FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, everyone, and welcome to the Eastman Kodak fourth quarter sales and earnings conference call. (Operator Instructions) At this time, for opening remarks and introductions, I'd like to turn the call over to the Director and Vice President of Investor Relations, Miss Ann McCorvey. Miss McCorvey, please go ahead, M'am.

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

Thank you. Good morning and welcome to our discussion of the fourth quarter sales and earnings. I'm here this morning with Antonio Perez, Kodak's Chairman and Chief Executive Officer, as well as Chief Financial Officer, Frank Sklarsky. Antonio will begin, this morning, with his observations on the quarter, and then Frank will provide a review of the quarterly financial performance. As usual, before we get started, I have some housekeeping activities to complete. Certain statements in this press release may be forward-looking in nature or forward-looking statements as defined by the United States Private Securities Litigation Reform Act of the 1995.

For example, references to the Company's expectations regarding the following are forward-looking statements. Its ability to address the impact of the economic downturn, its employment reduction, cost, cash, payments and savings under restructuring programs and other rationalization activities, new intellectual property licensing arrangements, the seasonality of it's earnings, it's expectations regarding the completion of its good will and long lived asset impairment analysis, new product introduction, and its ability to continue access to a secure credit facility. 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. Listeners are advised to read these important cautionary statements in their entirety as any forward-looking statements may need to be evaluated in light of these important factors and uncertainties. Now, I'd like to turn the call over to Antonio Perez.

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

Thanks Ann, and good morning, everyone. The second half of 2008 will go down in the history books as one of the most challenging periods we have seen in decades. The rapid deterioration in the global economy has impacted all industries. Like many companies, our fourth quarter results were negatively impacted. Despite the turmoil in the economy, we were able to generate a considerable amount of cash during the fourth quarter. Following our transformation, we had created significant momentum in our digital portfolio, and until that momentum returns, we're taking the necessary steps to respond aggressively to current conditions. Maintaining a large portfolio of digital business opportunities was the right thing to do when Kodak digital portfolio was in growth mode, which begun in the second quarter of 2007. In fact, our digital revenues grew by double digits for four consecutive quarters, from the third quarter of 2007 through the second quarter of 2008.

The unprecedented, rapid decline in the global economy still isn't showing signs of improvement so we must now revise our approach. We must limit our investments to only those core ones that are the heart of our strategy. We are convinced these investments will provide access to a very large market with sustainable, profitability growth. Our core investments include products at the intersection of materials, science, and digital imaging science where we have a strong intellectual property and know how in a large market opportunity where we can leverage our strong brand. We are committed to these core investments and understand that we have to make pragmatic decisions about all other opportunities. Quite simply, we have to rationalize our product portfolio and focus our resources on the core opportunities while looking for other business models and other alternatives for the rest. We'll describe all of this in much more detail in February, in New York.

In the third quarter, we recognized, already, the need to lower our cost structure and more tightly focus our portfolio to align with the new economic realities. This alignment will require additional cost reductions. When the 2009 restructuring program, announced today, is combined with the rationalization actions we took late in 2008, we expect this will result in the reduction of worldwide employment by between 3500 and 4500 positions during 2009. These reductions are already under way and we expect the majority to be implemented in the first half of this year. In total, we expect these actions to generate annual savings in the range of $300 million to $350 million, and would allow us to enter 2010 as a stronger, leaner Company with a cost structure that will enable us to drive profitable growth when the external environment improves. Our core investments, which are based on break through technologies, have produced products that even in this environment, continue to make significant progress in the marketplace based on their ability to deliver a unique value proposition to our customers, especially during tough economic times.

Now, I would like to share some thoughts on to fourth quarter performance and then close by providing my perspective on the full year. Our concentrated effort to improve working capital was the primary driver of achieving the fourth quarter cash generation, before dividends, of $472 million. I'm pleased with the team's focus and performance on working capital, especially in this economic environment. Conserving cash will remain a priority for 2009.

Let's start this segment with GCG, the Graphic Communications Group. GCG's full year revenue of $3.3 billion was down 2% from last year, reflecting a reduction in digital printing and prepress solutions in the last part of the year. However, within prepress solutions, our large digital plate product line actually grew in the high single digits for the total year. GCG's fourth quarter revenue decline of $132 million, or 14%, was a direct reflection of rapid reduction in global printing output and the associated negative impact on the demand for consumables along with weak demand for capital equipment. GCG's fourth quarter revenues were also negatively impacted by foreign exchange. But even during tough economic times, commercial printers continue to recognize the value of adding color in variable data capability to their product offering. The year-over-year increase in the unit placement of our Nexpress color equipment and the installation of several of the newly introduced drop on demand VL 2000 digital presses was driven by the need for these capabilities.

As far as the Document Imaging Business, earlier this month we announced the acquisition of Bowe, Bell and Howell Scanner Division. This acquisition is complementary to our product line in a business that we know well because we are the current field service provider for these products. Once the acquisition is complete, we will be able to provide a broader set of products and services to our channel partners and end user customers worldwide, as well as create revenue and cost synergies through leveraging our distribution channels in driving back office consolidation. In the fourth quarter, GCG's segment loss of $4 million was down $34 million from last year's earnings of $30 million, driven by the rapid decline in global print demand, partially offset by actions taken to reduce SG&A. For the full year, GCG segment earnings of $31 million were $73 million below last year, driven by negative price mix, partially offset by lower SG&A.

