoke to you in the second quarter earnings call. The growing economic crisis which started in the United States has now become global. When we spoke in July, year-over-year digital revenue growth was 10% for the first half and we were expecting our year-over-year digital revenue growth to be 8% in the second half. While we expect for the rest of this year to gain or maintain market share with our key product lines as we just did in the third quarter, we are now forecasting the second half year-over-year digital revenues to decline 1% to 5%. When combined with the strong first half we are now forecasting full-year digital revenue to grow 1% to 4%.

The magnitude of the change in our topline forecast is evidence of the turmoil in the global economic environment. On the positive side, as I said before, our market share positions in our key digital products such as consumer inkjet, digital cameras, digital services, digital plates and kiosks are strengthening. We have a strong product portfolio in a weak market.

For the remainder of the year and 2009 we will be implementing proven growth plans for our digital businesses, aligning our cost structure with the new topline forecast and, above all, sharpening our focus on cash while maintaining our core strategy. We will emerge as an even stronger company.

As we create and implement this plan we have one criteria which anchors our thinking and that is any changes we make in response to the current economic environment must stay true to our core strategy which we believe will deliver the best return for our shareholders. Investments that are at the core of our digital strategies, such as consumer inkjet and stream technology for commercial printing, are moving forward as planned reason critical to creating a growing consumer service business.

When you combine our solid cash position, our market success with our key products and our investment in new products with our continued efforts to reduce working capital and cost, we believe we are well-positioned for the recovery that will eventually come. We have updated our full year forecast to incorporate the impact of the economic slow down and the ongoing uncertainty surrounding the important fourth quarter. The new estimate reflects the negative impact on the topline of the slow down in the global economy and the strengthening dollar as well as the negative impact on the bottom line driven by competitive price pressures and unfavorable price mix that comes with diminishing demand.

Therefore, we are taking a prudent approach to the fourth quarter because we see little evidence that the global economy will improve in any meaningful way in the short term. Specifically for full year 2008 we now expect a revenue decline of 3% to 5% for the total Company versus our previous forecast of 0% to 2% growth. The Company forecasts assumes growth of 1% to 4% for our digital businesses for the year versus the previous forecast of 7% to 10% and a decline of 16% to 18% for the traditional business versus the previous forecast of 12% to 14% decline.

We expect our full year earnings from operations to be in the $200 million to $250 million range versus the previously forecasted low end of the $400 million to $500 million range. We expect the combined CDG and GCG earnings from operations to be in the range of $20 million to $60 million for the year and FPG to be in the range of $180 million to $190 million, or approximately 6% earnings from operations as a percentage of revenue.

With respect to cash generation before dividends, taking into account the current environment, we expect to generate in excess of $500 million in the fourth quarter. As I said earlier, we are intensifying our efforts on cash. We will continue to develop and implement plans to ensure that we maintain our strong cash position.

Now let me talk specifically about our two digital segments starting with the Graphic Communications Group, GCG. The turmoil in the financial markets has impaired the ability of our small to medium sized customers to obtain short-term credit. This turmoil began in the first half in the US and in the third quarter it accelerated and became global. Our customers' inability to finance new equipment in the market related slow down print demand is is negatively impacted our commercial business. As a result, we are seeing a number of the orders from drupa being delayed or, in some cases, cancelled for now.

GCG's third quarter revenue declined 2% largely driven by lower equipment placements across all product lines with the exception of document imaging equipment which grew 7%. GCG annuities continue to grow, primarily driven by digital plates and digital printing consumables which each grew 7% and enterprise solutions which grew 6%. Overall, GCG's digital consumables and services grew 6% for the quarter which highlights the strength of the install base we are creating. Our customers continue to demonstrate their preference for our products and as created ability improves so will equipment placement.

Fourth quarter installations have already begun for a number of our new Versamark VL2000 printing systems introduced successfully at drupa. GCGs earnings earnings from $23 million were down $13 million from last year reflecting the negative impact of lower equipment placement and unfavorable price mix partially offset by improved consumable volumes.

Now, the Consumer Digital Imaging Group, CDG. For the consumer businesses, we are seeing some slower demand as consumers are making fewer discretionary purchases. However our consumer product portfolio is well-positioned with the value of retailers and CDG's third quarter revenues grew 7% driven by digital capture and devices and consumer inkjet. Our consumer inkjet printers are now being sold in the top three US printer retailers. Our digital picture frames continue to have leading market share and the new Kodak ZI6 pocket video camera, which provides high quality video capability, has been very well received. Digital cameras continue to win awards. The Kodak EasyShare Z 1012 was recently named one of the top 100 consumer products for the year by Consumer Reports.

CDG's earnings from operations of $23 million, an improvement of $5 million over last year reflects the continued improvement in cost structure and year over year improvement in intellectual property licensing revenue partially offset by continued investment in consumer inkjet and negative price mix in digital cameras. Now we'll focus on our traditional business, FPEG. FPEG's revenue declined 18% in the quarter and 15% year to date. This was driven by continued industry volume declines in film capture and traditional photo finishing. Entertainment Imaging declined 3% in the quarter reflecting the delay in creation of new feature films as the motion picture industry deals with this Screen Actors Guild contract.

