

## **EASTMAN KODAK**

**4Q07 S&E**  
**January 30, 2008**

**Operator:** Good day everyone and welcome the Eastman Kodak fourth quarter sales and earnings conference call. Today's conference is being recorded.

At this time for opening remarks and introduction, I'd like to turn the conference over to the Director and Vice President of Investor Relations, Ms. Ann McCorvey. .

**Ann McCorvey:** Good morning and welcome to our discussion of the fourth quarter earnings call. 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 on the quarterly financial performance.

As usual, before we get started, I have some housekeeping activities to complete. Certain statements in this presentation may be forward looking in nature. Or forward looking statements as defined in the United States Private Security Litigation Reform Act of 1965. For example, references to the company's expectations for profitable growth, the commercial print market, consumer inkjet revenues, (FDA) reductions, cash out flow, and incremental rationalization and cost reduction activities are forward looking statements. These forward looking statements are subject to a number of important risk factors and uncertainties which are fully enumerated in our press release this morning.

Listeners are advised to read this important cautionary statements in their entirety as any forward looking statement needs to be evaluated and in light of these important factors and uncertainties.

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

Now, I'll turn the call over to Antonio Perez.

**Antonio Perez:**

Thanks Ann and good morning everyone. This is an exciting time of Kodak.

I'm thrilled to say that we achieved all of our key strategic imperatives for 2007. Digital Revenue grew eight percent, three points above the top end of the range we forecasted. Digital earnings from operations were \$176 million; well within the targeted range. Net cash generation was \$333 million dollars, more than \$200 million above our goal, and we successfully entered the consumer inkjet market surpassing our launch year goal.

The large, expensive, and difficult corporate restructuring is over. We have now established a sustainable business model for the decline in traditional business, and our digital businesses are growing profitably.

I will discuss the outlook for 2008 in greater detail as the investor meeting in New York next week. But for now, I'm proud to say that we entered 2008 with a great portfolio of products and great confidence about generating sustainable profitable growth.

Now I would like to share some thoughts on the performance of each of our major segments. Let's start with GCG, Graphic Communication Group.

Quarter after quarter, the momentum builds for this business. GCG's 2007 digital revenue grew seven percent, in-line with our targeted range of six to nine percent.

The fourth quarter's 12 percent digital revenue growth was driven by our large digital plates business, along with strong growth in digital printing hardware and consumables.

This combination of growth in both digital plates, made for off-set printing in digital presses, is another proof point that the commercial print market is a hybrid market and it will remain in transition for a long period of time. Kodak is well positioned and well differentiated from our competitors in this market.

We offer the broadest range of digital and traditional solutions to assist commercial printers through each stage of their transition. They repeatedly tell us that is what they need.

GCG's fourth quarter decline in earnings from operations was primarily driven by higher aluminum cost and the negative impact of a licensing settlement that is behind us now. However, the unit placements for plates and Digital presses was the best of the year, which will help with future earnings. On top of that, for the total year, GCG improved overall earnings from operations by 16 percent while absorbing significant commodity price increases, the negative impact of the decline in analog plates, and the strong investment in STREAM technology. We're willing to do stream technology at Drupa in May, where we will continue to expand our broad product offering in Digital Production Presses with a breakthrough technology based on Continuous inkjet that has been highly praised by industry analysts worldwide. We'll tell you more details about our 2008 plans for GCG on February 7th.

Now turning to FPG. The Film Products Group.

Kodak had a long and productive relationship with the Academy of Motion Picture Arts and Sciences. This year, for the 80th consecutive year, all the Best Picture nominees were produced on Kodak film. In addition, the Academy has recently recognized Kodak with its 9th Oscar for the development of photographic and emulsion technologies incorporated into Kodak VISION2 family of color negative film.

We know the motion picture industry very well and we will continue to set the benchmark for innovation and quality both in film and digital technologies.

FPG continued to deliver solid results and ended 2007 with earnings from operations equal to last year, a remarkable achievement considering the consumer film industry volume declines. The great market acceptance of our products together with a lean cost structure and the accelerated depreciation we implemented in the last few years, gives us great confidence that we can continue to manage the decline in our traditional business while sustaining a profitable business model for years to come. That includes our next planning period of 2008 through 2011. We will discuss this in more detail next week.

Next, CDG, Consumer Digital Imaging Group.

CDG had a strong fourth quarter. Digital revenues grew 17 percent, and digital earnings from operations also improved. For the year CDG's earnings from operations improved by \$148 million while absorbing a significant investment required to launch our first year of consumer inkjet. The fourth quarter's increase in digital revenue was driven by strong year over year growth in digital cameras, digital picture frames, increased revenues from intellectual property, expansion of products and services in kiosks, and our new inkjet printers. This overall growth is noteworthy, as it was significantly reduced by the continued industry decline in snapshot printers.