Next CDG, the Consumer Digital Group. CDG's full year revenue declined 5% to $3.1 billion, driven by the 7% decline in digital capture end devices, which was negatively impacted by significantly lower consumer discretionary spending late in the year. More than 50% of the reduction in digital capture end devices was driven by the continued industry decline in snapshot printers. This was partially offset by growth in retail printing solutions and consumer inkjet. The fourth quarter is seasonally the largest quarter for CDG. As a point of reference, in 2007, the fourth quarter was 42% of the full year's revenues, versus 31% for the fourth quarter in 2008. When you take this seasonality into account, you can see why from both a revenue and earnings perspective, the fourth quarter economic downturn has such a major impact on CDG.

After growing more than 14% in the first three quarters of 2008 as compared to 2007, CDG's revenue declined 30% in the fourth quarter. And while our innovative line of digital, still, and video cameras, and consumer inkjet printers gained market share in the fourth quarter, it was not enough to offset the dramatic reduction in consumer discretionary spend. This holiday season was weaker than anyone expected at mid year. Revenues were also negatively impacted by lower price and mix of digital cameras and digital picture frame sales, and lower intellectual property licensing revenue.

During the fourth quarter, consumer inkjet revenues were impacted by the weak industry demand, and as a result, declined 6%. Even in that environment, our consumer inkjet sell-through was extremely strong in the fourth quarter, significantly outpacing the industry in year-over-year growth. The overall printer market suffered as consumers were cautious in their spending and not willing to upgrade printers without a compelling reason. Our value proposition gave consumers a reason to purchase. Our market share continued to grow in the fourth quarter as it did for the full year, moving us along the business model we are pursuing. We achieved significant process in both sell-in and sell-through for the year in consumer inkjet. In 2008, we sold 780,000 consumer inkjet printers into the channel, compared to 520,000 in 2007. More importantly, though, is we more than doubled the sell-through with end users purchasing 730,000 units compared to the 320,000 units in 2007. We entered 2009 with more than a 1 million units installed, all of which will be generating revenue from higher margin consumables.

Sell-through and burn rate are the two key metrics in this business, and in both, we had great performance. As I said, we more than doubled sell-through year-over-year and ended the year with a cartridge burn rate of eight cartridges per year. That is significantly higher than the industry average. We have an attractive value proposition that resonates very well with heavy users and especially in a tough economic environment. We also continue to receive a positive response from retailers to our Apex dry mini-labs which require less labor, floor space, energy usage, and technical support when compared to traditional mini-labs. We now have close to 100,000 kiosks in dry mini-labs installed around the world.

For the fourth quarter, CDG segment loss was $40 million compared to earnings of $91 million in the fourth quarter of last year. The decrease was driven by weak consumer demand in digital capture end devices and lower price mix along with reducing intellectual property royalties and unfavorable foreign exchange. These decreases were partially offset by reductions in SG&A, R&D, and improvements in consumer inkjet, driven by the new lower cost platform. For the full year, CDG segment loss of $177 million compared to a loss of $70 million in the year before. This reduction was largely driven by negative price mix, including lower intellectual property royalties, and then partially offset by improved manufacturing costs and lower SG&A and R&D.

And finally, FPEG, the Film, PhotoFinishing and Entertainment Group. FPEG's full year revenue declined 18% to $3 billion, primarily reflecting the industry driven decline in film capture of 40%, moderated by a 19% decline in traditional photo finishing, and a 5% decline in entertainment imaging. In the fourth quarter, the weak economy accelerated the reduction in revenue of film capture in traditional photo finishing. Entertainment imaging was negatively impacted by foreign exchange, the threat of labor actions in the industry, and to a lesser extent, the weak economy. All combined, FPEG's revenue declined 27% for the fourth quarter, a much steeper deterioration than 15% decline through the first three quarters. For the fourth quarter, FPEG's segment earnings of $39 million improved $22 million from last year, driven by operational improvements in traditional photofinishing, dramatic reductions in SG&A, along with the benefit of lower depreciation expense associated with changes in usual lines, and reduced variable compensation and employee benefits costs, partially offset by continuing to see volumes decline in film capture.

With the changes in the global market approach and improved productivity, this quarter's results reflect the significant progress toward our goal of improving the profitability of traditional photo finishing. For the full year, FPEG's segment earnings of $196 million shows a decline of $85 million from prior year due to the continued industry decline in film capture along with negative price mix. This decline was partially offset by the significant reduction in SG&A, as well as the benefit of lower depreciation expense associated with change in useful life and reduction in employee benefits.

Now, when you step back and look at the total Company for the full year, despite the external challenges, there were many positive signs. Retail printing solution revenues grew modestly for the year. We have significant market share gains in consumer inkjet while the industry contracted. And, our revenues grew 32% year-over-year. NPD's Consumer Tracking Service put Kodak in first place for 2008 digital camera market share in the US, a position that we have held since 2005. Orders for the VL 2000 digital printing presses were strong. Stream introduction is tracking to the new schedule we discussed on the second quarter call. The Stream printhead will be in the market late this year, and the printing presses will be in the market early 2010. Even with these disappointing Q4 results, driven by the economic environment, our competitive position has significantly improved, and I feel stronger than ever with our portfolio in our core businesses, and it is this improved product position, our people, and the strength of our brand and our financial position that give me the confidence that we'll emerge from this challenging period as a leaner, stronger competitor. Now, I will turn this to Frank.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Thanks Antonio, and good morning, everyone. Before I get into the details of our financial performance. I wanted to share with you a few thoughts about the quarter and how we are addressing the impact of the external economic environment. The credit crisis that dominated much of the third quarter, developed into a wide ranging, global recession in the fourth quarter. In addition, we experienced a level of economic activity that continued to slow as we proceeded through the quarter, as November and most notably, December, were clearly the weakest months of the year on a seasonally adjusted basis. During these difficult economic times, it's critical for us to not lose focus on the things we can control.