FPEG third quarter earnings from operations $77 million or 10% of revenue. The $36 million year over year reduction in earnings is the result in the continued industry volume declines and increased commodity costs in the quarter partially offset by the change in useful lives and continued reductions in cost structure. Now I will turn the call over to Frank who will provide more details on our financial performance. Frank.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Thanks, Antonio, and good morning everyone. I will provide a bit more information around our third quarter financial results and then Antonio and I will be happy to take your questions. As Antonio indicated, we are operating in a very volatile and uncertain economic environment. Our third quarter results reflect market softening in a number of areas which has impacted sales volume, the mix of products sold, and pricing. And while there are certainly factors external to the Company that we cannot control, we are focusing on the things we can control. Specifically, we continue to make progress on our cost structure by bringing down SG&A and supply chain costs. Other examples include the continued progress goods we are making in the areas of working capital and discipline over capital spending.

For the third quarter, the company reported earnings from continuing operations of $101 million or $0.35 per share, an improvement of $69 million or $0.24 per share from the prior year earnings of $32 million or $0.11 per share. This improvement is largely attributable to lower restructuring and rationalization costs, continued cost discipline including SG&A reductions, and curtailment and other gains associated with certain planned changes in US post employment benefits.

These changes in post employment benefits along with required periodic adjustments to actuarial assumptions used to measure the liability resulted in a reduction of other post retirement liabilities also known as OPEB liabilities on the balance sheet in the amount of $919 million. These changes also provided a one-time benefit to the P&L of $94 million in the third quarter and will yield ongoing benefits to earnings and cash flow in the coming years.

Consolidated revenues for the third quarter declined by 5% to $2.405 billion and included a favorable foreign exchange impact of about three percentage points. This decrease was driven primarily by unfavorable product mix across all three segments and industry related volume declines in consumer film and traditional photo finishing within FPEG. These declines were partially offset by increases in volume for digital capture and devices and consumer inkjet systems within CDG and digital plates and vacuum imaging within GCG.

Our third quarter gross profit margin was 27.5%, a slight improvement from 26.7% in the prior year. This improvement was driven largely by the one-time benefit associated with changes to OPEB costs along with cost reductions in digital capture and devices within CDG and an increase in intellectual property licensing for the quarter versus the prior year.

Other impacts include unfavorable price mix across the segments partially offset by favorable foreign exchange and the impact of the change in depreciation useful lives implemented in the first quarter of this year. Our gross profit margin was also negatively impacted by silver with a modest positive impact from aluminum which, together, added approximately $15 million in additional costs for the quarter versus the prior year. The Company was also negatively impacted by petroleum based costs in the quarter.

Consolidated third quarter GAAP pretax earnings were $129 million, a $104 million improvement from earnings of $25 million in the year ago quarter. This was largely attributable to the OPEB change, lower year over year restructuring charges, higher intellectual property royalties and cost reduction initiatives particularly in digital cameras and digital picture frames, partially offset by increased investments in our digital businesses including consumer inkjet and unfavorable price mix impacts and volume declines in our traditional businesses, digital printing businesses and Prepress solutions.

On a segment basis the Graphic Communications Group experienced a reduction in revenue of about 2% to $821 million as a result of market related volume declines in equipment across Prepress and digital printing along with price mix impacts and continued declines in analog plates. This was partially offset by strength in document imaging and continued growth in digital plates along with consumables in color, electrophotographic and inkjet. There are clear indications of market softening including the cancellation or deferral of some orders taking at (inaudible) earlier this year.

Earnings from operations in the quarter were $23 million as compared to $36 million in the year ago quarter. This year over year decline is largely attributable to market softness in the US for plates and equipment and Prepress solutions and higher manufacturing and distribution costs largely related to petroleum based materials. This decline is partially offset by favorable foreign exchange and a small improvement in aluminum costs.

The consumer digital imaging group revenue for the quarter grew by $54 million or 7% to $820 million versus $766 million a year ago. This increase resulted primarily from increased volume in digital cameras, digital picture frames, consumer inkjet printers including consumables and intellectual property royalties. This was partially offset by lower price mix primarily in digital cameras and devices. The earnings from operations improved by $5 million from $18 million in last year's third quarter to $23 million earnings this year. The year over year improvement in earnings resulted largely from cost improvements in digital capture and devices including SG&A and R&D and higher intellectual property royalties offset by increased investment in consumer inkjet and negative price mix in digital cameras and devices.

As previously communicated, we continue to monetize our intellectual property portfolio. The IP deal completed in the third quarter which benefited earnings in the quarter and will generate cash in 2009 along with our expected future deals give us confidence that we can continue to achieve on average at least $250 million to $350 million per year from intellectual property licensing for the next few years. With respect to FPEG, the Film Photo Finishing and Entertainment Group, revenue was down 18% from the year ago quarter as we continued to see market related volume declines in film capture and the traditional photo finishing business along with some modest softening in entertainment imaging related to both economic conditions and industry concerns over Screen Actors Guild contract issues.