We already have a significant and growing digital output business and this week PMA, we announced a number of new breakthrough Retail Printing products that will redefine the photo-retailing category.

The first is our new family of digital dry mini-labs called the KODAK Adaptive Fixture Exchange or APEX. This new product line is non-chemistry based, simpler to operate, requires less labor, floor space, and energy, and can grow in capacity and functionality as retailers' needs change. Only Kodak makes it as simple as one media SKU that produces two finishes, gloss and satin, and three print sizes.

In addition to APEX we're also using new kiosk functionality, new papers for Pro and Consumer markets, and new Qualex Photo Services that will drive new profitable revenue streams for Kodak and for our retail customers. And by the way, Wal-Mart just announced that Kodak was awarded vender of the year for the Photo Center Electronics. And we're very proud of that.

We said that we would sell 500,000 units in 2007 of our new line of consumer inkjet printers and we surpassed that goal. What's more we have third party directional data, which indicates we effectively reached the buyers we were targeting - consumers who print more than the average. Consistent with our business model, we have early data from NPD in the U.S. and GFK in Europe that shows that Kodak consumer inkjet printers are enjoying a 30 percent upgrade of price premium over the industry average. This is an early proof point that consumers have been paying attention to our value proposition. They're willing to pay more for a Kodak printer because they understand the image quality and longevity provided by our premium pigmented inks and that they will be saving money every time they print. We know that it is too early to draw long-term conclusions, but this is certainly very encouraging. My experience tells me that this is an impressive first-year launch and a great start toward building a billion dollar business in 2010.

We will talk more about our exciting plans for inkjet and the overall CDG business at the investor meeting. We have a strong momentum in this business and we now have an effective business model in place to profitably introduce new capture and output products with innovative features at price points that are appealing to customers and retailers.

We have a traditional business with a sustainable business model and we have proven that we know how to manage a business with declining revenues and we have a six and a half billion dollar digital business with profitable revenue growth in front of us.

We hope that you would join us in New York next week to talk about the outlook for the new Kodak. A Kodak focused on sustainable profitably growth, cash generation and breakthrough innovation with continued cost discipline and great execution to create value for our shareholders.

Now, I will turn it over to Frank.

**Frank Sklarsky:**

Thanks Antonio and good morning everyone.

I'd like to spend some time discussing our fourth quarter financial results, summarize 2007's performance, and then Antonio and I will be happy to take your questions.

As Antonio indicated, we are extremely pleased with the company's performance in the fourth quarter and for the full year.

In short, the Kodak team delivered the financial and operation results that we set out to achieve.

We aggressively addressed the stranded costs from the Health Group divestiture and all other SG&A costs and attained our target cost level for the year.

We completed the four-year corporate restructuring program at a cost lower than we originally anticipated.

We delivered on essentially all other income statement metrics including revenue, gross profit margin, and earnings from operations. Our earnings are particularly noteworthy considering the significant investment in Kodak's successful introduction of our new, All-in-One Consumer inkjet products. And, we also surpassed a milestone by selling 520,000 units in our first year.

We also achieved digital revenue growth well in excess of our original targets, particularly in the Consumer Digital Imaging Group; while GCG gained significant momentum in the back half of the year.

And, we delivered the cash. Achieving our cash goals gives us the fuel we need to drive value-creating initiatives for our customers and our shareholders as part of a sustainable profitable growth model going forward.

So let's look at the numbers.

For the fourth quarter, GAAP earnings per share from continuing operations were \$.31, compared to a GAAP loss per share of \$.05 in the fourth quarter of 2006. Please note that for the fourth quarter only and in contrast to the prior year quarter, fully diluted earnings per share reflects an impact of about \$.01 per share from the dilution associated with contingently convertible securities. The accounting rules require this, as the company was profitable overall in the fourth quarter.

Current quarter results include items of net expense impacting comparability totally \$28 million after tax, or \$.09 per share. The prior year fourth quarter included items of net expense impacting comparability totaling \$158 million, or \$.55 per share. As noted in our earnings release, comparability items for the current quarter included restructuring costs, gains on sale of property, an impairment charge related to our investment in Lucky Film in China and various tax items. The prior year's fourth quarter comparability items included tax valuation allowances against differed taxes and restructuring.

Fourth quarter total consolidated revenue increased by four percent and included favorable foreign exchange of five percent. Full year total consolidated revenue declined by three percent and included a three percent favorable foreign exchange impact.