As we entered the fourth quarter, there were already a number of internal and external indicators that signaled we would experience significant negative impacts in most of our businesses. Consequently, we accelerated our planning on some very aggressive actions in aligning our cost structure with external economic realities. We redoubled our focus and discipline on cash, including working capital and capital expenditures, and around SG&A costs, all on a global basis. We also carefully assessed how we deploy our capital, analyzing where we will target our resources to drive sustainable, profitable growth in the most effective manner. As you heard from Antonio's remarks and saw in today's announcements, we're acting swiftly, decisively, and aggressively to address the current situation. We strongly believe that the value propositions embedded in our unique product portfolio combined with a lean, efficient supply chain and a streamlined administrative cost structure, will enable us to not only weather these difficult times, but also set the stage for enhanced growth and profitability once the economy recovers.

Now, on to our fourth quarter results. Consolidated revenues for the fourth quarter declined 24% to $2.433 billion. Foreign exchange represented about 3% of the decline due to strengthening of the US dollar. Digital revenue declined 23% to $1.779 billion. For the full year, revenue declined 9% to $9.416 billion, and foreign exchange represented a benefit of about 2% for year. Digital revenue declined a modest 4% for the year. The Company's digital revenues experienced double digit growth in the first half of the year, and this was offset by the impact of the external economic environment in the back half, and in particularly, the fourth quarter.

Now, let's take a look at revenue on a segment basis. CDG, the Consumer Digital Imaging Group, experienced a fourth quarter revenue decline of 30%, driven by a significant contraction in discretionary spend resulting from reduced consumer confidence, along with accelerated job losses, tightening of credit, and reduced wealth effect from the precipitous decline in the equity markets. For Kodak, this translated to lower revenues from digital cameras and digital picture frames, the absence of meaningful revenues from snapshot printers as that category rapidly declined, and reduced media burn from kiosks as consumers' travel and leisure use was reduced. Intellectual property licensing revenue, while strong, also declined as compared to the prior year quarter. For all of 2008, CDG revenue was down a modest 5%, reflecting the double digit growth in the first half of the year.

GCG, the Graphic Communications Group, experienced a revenue decline of 14% in the fourth quarter. This resulted from a weakening of global print demand, reflecting a decline in the number of commercially printed pages. This in turn translated into reduced demand for consumables and the lowering of capacity utilization for commercial printers, thereby reducing their need to replace or add to capital equipment. We experienced some cancellations of previous orders and some installations, and other orders were indefinitely delayed. In addition, in some cases, we believe that due to the tightening of credit markets, it became more difficult for those choosing to expand to obtain the necessary capital. That said, the Company had a successful quarter selling and installing several new VL 2000 drop on demand digital printing presses, as this product has been well received in the marketplace.

You also heard Antonio comment that Stream was on track, and there has been continuing interest in this breakthrough technology. While difficult to predict, we are hopeful that next year's introduction will coincide with some recovery in the external economic environment, thereby yielding a successful ramp up of that product. For all of 2008, GCG was down only 2%, reflecting strength in digital plates and a continued strong market position in that business. FPEG, the Film Photofinishing and Entertainment Group, experienced a revenue decline of 27% in the fourth quarter, reflecting volume declines in film capture and traditional photo finishing. In film capture, the category decline continues to accelerate. The Entertainment Imaging Business was down 10%, and was negatively impacted by both the overall economic environment, continued concerns over screen actors guild contract issues and unfavorable foreign exchange. For all of 2008, FPEG revenue declined 18%. Most notably, entertainment imaging was down only a modest 5% for the year, due mainly to industry labor issues and overall economy in the fourth quarter. In general, the EI businesses continue to show strength and resilience.

Fourth quarter gross profit margin was 20.5%, versus 24.7% last year, a decline of 4.2%. This decrease in gross margins was largely attributable to unfavorable price mix across a number of product lines, lower intellectual property licensing revenues, unfavorable foreign exchange and a negative impact from silver costs. These factors were partially offset by the change in depreciation useful lives for traditional manufacturing assets and reductions in employee benefit costs, including other post employment benefits, OPEB, along with reduced component and manufacturing costs in several traditional and digital businesses.

Also for the fourth quarter, SG&A costs decreased by 23%, or $122 million, as compared to the prior year. SG&A costs were 16.6% of revenue, roughly in line with the prior year, despite the significant decline in revenue during the quarter. R&D costs declined by about 14% to $120 million reflecting the mix of spend across product categories and a tighter focus on core priorities. Fourth quarter GAAP loss from continuing operations was $133 million, or $0.50 per share, reflecting the significant impact on revenue from difficult economic conditions, lower gross profit margins, and higher restructuring and rationalization costs. These factors were partially offset by substantial reductions in SG&A, and more focused R&D spend.

Let's take a look at earnings by segment. The Consumer Digital Imaging Group segment loss was $40 million in the quarter as compared to $91 million earnings from the operations in the year ago period, a decline of $131 million. This decrease was due largely to lower volume and negative price mix, particularly in digital capturing devices, including lower intellectual property royalties and unfavorable foreign exchange. These impacts were partially offset by cost improvements in digital capturing devices, consumer inkjet and other products, along with reduced and more efficient advertising spend and lower research costs. Graphic Communications Group fourth quarter segment loss was $4 million as compared to $30 million earnings from operations in the year ago period, a decline of $34 million. This was primarily attributable to market softness for consumables and equipment across numerous product lines, price mix impacts related to newly introduced digital printers and scanners, and unfavorable foreign exchange, partially offset by significant SG&A cost reduction.