Segment earnings came in at $77 million, a reduction of $36 million from the prior year quarter. This decline was due large to the lower volume and price mix in consumer film and the traditional photo finishing business along with negative impact of silver partially offset by continued SG&A and other cost reduction efforts and the benefit from the change in useful lives assumptions. Year to date, our corporate pretax restructuring and rationalization costs were $46 million. We previously communicated that full year restructuring and rationalization charges would be in the range of $80 million to $100 million.

Based upon market conditions and the overall economic environment, we are intensifying our efforts around rationalization activities. For this reason, we expect that total charges for restructuring and rationalization for the year will be between $125 million and $150 million. The exact amount will depend on the timing around specific actions and the proper accounting treatment associated with those actions. Our corporate cash payments related to these efforts are still projected to be about $175 million for the year.

For the quarter, cash generation before dividends represented a use of $102 million compared to a use of $23 million in the year ago quarter reflecting an increase in cash usage of $79 million. This increase in use is due primarily to lower cash earnings including the favorable non-cash impacts associated with both the OPEB change and a non-recurring intellectual property licensing agreement. Proceeds from asset sales were also lower. These impacts were offset by improvements in working capital and lower restructuring payments versus the prior year.

In terms of liquidity, we are pleased with the flexibility that our solid balance sheet provides us in the current economic environment. We ended the quarter with $1.842 billion in cash and cash equivalents and total debts took at $1.3 billion. During the quarter, the Company repurchased approximately 14 million of its shares at a cost of $219 million.

Since maintaining financial flexibility is critical in this environment, additional share repurchases will depend on our assessment of overall economic and market conditions. The overall share repurchase authorization remains in effect through the ends of 2009 and we will continue to provide updates on the share repurchase program at the end of each quarter.

As with many other companies, we are seeing a significant impact to our business due to softening of the economy and the financial crisis and this is translate nude substantially changed business conditions. Consequently, our intention is to take a prudent approach to our operations in the fourth quarter and into 2009 in recognition of these external economic realities. As such, we are updating our 2008 financial guidance for the Company. Please note that this guidance represents our current thinking based on what we know today. As most of you know, a significant portion of our revenue, earnings and cash generation typically comes in the final quarter of the year.

We now expect revenue growth from our digital businesses, CDG and GCG, to decline in the range of 1% to 5% for the second half and to grow 1% to 4% for the full year. This compares to previous guidance of 7% to 10% for the digital businesses. A large part of this reduction is associated with softness in the overall market and a portion is also associated with the significant recent appreciation in the value of the US dollar. We would note that market shares are holding firm or improving in our key products and markets and the major impact is associated with the external economic environment.

FPEG revenue is now expected to decline in the range of 16% to 18% for the full year. This reduction is associated with overall market declines, including significant declines in consumer film along with modest declines in entertainment imaging related to customer concerns around the Screen Actors Guild contract issues. We also expect total company revenue to decline 6% to 10% for the second half and to decline 3% to 5% for the full year.

The company now forecasts second half of 2008 EFO results to be in the range of $275 million to $325 million, which translate $200 million to $250 million for the full year. This compares to the previous guidance which was to be at the lower ends of a $400 million to $500 million range. The primary factors resulting in this revised guidance are overall macroeconomic and market driven softness and overall revenue across both the company's digital and traditional businesses along with the accompanying pricing and mix and foreign exchange effects thereby reducing gross profit percentage in dollars.

With respect to taxes, the impact of the IRS refunds and valuation allowances make the P&L effective tax rate less relevant for 2008. We do, however, confirm that our cash taxes are still expected to be in the range of about $150 million for the year. With respect to cash generation, despite the challenging economic environment, the Company expects to achieve in excess of $500 million in cash generation before dividends for the fourth quarter. Factors impacting the current cash outlook are earnings related reductions associated with revenue softness and gross profit declines across the business, a change in cash from intellectual property arrangements including an agreement reached in 2008 for which cash will be received in 2009, and a reduction in proceeds from sales of real estate.

Overall, as stated earlier, we will continue to focus on those things under our control such as growing our key digital businesses, aligning our cost structure to reflect economic realities, keeping a tight discipline over capital spending, continuing to improve cash and working capital performance and maintaining a healthy balance sheet. We are confident we will weather this current economic environment and emerge as an even stronger company. Thanks very much, and now Antonio and I would be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) First, Jay Vleeschhouwer with Merrill Lynch.

Jay Vleeschhouwer - *Merrill Lynch - Analyst*

Thanks. Good morning. Frank, could you walk us through the accounting for the IP licensing first? That's question number one. At the end of '07 had you about $350 million in deferred there, $430 million at the second quarter of '08 and now just $15 according to the Q. So help us understand that reduction in deferred, the weak conditions you met for taking the amount of up-front revenues you did in Q3 for IP and how you still get to $250 or $350 per year for the next number of years, then a couple of follow-ups, thanks.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Keep in mind that the deferred revenue account is also all the deferred revenue particularly associated with IP, but there was a long-term arrangement, obviously, that we now reached an agreement for in the third quarter of 2008. That required us to reduce the gross amount of the liability and record the amount of profitability in the third quarter net of all the items that are disclosed in the 10(Q) including various fees and other deferred revenues associated with that amount. So it was a long-term agreement which has now been translated into resolving that agreement in the third quarter. And so the total amount of deferred revenue is reduced and results in the net amount net of fees and other reserves to the amount that you've seen in the 10(Q) of $112 million.