Fourth quarter segment earnings for FPEG were $39 million, or a $22 million improvement from the prior year quarter. This increase in earnings was largely related to significant cost improvements and lower distribution costs for our traditional photofinishing business, benefits from the change in depreciation useful lives assumptions, and OPEB costs, partially offset by the accelerated volume declines in film capture, price mix impacts, unfavorable foreign exchange and a negative impact from silver versus the prior year.

Despite a difficult environment and the impact it has had on operations, the Company's cash position remains strong. For the fourth quarter, the company achieved cash generation before dividends of $472 million. We are particularly pleased with the results of our efforts to improve working capital. These efforts included a dramatic reduction in past due accounts receivable, noteworthy in this environment, further progress in aligning supplier payment terms to our technology peer group, and effectively managing inventories. We remain committed to treating cash as a very high priority and are dedicated to maintaining a solid balance sheet.

During the fourth quarter, the Company repurchased approximately 6 million of its shares at a cost of $82 million. While the previously disclosed share repurchase authorization remains in effect through the end of 2009, we are not currently in the market repurchasing any of our shares. We will continue to provide updates on the program at the end of each quarter. Overall, we ended 2008 with over $2.1 billion in cash, while total debt stood at a manageable $1.3 billion. We are pleased with the flexibility that our solid balance sheet provides us in this economic environment. We previously communicated that due to external market conditions, we would be intensifying our efforts to align the Company's cost structure with external economic realities. We are operating in an extremely challenging environment, and we need to be agile and adjust quickly.

During the fourth quarter of 2008, we incurred $103 million in corporate restructuring and rationalization charges, and made restructuring related payments from corporate cash, of $32 million. As Antonio indicated, this morning we announced a corporate restructuring program for 2009. In connection with this program, the Company expects to incur total restructuring charges in the range of $250 million to $300 million. Corporate cash payments for 2009 will be in the range of $225 million to $275 million. This range of payments includes those actions associated with the 2009 program along with carry over actions associated with rationalization decisions from 2008. It's important to note that there are a number of initiatives already underway to quickly reduce our cost structure further. Overall, annual savings associated with the 2009 program, combined with annual savings associated with changes taken in the fourth quarter of 2008, are in total, expected to be in the range of $300 million to $350 million per year. Next week, at our conference with the investment community in New York City, I will provide more detail around charges, payments, reductions in positions, and projected savings associated with the actions taken in 2008, and those projected for 2009.

I would now like to discuss two additional items. Today, the Company reported it's fourth quarter earnings on a preliminary basis because of the impairment testing it is performing on its long lived assets and goodwill. Given the uncertainty surrounding the present economic conditions, and the volatility of the Company's market capitalization in comparison to book value, the Company is performing impairment testing as of the end of 2008. It's likely that non-cash impairment charges, which could be material, will be recorded in the fourth quarter 2008, based on these analyses. This exercise will be completed prior to the filing of the Company's 10K in late February.

The second item relates to our financial covenants. The company maintained a substantial cash balance and was in full compliance at the end of 2008. The Company maintained a substantial cash balance and was in full compliance with all of it's financial covenants associated with it's revolving credit agreement. The Company maintains this credit arrangement in order to provide additional financial flexibility. At the present time, Kodak has no funds drawn in connection with this arrangement, although we do have a modest amount of outstanding letters of credit issued under the revolver. In the current environment, the Company continues to experience an earnings impact as a result of the economic downturn, and also expects its earnings to be seasonal in nature, as is typical. We expect to incur significant restructuring charges if the first half of 2009. The combination of these factors will have an impact on the metrics used to determine financial covenant compliance. For this reason, management's engaged in dialogue with our agent and other key banks to ensure that the Company continues to have access to a revolving credit arrangement.

There's a high degree of uncertainty surrounding the depth, breadth, and duration of the global economic recession we're currently experiencing. In this type of environment, we must focus on the things under our control. We believe the core strategy we've established is sound and the actions we are taking will allow us to emerge from this difficult period an even leaner, stronger Company. We have a solid balance sheet, a dedicated team, an aggressive plan to reduce our cost structure, and a commitment to focus our resources on those areas that will yield the best prospects for sustainable, profitable growth. Thanks very much. And now, Antonio and I would be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instruction) And for our first question, we go to Chris Whitmore with Deutsche Bank.

Chris Whitmore - *Deutsche Bank - Analyst*

Thanks very much. My first question is for Frank on free cash flow and your outlook for cash generation in 2009. Just looking at 2008, if we exclude the $580 million tax benefit from cash from operations, you looked like you used about $400 million in cash flow. Given the restructuring charges and the deterioration you're seeing in the business, looks like you're on pace to have a significant usage of cash this year, perhaps in the $600 million, $700 million range. What are you thoughts around those numbers? What are you expectations, et cetera?

Frank Sklarsky - *Eastman Kodak Company - CFO*

We're going to give a lot more transparency around 2009 income statement earnings from operations and cash flow when we meet with the investment community in New York City next week, so I don't want to go to much in depth with that. While we do have significant restructuring charges and payments that we're going to incurr in the first half of the year, our aim would be to end up with a cash flow that is significantly better than the numbers you were just outlining there. We have a lot of cost reductions underway. Our aim is to improve our earnings from operations. So, we hope to do better than that. We'll provide a lot more transparency around specific numbers next week. What I would say is, there's a lot of moving pieces here. We know the downdraft in revenue that we experienced in the fourth quarter is likely to continue for at least the first half of the year. As we said this morning, we're aligning the cost structure aggressively to take a substantial amount of cost out. I don't think you can straight line the run rate of cash usage from 2008 into 2009 because we're making so many structural changes to the income statement. We are looking to have a substantially better performance on cash flow than the numbers that you had computed.

Chris Whitmore - *Deutsche Bank - Analyst*

Help me understand the payback on the cash charges then. It looks like you're taking about $250 million of cash charges in the first half of the year. What's the timing on the payback of those charges?

Frank Sklarsky - *Eastman Kodak Company - CFO*

What we said was $300 million to $350 million on an annualized basis and so as we're trying to get the majority of the actions done in the first half of the year as quickly as we possibly can, we took a number of charges in the fourth quarter, we're taking more in the first half of the year, a lot of that in the first quarter, and we're going to try to get to that running rate cost level, far below where we are now, as quickly as we possibly can during the year. Some of the actions, particularly outside the US, take a little bit longer, but we will be getting that cost level to go down substantially, and we think the payback is very quick. Again, $300 million to $350 million in annual savings, against charges in the $250 million to $300 million range, a pretty quick payback.

Chris Whitmore - *Deutsche Bank - Analyst*

Are you committed to the dividend?

Frank Sklarsky - *Eastman Kodak Company - CFO*

Our Board of Directors makes the decisions on the dividend, and there have been no decisions to change the dividend at this time.

Chris Whitmore - *Deutsche Bank - Analyst*

Last one for me, Frank. Other long term assets were down significantly. My assumption is that reflects the performance of the pension. Can you give us an update on where the pension stands from a funding basis and the expected expense around the pension this year? Thanks a lot.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Yes, the pension, when you look at the change I assume you're looking at the MD&A document we published this morning, and the change in other long term assets. There was a change between the end of last year and the end of the third quarter which represented the reduction of a receivable associated with a long term intellectual property licensing arrangement that was restructured, and we reported on that in the third quarter. Then from the third quarter to the end of the fourth quarter, the majority of the change was the reduction in the net over-funded position for over-funded pension portfolios. That said, we feel pretty good about the fact that the return on our pension portfolio was better than most other companies and that the US pension plan is not only fully funded, but continues to have excess funding. We're very comfortable with that. Overall, around the world, there are still some plans that are under funded, but the US plan is well well funded, and in fact, excess funded. In terms of the pension expense projection, we typically disclose that in the 10-K, and again, we're going to give more transparency around the '09 income statement metrics, next week, in New York.

Operator

For our next question ,we go to Richard Gardner with Citigroup.

Richard Gardner - *Citigroup - Analyst*

Thank you. Just as a follow-up to Chris' question, I was hoping, Frank, you could help us understand some other line items on the balance sheet. First of all, can you talk about why post retirement liabilities were up? I thought they might be actually down, given the rise in corporate bond yields in the past year. Secondly, can you talk about the sharp decline, sequentially, in other comprehensive income in the shareholders equity line? And then, I have a follow-up.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Okay. The first question was around, I assume you're talking about a sequential change?

Richard Gardner - *Citigroup - Analyst*

Yes, the sequential increase in post retirement liability?

Frank Sklarsky - *Eastman Kodak Company - CFO*

Those were mainly on the pension side and that was some adjustments for pension plans outside the US, FAS158 adjustments to pension plans outside the United States.

Richard Gardner - *Citigroup - Analyst*

Okay.

Frank Sklarsky - *Eastman Kodak Company - CFO*

And then, the other question around OCI?

Richard Gardner - *Citigroup - Analyst*

Yes.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Any specific item you're referring to there?

Richard Gardner - *Citigroup - Analyst*

Within the shareholders' equity line of the balance sheet, the accumulated other comprehensive income line went from $1.6 billion at the end of September '08, to a negative $750 million at the end of December '08.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Okay, a lot of that is going to have to do with the change in the funding levels in the pension portfolios. We can get some more details on that and get back to you. A lot of that detail will be in the 10-K, and we're still working through some of that, but the general answer is, it relates again to the same issue, FAS158, in terms of the over/under funding in the various pension plans around the world.

Richard Gardner - *Citigroup - Analyst*

Okay. The reason I ask is because the book value was cut almost in half sequentially, as a result of these swings in balance sheet items. I also was hoping that you might give us a little more color on the shortfall in IP royalties during the quarter? Maybe give us some sense of magnitude, and whether this is a temporary thing or a permanent change?

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

There's no shortfall. There was no shortfall in the quarter. You mean that it was lower than last year's?

Richard Gardner - *Citigroup - Analyst*

Yes. So, just to be clear, it was in line with your expectations during the quarter then?

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

Yes, it was in line, yes.

Richard Gardner - *Citigroup - Analyst*

Okay, and you remain comfortable with the 250 to 350 that you talked about, annually?

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

Yes, very much. For next year, and for the next few years.

Richard Gardner - *Citigroup - Analyst*

Alright, and then, if I could just squeeze one more question in. Frank, I was hoping to ask you about commodities prices and when the hedges are going to start to come off on silver and aluminum? And, if we were to assume that commodity prices were to stay where they are today, at spot levels, once those hedges come off in '09, what type of benefit could we see on the cost side related to commodities?