Jay Vleeschhouwer - *Merrill Lynch - Analyst*

Secondly could you be a bit more specific about the incremental cost reductions and operational improvements you'll be making? Can you talk about that in terms of any functional areas of the Company, product lines or business units? We've talked, for example, about your need to materially consolidate your portfolio in GCG like some of your other Prepress competitors are doing, could you just elaborate on that, please?

Frank Sklarsky - *Eastman Kodak Company - CFO*

Well, first of all, I'd just point out again that we know how to do this really well in terms of cost reduction. In the third quarter I want to reiterate what was in the release, the fact that we reduced cost by $61 million on a year-over-year basis and brought the SG&A as a percent of revenue down by over 1.5 percentage points. In the current environment, though, we believe that it's prudent that we continue to take another look at our overall cost structure across the organization in all facets, in all regions, and we believe that there are additional opportunities that we can pursue in the near term to further bring down the overall cost structure up and down the balance sheet, COGS, SG&A and R&D and so we will be pursuing that fairly aggressively.

Jay Vleeschhouwer - *Merrill Lynch - Analyst*

But you are not prepared to say yet how much savings you are potentially going to get?

Frank Sklarsky - *Eastman Kodak Company - CFO*

How much savings.

Jay Vleeschhouwer - *Merrill Lynch - Analyst*

From the additional reductions in the business.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Not at the current time. We are going to give more clarified guidance for 2009 once we get to our investors meeting in February when we have more clarity around that.

Jay Vleeschhouwer - *Merrill Lynch - Analyst*

All right. Lastly, in light of the environment and your conscientiousness around cash and so forth, are there any growth programs that you are having to scale back in some way? For example, you talked about accelerating investments in stream to bring that to market more quickly, investments in consumer inkjet to double or triple your volumes this year and again grow that business next year? Is there anything you have to scale back in any respect?

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

No, Jay, we are not going to change what is fundamental to the strategy of the company. But we will scale back in what is not so much of the heart of our investment. So there are opportunities that are part of the present plan that could be scaled back without touching, as I said in my presentation, the key elements of the strategy of the company which would be repeating, you mentioned those two, obviously consumer inkjet and stream, fundamentals we actually increased investments this year because we believe that there is an opportunity for the Company we can accelerate the progression of those businesses and we will do that. We will not change that plan. There are other things that we can change, though.

We have a lot of product lines that they are although important they are not as important as important as the key product lines that will define the future of the Company and those are the trade-offs that we will be making. We don't have a number but we know that since we are going to take a prudent view of Q4 and obviously what we know about Q4 is what you know about Q4. I mean, the two key elements that are going to define Q4 are going to be Thanksgiving and then Christmas and it's hard to judge what they are going to be like so, therefore, we thought that the right thing was to be prudent about it and this is the way we are going into it.

And then for looking into what happens during the fourth quarter we have a prudent plan for 2009. We already have a plan for 2009. That plan is going to be to revisit it as we go through the fourth quarter. And then we will make, we will align the construction of the Company to the new topline. That will have impact in targeted positions that will be decided by each business and each function because we think some businesses will have much better projections for 2009 than others and that is the way we will make those cuts. And we will be ready to share this with you in February. Obviously we will be all done before the end of the year but we will have the opportunity to share this with you in February.

Jay Vleeschhouwer - *Merrill Lynch - Analyst*

Thank you.

Operator

We will go next to Carol Sabbagha with Barclays Capital.

Carol Sabbagha - *Barclays Capital - Analyst*

Thanks. Just a couple of questions around cash flow. It looks like your new cash flow guidance for the year versus where it had been in the last quarter is about $650 million incremental negative versus where you were thinking. Can you talk about the components of that difference? I mean, we are estimating given other guidance you gave that maybe it's about $200 million from lower earnings, $100 million from lower asset sales. Does that leave me with $300 plus from lower licensing or are there factors that I'm missing there?

Frank Sklarsky - *Eastman Kodak Company - CFO*

Yes, let me help I was little bit with that, Carol. So your order of magnitude on the reduction is in the right range. So let me start off by saying this. One, we've got an estimate which we think is a prudent, realistic estimate based on what we know today for the rest of the year. On the specifics, you're correct, a large chunk of that is due to the change in the earnings estimate.

Number two, part of the change is due to the IP licensing agreement that was achieved in the third quarter for which we will get cash next year. We are not giving a specific number around that but the number is higher than the number you see that was recognized in the income statement for the third quarter. So it will be higher than the 112, we are just not going to get more specific than that right now. But that will be received definitely in 2009. The other piece is lower proceeds from asset sales, as you said, and those are the three major pieces. Then we've got a variety of other items across the assets and liabilities on the balance sheet where we see changes in various accruals and provisions and that really makes up the difference without going into specifics right now for a variety of reasons, and some modest changes on some various depreciation amounts.