Frank Sklarsky - *Eastman Kodak Company - CFO*

We don't want to get into too much detail around how much hedge we have on individual commodities or when they might roll out because the businesses these are applied to are very competitive and for competitive reasons, we want to protect that information. But, we do have some hedging on our key, major commodities. We don't hedge oil, we've mentioned that in the past. As we go through the year, we will continue, as you can imagine, to benefit from the change in commodity prices. We disclosed that we have about $14 million in this Q4, versus Q4 of the prior. You can see that if you the look at the commodity prices in our major items, silver was a little hirer in Q4 on a weighted average basis than it was in the prior year. That has pretty much stabilized. It's in the $11.50 to $12 range right now, so that one has leveled out. I think on that one, if silver stays where it is, it will be roughly in line with our planning horizon. Aluminum has come down precipitously, and I don't want to get into how much we might or might not have hedged on that commodity, for competitive reasons. But, I think as we go through time, we will continue to benefit from the reduction in the price of aluminum.

Richard Gardner - *Citigroup - Analyst*

Okay. Thank you.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Okay.

Operator

Our next question we go to Sunny Sekon with JPMorgan.

Sunny Sekon - *JPMorgan - Analyst*

Thank you. Frank, I had a quick question on the amendments that you're seeking on financial covenants. According to my calculations, you're around 2.5, and a required ratio is 3.5, so you have a fair bit of head room there. So, why go out right now and seek that covenant amendment?

Frank Sklarsky - *Eastman Kodak Company - CFO*

So, the way the covenants are, there were two primary covenants. One is debt to EBITDA, and one is EBITDA to interest, as you know. Like you said, at the end of the fourth quarter, very comfortably within the covenants. These covenants both operate on a four quarter average. The debt is taken as of a point in time, but EBITDA and interest is computed on a four quarter average. So what we're trying to do is look out into 2009 and recognize the fact that again, we've got a significant economic downturn, number one. We've got our typical seasonality in the first half, number two. And then, number three, we have a significant amount of restructuring charges. Because we had a lot of restructuring charge in Q4, and are expecting a big chunk in the first half of the year, that puts stress on that calculation.

So, we were trying to just plan ahead and get ahead of the game, and in the event that we were to trigger anything in the first half of the year, we're approaching our bank group now, which by the way, they are very appreciative of, and making sure we have continued access to a credit agreement. We're not drawing on cash, other than the letters of credit I referred to. Not drawing on cash, this is to provide financial flexibility, and we just want to maintain access to that flexibility. We think it's a prudent thing to do and we're getting a lot of kudos from our bank group for approaching it in this manner.

Sunny Sekon - *JPMorgan - Analyst*

Restructuring charges are probably backed out anyway from the EBITDA calculation.

Frank Sklarsky - *Eastman Kodak Company - CFO*

No, actually under the way the covenants are currently written, they are not, due to the fact that a lot of those do result in cash payments. They are not backed out. Any impairment charges are, but restructuring is not.

Sunny Sekon - *JPMorgan - Analyst*

Are you seeking an amendment on the definition of the EBITDA, or are you seeking a meaningful improvement from 3.5 to 4.5?

Frank Sklarsky - *Eastman Kodak Company - CFO*

I don't want to get into too many of the negotiating details right now in terms of what were having in our bank group and how we might structure the whole thing. But obviously, our goal is just to maintain access to a revolving agreement.

Sunny Sekon - *JPMorgan - Analyst*

On the cash front, how much of your cash is overseas and how much in the US?

Frank Sklarsky - *Eastman Kodak Company - CFO*

We do not disclose the allocation of our cash in various jurisdictions. That said, as we have pointed out in the past, to the extent we have cash overseas, we have had a number of successful strategies and will continue to have successful strategies in the event that we need to repatriate cash from one jurisdiction to another.

Sunny Sekon - *JPMorgan - Analyst*

Is it right to say that most of the cash is accessible immediately?

Frank Sklarsky - *Eastman Kodak Company - CFO*

The vast majority of cash is unencumbered, if that's the question, so we have ample cash on the jurisdictions where it's required.

Sunny Sekon - *JPMorgan - Analyst*

Okay, and on the working capital front, how should we think about it going forward?

Frank Sklarsky - *Eastman Kodak Company - CFO*

Working capital, we made tremendous progress in '07. We made additional tremendous progress in '08. Antonio and a I want to thank our team for the tremendous progress, particularly in this environment, to dramatically bring down past due receivables and make the progress we made, we think it's a great accomplishment. Now looking forward, there are always incremental opportunities to improve working capital and we think that crosses all three categories, receivables, payables, inventories, and we'll continue to push on that because it's a source of funds. We'll show guidance next week in terms of what we're thinking about change in working capital improvement for 2009. You'll see it at that time.

Sunny Sekon - *JPMorgan - Analyst*

Is there a possibility of asset sales in the future as well?

Frank Sklarsky - *Eastman Kodak Company - CFO*

We have in the past had proceeds from miscellaneous real estate sales and we've had divestitures in the past. We'll talk more about the portfolio next week. Certainly for '09, we'll be looking at some incremental real estate sales around the circuit where we think where we can make value creating deals, but we'll talk about the portfolio and our projection for proceeds in '09 on the 4th.

Sunny Sekon - *JPMorgan - Analyst*

Okay, and last question. What was the EBITDA for the quarter?

Frank Sklarsky - *Eastman Kodak Company - CFO*

The EBITDA for the quarter. Hold on one second. We'll get back to you there. It's right in the numbers. Let me get back to you on that because I have some operational and some GAAP numbers. I want to give you the right GAAP numbers, so we'll call you back on that.

Sunny Sekon - *JPMorgan - Analyst*

Thank you, Frank.

Operator

Our next question, we go to Joan Lappin with Gramercy Capital.

Joan Lappin - *Gramercy - Analyst*

Good morning, everybody. Antonio, you said in your opening comments that you will invest where you should invest and pull back where you think that's the better idea. So as I understand it, what's on your plate are all these new printing press type things and also the cell phone cameras that were hopefully going to become a significant factor in the second half of '09, but unfortunately, you teamed with the company that's now flipped to fifth. Can you talk about that and all that?

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

Really, that is the conversation for the 4th. Let me answer this way. Our portfolio has three elements. We have $6 billion of revenue from businesses that are cash generating businesses, and obviously, we will continue with those very much in managing them the way we are now. We have about $1 billion of revenue in what we call the core investments, the ones that are more of the heart of our strategy, and those are things like consumer inkjet, work flow. And then, we have $2 billion of other investments. They are obviously good investments, but we have to qualify how many of those we can continue to invest and how many we have to transform, and when I say transform, it might be in the shape or form of partnerships, or something like that. That is the discussion really for the 4th, and I really don't want to go further than that.

When you look at our portfolio, you can do this by yourself you'll find $6 billion of businesses that are doing very well. They produce cash year on year. We feel very well about those. They have low single digit growth, but very solid position. We have a leading marketing position in those, and that is the base of the Company, obviously, at this time. They're all digital, except for one there. The second is, those three big investments, we believe they have a very significant return and obviously, we're going to continue to push as hard as we are now. We're not going to slow down. We're making a tremendous amount of progress even in a contraction in the market, so that gives us even more confidence on that. And then obviously, we have to think hard of the other $2 billion, which one we can do by ourselves and which one we might have to do with someone else, because with the markets like this, we just can't do it all by yourselves. We'll talk more on the 4th.

Joan Lappin - *Gramercy - Analyst*

Would you let me state the other question in a different way? Should we still be expecting that camera phones are going to help us in the second half of the year?

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

Camera phones, I'm going to tell you the information that you have from some of our colleagues with which we have excellent relationships, not just with Motorola by the way. We have excellent with Nokia and many others. They're obviously projecting a difficult year for next year. We're going to take that into account as well, and what is the right business plan for that business at this time.

Joan Lappin - *Gramercy - Analyst*

Okay. If you haven't been selling any of those and you start selling some, it's incremental.

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

We're very happy with that. The whole question here is, if the market is contracting and we don't have the 10% growth that we enjoy in the digital portfolio for more than a year, obviously, we're not going to have the revenues and the cash and the earnings that we had before, so we're going to have less. We have to make sure that we realize that and peak where we're going to put that money. I mean, that's the exercise. It's portfolio management.

Joan Lappin - *Gramercy - Analyst*

I guess you'll talk more about that next week.

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

Yes, Joan.

Joan Lappin - *Gramercy - Analyst*

Okay, thank you.

Operator

For our next question we go to Arun [Seshadri] with Credit Suisse.

Arun Seshadri - *Credit Suisse - Analyst*

Hello, gentlemen. I appreciate your taking my question. The first one, I just wanted to go back to the covenants. Against the 3.5 times test, what are you at as of the end of the fourth quarter?

Frank Sklarsky - *Eastman Kodak Company - CFO*

We are well within the covenants as of the end of the fourth quarter. The 3.5, we're under 3, and the EBITDA to interest which has to be 3.0, we're well over 4.

Arun Seshadri - *Credit Suisse - Analyst*

Can you tell us what the ratio computes to at the end of the fourth quarter?

Frank Sklarsky - *Eastman Kodak Company - CFO*

Let me call you back on that.

Arun Seshadri - *Credit Suisse - Analyst*

Okay, just a follow-up on the restructuring charges. I presume that's the restructuring charge as of the income statement, that you don't get credit for, or is that cash restructuring?

Frank Sklarsky - *Eastman Kodak Company - CFO*

It's typically cash restructuring.

Arun Seshadri - *Credit Suisse - Analyst*

Okay. And on the covenants, just wanted to clarify that they apply regardless, or only during the time that you have something drawn against the revolver?

Frank Sklarsky - *Eastman Kodak Company - CFO*

The covenants apply to access to the revolver, so if you trip a covenant, you no longer have access to the revolver. So whether we have it, if you're drawn, it triggers a repayment which is not necessary in our case because we don't have any drawn, nor do we anticipate having to draw any this year. It really relates to the access to the revolver.

Arun Seshadri - *Credit Suisse - Analyst*

Okay, and then, I guess your revolver matures in a year and a half, or a little bit over that. Is that on the table, to extend that maturity as well?

Frank Sklarsky - *Eastman Kodak Company - CFO*

We're looking at a variety of options to give us the maximum flexibility over the next few years.

Arun Seshadri - *Credit Suisse - Analyst*

Okay, and one last question, if I can sneak in. And that is, interest expense to calculate your fixed charge coverage test of three times, is that generally the same as the interest expense reported on your income statement?

Frank Sklarsky - *Eastman Kodak Company - CFO*

Generally.

Arun Seshadri - *Credit Suisse - Analyst*

Okay. Generally close. Appreciate it.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Remember, that's not one of our covenants. Our covenants are really debt to EBITDA, and EBITDA to interest, but yes, it's interest expense.

Operator

And ,we go next to Shannon Cross with Cross Research.