So that's what really yields the total change. But what we'll say is obviously between now and the end of the year and into 2009 we are going to continue to pull the levers that we've been pulling to get as much in the way of cash generation as possible. That's going to include continued improvements in collection of past due receivables, streamlining of supply chain and our SKUs to really bring down inventory levels and then continuing or really completing our efforts to bring our accounts payable, performance and accounts payable terms in line with the best of our peer group. And so we will pull every lever we can, that's just the guidance we are giving right now based on what we know today.

Carol Sabbagha - *Barclays Capital - Analyst*

Okay. And sticking with cash flow for a bit, I know it's still too early to the give '09 expectations for that so I'm not going to ask that. Let's say the economic environment continues to be challenging throughout '09. Would you be willing to pull back on investments to ensure that you have positive free cash flow for next year, net cash generation after dividends and all that?

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

Carol, we are not going to play with scenarios. There are all sorts of scenarios so I think that the right thing for us to do is to see what the fourth quarter is like and then we will be much better prepared to give you that. We think we can be positive cash flow for 2009. We will see what Q4 gives us. Now one thing about what you said about the IP, we don't consider that lower royalties. As you refer to that delay of cash as lower royalties. So let me go back to the IP.

I keep saying that it's very difficult to give you a forecast for IP deals because everyone is just a different deal. We said that for the period of four years I felt very comfortable saying that at least we will get $1 billion to $1.2 billion for the four-year period which will be an average of $250 to $300 per year. It's very hard when you make these deals to know when the earnings and the cash is going to come. This is actually the first time in which we had difficulties getting the cash during the first year and this is due to many things including the environment that we are going through. And these are hard negotiations and we do what we think is best for the Company. Obviously, we would have liked that cash to come this year. We couldn't make it happen. So as far as the IP program, I'm extremely happy with the IP program, with the results. We very much along the lines that I just described of making that at least $1 billion or $1.2 billion for the four years about an average of $250 to $300 per year and so that's the way we look at it. And we have a lot of work to do still for that.

Now on the other questions you asked me to speculate on certain conditions and give you a number for next year. We cannot do that. We should not do that. Obviously, we have to see what the fourth quarter is like. A lot of things will affect the fourth quarter and depending on how the fourth quarter is, you get affected for the next year or two. Things like what kind of inventory you end up with and what kind of price pressures you see in the first quarter, all sorts of things. I think we get, we need to get deeper into the fourth quarter to give you any reasonable forecast that will have any value. Our intention is to have positive cash flow next year.

Carol Sabbagha - *Barclays Capital - Analyst*

Thank you. One last quick question. You did raise your restructuring actions in the fourth quarter. Would you be willing to take even more additional restructuring actions like other companies have and may take due to the economic environment?

Frank Sklarsky - *Eastman Kodak Company - CFO*

Carol, I think that we are absolutely bound and determined to make sure that we align our cost structure with our business going forward and with the economic realities. And I think if you look over the past four years, the Company did quite a bit to really bring the cost structure into what is required to be a digital growth company. That said, we just said, look, we've got some additional opportunities for rationalization this year and going forward we will be looking at this every quarter and every month to make sure that we've got our cost structure aligned with internal and external realities. And so the journey never ends. There's always opportunities to get leaner and we think that I guess the good news is that as we accelerate and intensify these actions now will result in our being a stronger, leaner company as we come out of the economic difficulties.

Carol Sabbagha - *Barclays Capital - Analyst*

Thank you very much.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Thanks.

Operator

We'll go now to Richard Gardner with Citigroup.

Richard Gardner - *Citigroup - Analyst*

Thank you. Frank, I wanted to ask you about commodity prices. We've obviously seen pretty sharp declines in silver, aluminum and oil since July. And I'm just wondering how quickly we can expect those to start flowing through the P&L. Have you hedged a lot of that away for the fourth quarter or will it be a significant benefit beginning in Q4? And then one follow-up.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Okay. Good question. I think we've put on some hedges during the year so our current outlook for the fourth quarter as it relates to silver and aluminum is we are probably still looking what the I will call a low double digit impact in the fourth quarter as compared to the prior year.

As it relates to oil, we do believe that there should be some positive impact as all the resin based materials and the transportation costs and all those things impacted all work their way through the supply chain in the fourth quarter. Don't know how much that is but we would expect sometime later in the fourth quarter and, of course, into next year if prices stay the way they are that we should start seeing a benefit from oil. I would keep in mind, however, that on a year over year basis oil is not a whole lot different than it was in the fourth quarter last year. So will you see sequential improvements in the cost structure versus Q2-Q3, but and a year over year basis even oil is going to be pretty modest.

Richard Gardner - *Citigroup - Analyst*

Okay. Frank, when you say low double different year over year on silver and aluminum, that's low double digit millions of dollars impact?

Frank Sklarsky - *Eastman Kodak Company - CFO*

Yes, and roughly in line with what we saw in the third quarter.

Richard Gardner - *Citigroup - Analyst*

Okay. How about a sequential discussion on silver and aluminum?

Frank Sklarsky - *Eastman Kodak Company - CFO*

Sequential Q3 to Q4?

Richard Gardner - *Citigroup - Analyst*

Yes.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Again, since the year over year impact -- there wasn't a lot of change between Q3 and Q4 last year so the sequential impact it will be roughly in line, Q4 roughly in line with Q3.

Richard Gardner - *Citigroup - Analyst*

Okay. And then the follow-up has to do with the price increases that you talked about taking on certain products like plates last quarter. I'm just curious if you intend to move forward with this price increase or whether you are reconsidering given the recent trends in commodities?

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

Most of the price increases, Richard, were in the, in our analog plates and we will continue with those. That is a decline in business. We obviously look for the areas where we could put price increases and we will continue with those. Those are markets that are already declining and we are managing for cash. We are very competitive with our pricing. We were already very competitive with our pricing in digital plates and we are gaining share as, we are gaining share to our knowledge and same with all the digital products. We will, we already have from the beginning we have a portfolio that was very competitive in price and we will, we don't have a specific plan to increase prices in our digital products. We do have plans to continue to increase prices in declining products.

Richard Gardner - *Citigroup - Analyst*

Okay. All right. Thank you.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Thanks.

Operator

Now, Shannon Cross with Cross Research.

Shannon Cross - *Cross Research - Analyst*

Hi, thank you for taking my question. The first question is just on the inkjet business. I'm curious with your new expectations what are you thinking in terms of unit volume? Are you still holding to the 1 million to 1.5 million? Is that baked fourth quarter?

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

We haven't changed our plans, Shannon. Of course we are concerned about Thanksgiving and Christmas and we now, so far, and you probably know this, the overall inkjet market has been going down and we've been growing very significantly. So that's the good news. How much the market is going to decline during the rest of the year I cannot make a judgment. So far we keep the same numbers, that is our intent. And we will see how the fourth quarter goes along.

Shannon Cross - *Cross Research - Analyst*

Okay. And then you've obviously, it sounds like at least from the announcement and I know you are not talking specifics, but it sounds like a renegotiation of the Motorola contract. And I'm curious as to how that plays into your CMOS business. You didn't mention CMOS on the call so is that one of the areas where you may be pulling back some investment or how do you view CMOS?

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

What is the question, the first thing was a statement, I don't know how to answer a statement.

Shannon Cross - *Cross Research - Analyst*

The question that I ended with was how do you view CMOS and is it one of the areas that you're pulling back on?

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

No, CMOS is an important area for us and we've been finding, we've been looking all along for a way to, in the semi-conductor business time to volume is time to money. So we've been looking along for ways to go for volume increases as rapidly as we can and that is our plan.

Shannon Cross - *Cross Research - Analyst*

Okay. And then just one more question on the IP licensing. How should we think -- you signed Nokia, which I know there are no details given, but you signed Nokia. Can you confirm, did you get any money in for third quarter? I'm just trying to make sure that I've got the various pieces correct in terms of the puts and takes of who --

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

Actually, Nokia is a Q4 deal so it's not included in the third quarter.

Shannon Cross - *Cross Research - Analyst*

And Nokia will include on going recurring revenue as well?

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

We cannot disclose that. We are not allowed to through our deal with Nokia. All we can say, all we are allowed to say is what we say in the press release. That we have an agreement, that it is a good agreement for both companies and they will pay an amount to us.

Shannon Cross - *Cross Research - Analyst*

Okay. Great. The last question is just on cash. Can you talk a little bit about maybe, Frank, your comfort level with how much cash you feel like you need to have, net cash to run the business? And how we should think about your commitment to dividends, and obviously it sounds like a pull back on share repurchase, but think about acquisitions and dividends and just cash usage overall. Thank you.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Our overall posture on the minimum cash required, we've always said we want at least $1 billion in minimum cash balance, particularly because of the seasonality in the first half of the year, at least for the near future as we grow our consumables business. We have, there's no change, there's no change to our dividends policy as we sit here, no change at all, and I guess that would be, that would be our position.

Shannon Cross - *Cross Research - Analyst*

Okay. Thank you.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Okay. Thanks.

Operator

We'll go now to Ananda Baruah with Banc of America.

Ananda Baruah - *Banc of America - Analyst*

Thanks for taking the question. I was just wondering it seems as though your December quarter guidance implies year over year increases which would be a change from what we've seen the first three quarters of the year, and I guess I'm just wondering if you could walk through why we should expect that? I believe you have lower expenses in some areas this year, operating expenses in some areas this year like consumer inkjet, not lower operating expenses but you had a large increase in investment in Q4 last year as well as in entertainment imaging, but it sounds like some of other things that could serve as that you had been counting on serving as tailwinds such as new products so greater cost absorption probably aren't going to play through the way you expected it, and the commodity pull back doesn't sound like it's going to be a great help. I was wondering if you could bridge kind of what's gone on sort of on the margin front for the last few quarters relative to last year to what seems to be implied in the December quarter guidance.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Yes, I don't want to get too much into specifics for you in terms of specific margins and individual businesses for the fourth quarter. But you know what all the various significant elements that usually play into our fourth quarter margins and CDG and GCG and FPEG. On a sequential basis obviously there's always an uptick because you do get the benefits of absorption from the higher volumes later in the year as compared to earlier in the year. And if you look back in history back to 2007 obviously, in 2007 we had licensing deals, to the extent we had non-recurring licensing deals last year, those non-recurring deals were in the back half of the year. And in various years that has been the occurrence. Other than that, we've got significant, as you pointed out, significant incremental cost targets that each of the businesses are trying to pursue in COGS and SG&A and R&D and those are the kinds of things that are going to help us on a year-over-year basis improve our EBIT margins.