Shannon Cross - *Cross Research - Analyst*

Hi, thank you. My question to start with is with regard to variable versus fixed cost. I don't know if, Antonio, or Frank, you want to take this. I'm just curious, when you look at your cost structure, where do you think you have the most flexibility, because you've made so many changes over the years. I'm curious as to where you're at right now.

Frank Sklarsky - *Eastman Kodak Company - CFO*

It varies by segment, Shannon. On the CDG side, as you know, we have virtually no manufacturing facilities, so in CDG, it's easier, much easier to lower the cost structure as revenue comes down. I'm thinking on the cogs side. G&A obviously, is "fixed", but we're going after that aggressively. But on the cogs side, it's more variable in CDG. In FPEG, a little less so because we still have a Kodak park and we have Harrow, the paper facility, and so on, and some other smaller facilities. But again, that business unit has been very successful in reducing costs, consistent with revenue. I think it was evidenced in the fourth quarter. And GCG is somewhere between. as we have some categories, we have contract manufacturing and we have some products like the large pre-press business which is two-thirds of the revenue, where we largely have inside manufacturing. But, that doesn't take away from the fact that we still have ample opportunities to reduce what I'll say are "fixed costs". Everything is variable in the medium and long term. Whether it's productivity, whether it's working with our supply base as we've been very successful in recent years, whether it's skew rationalization, whatever, we think there's ample opportunity to reduce the cost structure, and we're going to continue to do that very aggressively so that when the environment improves, we have really good operating leverage.

Shannon Cross - *Cross Research - Analyst*

Okay, and I'm trying to figure out the 3500 to 4500 is obviously a pretty big amount of people, and if you're going through the rationalization through the first half, it seems that most must be in sort of the US or easier geographies. So I'm curious, Antonio or Frank, if you want to sort of discuss how long you've been looking at where to cut and how far you are along in the process, and just to give us an idea of how much you've really worked through this at this point in time, given that everything kind of fell apart in the fourth quarter for many companies.

Frank Sklarsky - *Eastman Kodak Company - CFO*

Let me go back to the announcement this morning because 3500 to 4500 during 2009, including 2000 to 3000 of charges associated with the 2009 program plus the difference that actions were taken in the fourth quarter, and charges were taken in the fourth quarter of 2008, and will be implemented very early in 2009. So, that difference between the 3500 to 4500, and the 2000 and 3000, those plans are complete and will be executed very quickly. The remainder, we'll be executing as quickly as we possibly can, the vast majority in the first half of the year. As I was saying in my remarks this morning, it was very clear as we got to the tail end of the third quarter, and we mentioned on last quarter's call, that we saw cost on the horizon, we were going to be intensifying our efforts around cost. We think we got after this very early. We we're able to keep, for instance, SG&A as a percent of revenue, flat versus the prior year in the fourth quarter. So, we're very well along, significantly along, on getting these plans in place and getting them executed as soon as we can.

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

If you remember the third call, we already announced to investors that we were going to reduce by hundreds of millions of dollars our manufacturing volumes because we didn't see the fourth quarter the way we were planning before. So, we got ahead of this with time. Another issue that nobody asked is, how is the inventory in the channels? Since you don't ask I'm going to give you the answer anyway. We've done relatively well because we prepared ourselves for that in the third quarter, as you probably remember because of my comments at that time.

Shannon Cross - *Cross Research - Analyst*

Okay. So you mean inventory, in general?

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

Of course we don't know how bad the first quarter and the second quarter is going to be.

Shannon Cross - *Cross Research - Analyst*

Right.

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

In spite of that, I'm incredibly happy that we took the $400 million of product out of manufacturing when we did that, because we guessed that the fourth quarter was going to be really bad.

Shannon Cross - *Cross Research - Analyst*

Okay. And then frank, just one last question on the revolver. Is it your intention to try to keep a similar amount in the revolver, or how are you thinking about the amount of liquidity or access to liquidity you're going to need as you go through what's going to be, probably, a choppy 2009, and who knows about 2010

Frank Sklarsky - *Eastman Kodak Company - CFO*

Let me start by saying it's a good question. We're really comfortable with the liquidity position for, at least, 2009. When you see, next week, what our projections are for cash flow for '09, I think you'll see we're in very good shape there, and well into 2010.

So no issues there. Really, this is for financial flexibility. I think ironically, one of the factors that is going to come into consideration in terms of the ultimate size of the revolver, is going to be the capability of the financial sector and what they're looking to do. It's all a balance. It's a balance in terms of the costs, administrative costs to maintain the financial flexibility, and getting the right amount of the revolver given the size of our Company. The one that exists today is $1 billion. That's a really hefty sized revolver. That said, we'd like to have as much flexibility as we possibly can, and again, we've never drawn on the revolver. We're not drawing on it now, other than the minor amount of LCs, and we don't anticipate having to draw at a minimum for 2009.

Shannon Cross - *Cross Research - Analyst*

Okay, great. Thank you.

Operator

Ladies and gentlemen, due to time constraints, that will be the last of our questions. Mr. Perez, I'll turn the conference back to you for any closing remarks.

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

Thank you, again, for joining us today. 2009 will no doubt be a challenging year. We are taking the difficult actions that we think are necessary to address this current environment, and as I said before, before the dramatic shift in the last four months of 2008, we had created significant momentum in our digital product portfolio, and we were in a very strong growth mode. I'm confident that when the economy recovers, although unfortunately, I can't tell you when, we will be able to create that momentum once again, and we plan to do just that. Thank you very much.

Operator

And ladies and gentlemen, this does conclude the Eastman Kodak fourth quarter sales and earnings conference call. We do appreciate your participation. (Operator Instructions)