Ananda Baruah - *Banc of America - Analyst*

And, Frank, I guess how conservative, I mean you mentioned that you believe you are taking a prudent outlook to the December quarter guidance. I mean, can you give a sense of what type of conservatism is really baked into it, I mean secular head winds have obviously increased for everybody.

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

Basically what we've done, this is Antonio, is that we took units out of the plan. We took hundreds of millions of revenue out of our manufacturing plans. Obviously we went product by product line, product by product, we understand very well what the sale through has been on those products in the last few weeks so we know and we talk to our partners in the retail arena and we have an idea of what it could be. So we don't want to end up in Q1 with a bunch of inventory that we didn't sell, then we have to reduce in price by a lot. That is the biggest element. We haven't reduced our activities in the field.

We actually we are focused in the field in the orders that we can get and in the orders that we can get paid for so we put a lot of emphasis in natural things that drive the business, make sure that we get the orders that are closer, make sure that we can install it and get paid for it, that is the commercial space, but we count as well the number of parts, we started to count the number of parts that you that you have to buy for the volume that we think we are going to need. It was a difficult decision, but I think it was the prudent one to do. And we are talking about hundreds of millions of dollars that we took out of the units that we are owing to manufacture. That is basically the approach plus the focus of course we started with cost control about two months ago. We've done all sorts of internal things to reduce costs a line up of things that I'm not going to repeat but those are the three things that we've done.

Ananda Baruah - *Banc of America - Analyst*

Okay. Thanks. I guess, Antonio, just one last thing on the consumer inkjet. Do you guys, are you guys able to track with any degree of precision I guess who actually is buying the inkjet printer? You've done a little bit of discounting here and there through 2008. I guess is there any concern that maybe folks have been picking some up, some of the folks that aren't in your target market are picking some up that might not ultimately end up doing the amount of printing on the devices that you hope they might?

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

Well, that might have happened but if it happened it was not intentionally. The thing that I look at in the end is what is the burn rate. As long as the burn rate, which it still is double than the average of the industry, as long as we keep the burn rate at that level then we are selling to the right people. But it is true that in some cases even in order to keep your position in the store, we had to do promotion programs because our competitors are incredibly aggressive, especially against us because we have a very attractive proposition and we tend to attract the customers that they want the most. But I wouldn't say that sometimes we probably sold to people that were not the original target. But the ultimate measure though is what is the burn rate and the burn rate icon firm, I can confirm the last time we checked this was a month ago and it was slightly more than double the average of the industry. So we are doing pretty well with the target customer.

Ananda Baruah - *Banc of America - Analyst*

Okay. Thank you.

Operator

We'll go next to Joan Lappin with Gramercy Capital.

Joan Lappin - *Gramercy Capital - Analyst*

Good morning, everybody. I have a few questions. If your book value is above 12, when your stock gets below 10 it would seem to me that would be an incredibly excellent use of your cash, maybe not the whole billion but some portion of it. So the implication of your statements today is that you've kind of stopped buying. So I just wonder --

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

No, we didn't say that.

Joan Lappin - *Gramercy Capital - Analyst*

Okay, well, would you clarify that, please, Antonio?

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

We told you exactly what we bought in the third quarter.

Joan Lappin - *Gramercy Capital - Analyst*

And you said would you announce at the end of each quarter.

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

That's what we said from the very beginning.

Joan Lappin - *Gramercy Capital - Analyst*

Right.

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

That's what we said from the very beginning. We don't want to tell the shorts when we are going to buy when we are not going to buy. We will buy when we think we can get the best value for the shareholders. We will buy some in the fourth quarter, I can assure you that.

Joan Lappin - *Gramercy Capital - Analyst*

Okay. Because it looks like on balance you paid just over $15.

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

We were buying at the very beginning. We should have wait add little bit, unfortunately.

Joan Lappin - *Gramercy Capital - Analyst*

Who knew, we all should have waited.

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

That's right. No, we haven't said that we are not going to buy. But I think we all know how precious cash is and we really don't know how bad this is going to get. I mean the fourth quarter is critical. We don't know how bad it's going to be so I think we should be prudent. That's all.

Joan Lappin - *Gramercy Capital - Analyst*

Okay, now, it looks like you are cutting kind of pension costs or there's some line on there about post employment benefits or something, can you explain exactly what you are doing there?

Frank Sklarsky - *Eastman Kodak Company - CFO*

Yes, as relates to the impact on the third quarter, Joan, as we announced just after the second quarter release we took some actions related to post employment benefit costs and that actually creates a triggering event in accounting parlance. Because of that obviously we have a reduction, a significant reduction in the liability, that was the $919 million. That $919 was made up of two pieces, the vast majority of the piece was related to the changes in the benefits. There was a smaller piece that had to be done, was a benefit because on a triggering event you have to update all the interest rate assumptions and adjust the liability on that basis and that was the remainder of the $919. Because of the change in the liability, that created an accounting event called the curtailment benefit which was the one time amount of $94 million which impacted the third quarter and that obviously did not create any cash benefit, it just went to the P&L below the segment EFO line.

What we are saying going forward is that beginning in 2009, there will be some amount, we haven't specified the amount yet, we will clarify that later, but there will be some amount that will be a benefit to both the P&L and cash flow starting in 2009 as a result of the, these changes in post employment benefits. Now on the pension side, the pension side because of some actions we've taken overseas there was an event where we had to actually reevaluate the value of some of our overseas pension plans outside the US. That resulted in a benefit of over $300 million on the liabilities associated with some of those plans.

So when you look through the 10(Q) you'll actually see that for plans which are classified as unfunded or underfunded plans which had a balance of $3.4 billion previously, the new balance at the end of September is about $1.9 billion for an improvement of $1.5 billion. And the vast majority of that is the OPEB change and this change in overseas plans.

Joan Lappin - *Gramercy Capital - Analyst*

So essentially what are you doing to these retired people? What are you cutting away from that?

Frank Sklarsky - *Eastman Kodak Company - CFO*

We made an announcement earlier in the year that adjusted certain items and so we'll just stick with that announcement.

Joan Lappin - *Gramercy Capital - Analyst*

Okay. Now, I know the other person -- I was very pleased to see you made a deal with Nokia because the Motorola deal if you had to renegotiate it or you didn't, we can see by what they announced today they are fading out fast. So when do you think that significant sales of these CMOS sensors could -- I thought the original target was the second half of next year. Are we able to stick with that target as to when the CMOS sensors start to become a revenue and earnings contributor or must -- ?

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

That is the target that we put for ourselves for a significant increase in volume and that still is the target, Joan.

Joan Lappin - *Gramercy Capital - Analyst*

So you haven't had, no alterations to that.

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

No.

Joan Lappin - *Gramercy Capital - Analyst*

And then my last one is stream. I know you've said already that you're not reducing any of your investments there but you have said that you have had cancellations and push outs on orders which is not surprising because those are sizeable. And you've also said several times in this call about making sales for which you can get paid which is not a laughing matter when things are as they are.

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

You bet.

Joan Lappin - *Gramercy Capital - Analyst*

To what extent do these sizeable purchasers, when you're buying $1 million plus unit, how much are they looking to you to fund that and to provide them financing and how are you dealing with that aspect of things in the current world?

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

Okay, first of all, the cancellations or the delays that did not, that was not referring to any of the stream products that we are going to sell during 2009.

Joan Lappin - *Gramercy Capital - Analyst*

Okay.

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

That was more the other type of equipment that we have, digital presses from Versamark as well as the platesetters and things of that nature. Those are the ones that we felt our customers they lost the enthusiasm when they saw the market coming down and the everything coming down. In most cases we like to believe that we didn't loss the sale yet that eventually it will come back. But some of them have been delayed and some of them they used expressions that we are going to cancel it for now which I think is kind of a joke. For me it's a cancellation but for them it's cancelling it for now. But that did not affect the stream. Customers in many cases now they come into us to ask for help in the purchase of the equipment. So we have, we have commercial loans -- let me pass this to Frank, Frank will tell where you we are with our commercial loans.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Where we can we actually have a financing partners that assist us in that regard, some of the larger players are and we try to service as an intermediary to help hook up financial institution with some of these buyers. In some cases in both the consumer and the commercial business will provide some commercial capital. We have an amount that we write down each year in our CapEx segregated allocated for that amount. I would say this year we probably spent a little bit more than we planned to for the year, but we found offsets in other areas of capital spending where we don't necessarily think we need to put as many hard assets in place in the current environment. We do some of that, but it's a combination of thing between ourselves and outside financial institutions.

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

But there is the liabilities and the ability to get paid is obviously, I mean it's getting more difficult. So we are very careful with what customers we get involved with absolutely.

Joan Lappin - *Gramercy Capital - Analyst*

Good luck as you go forward here in a tough environment.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Thanks.

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

Thank you.

Operator

That concludes the question and answer session today. At this time, Mr. Perez, I will turn the conference back over to you for any additional or closing remarks.

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

I want to thank you all for coming to the call. This is obviously a difficult environment, as you all said. We are focusing our core strategy. We will not deviate from our core strategy. Our key products are doing well. They are well-positioned and we are going to focus on those for the fourth quarter. That's the best thing we can do. And we are going to take very rapidly actions to align our cost structure to the near economic realities. That's the summary. Thank you very much.

Operator

This does conclude today's teleconference. You may now disconnect and have a great day.