Digital revenue grew by 15 percent in the fourth quarter; driven by both CDG and GCG. This resulted from significant improvements in digital capture and devices including, cameras, digital frames, and intellectual property revenues, strong performance from our digital printing products, and prepress solutions in GCG, along with the continued ramp-up of a new consumer inkjet products. Traditional revenue declined by 15 percent in line with our expectations. Full year digital revenues grew by eight percent, which was ahead of last February's guidance of three to five percent. The better than expected performance in digital revenues for the year was due in large part to improvements in almost all digital categories within the Consumer Digital Imaging Group, including digital cameras, frames, kiosks, and intellectual property. This was partially offset by declines in the snapshot printer category.

Fourth quarter gross profit margin increased from 23.8 percent to 24.5 percent. This change reflects improvements in the company's cost structure from the manufacturing footprint reduction and other supply chain efficiencies, intellectual property, and favorable foreign exchange, partially offset by increased commodity costs of about \$26 million and price/mix impacts.

We're very pleased with the net reduction of \$186 million in SG&A costs for the year representing a reduction of 1.4 percentage points of revenue. This resulted from substantial structural cost reductions, partially offset by increased advertising and marketing for our new consumer inkjet printer products, along with charges associated with performance based compensation for all of our employees. These latter impacts were the primary drivers behind the increase in SG&A for the fourth quarter. We continued to build on the structural cost reductions achieved throughout the year, which will help us to reduce SG&A costs as a percent of revenue in 2008.

For the quarter, our pre-tax for restructuring charges totaled \$68 million as compared to \$77 million in the year ago quarter. For the total year of 2007, the pretax for structuring charges totaled \$662 million compared with \$698 million last year. Restructuring related payments from corporate cash were approximately \$101 million for the fourth quarter and \$446 million for the full year. Restructuring costs were lower than originally anticipated due to the efficiency of the manufacturing footprint reduction and the successful implementation of various business divestitures enabling us to reduce exit and severance costs.

We've now completed the restructuring plan we laid out four years ago and we're extremely pleased with the business model going forward. That said, we will continue to look for rationalization and cost reduction opportunities, consistent with best practices followed by any world-class company. As we said last February, we do anticipate some carryover cash payments in 2008 associated with restructuring actions and charges taken in 2007. Our current assessment is that corporate cash payments for the carryover actions will be in the range of \$100 to \$150 million.

With respect to earnings, our fourth quarter digital EFO totaled \$146 million as compared to \$141 million in the year ago quarter; an improvement of \$5 million. Full year digital earnings improved by \$189 million to \$176 million compared to losses of \$13 million in the prior year largely driven by increased volumes and IP revenues from CDG and improved cost. Also, for the total year, the company's overall segment EFO grew to \$343 million compared to \$161 million in the prior year; an increase of 113 percent.

The Film Products Group achieved 9 percent EFO in the current quarter versus 15 percent in the year ago quarter. These results reflect impacts from volume and mix, along with seasonal production slow-downs in film manufacturing, some initial effects from the writers' strike, higher silver costs, and the impact associated with new and renewed film agreements. Full year EFO was 19 percent of revenue compared to last year's 16 percent of revenue despite a sales decline of 15 percent.

During the fourth quarter, our Consumer Digital Imaging Group improved their overall EFO \$13 million to \$76 million from \$63 million in last year's fourth quarter. CDG full-year EFO improved by \$148 million to a \$92 million loss in 2007 from a \$240 million loss in the prior year. 2007 also marks the first year of profitability for the digital business within CDG driven by a stronger product portfolio, along with operational and other improvements in digital capture and devices. Although the traditional portfolio within CDG experienced challenges, we continue to improve the cost structure for these businesses.

Earnings from Operations in the Graphic Communications Group for the current quarter were \$33 million, a \$14 million decline as compared to \$47 million in the year ago quarter. This was primarily due to higher aluminum and other costs, the impact of the licensing settlement, and decreased sales and gross profit of our traditional products. GCG full year EFO of \$116 million, is \$16 million ahead of last year's EFO of \$100 million.

Turning to cash, our net cash generation for 2007 was \$333 million, well in excess of our target of \$100 million. We achieved this goal by generating cash from operations and through an intense discipline around the restructuring program as just described. We also focused on capital spending efficiency and completed planned actions that generated proceeds from the sale of real estate and other entities. We also generated a significant improvement in working capital through a concerted effort to collect past due receivables, effectively manage inventories in all of our business units, and by bringing accounts payable metrics more in-line with our peer group.

We entered the fourth quarter with almost \$3 billion in Cash and Marketable Securities. Our debt currently stands at just under \$1.6 billion. We are very pleased with our strong balance sheet and the significant liquidity position it provides us. As we've consistently messaged, we continue to manage both the company's earnings and cash flow on an annual basis. In the fourth quarter we had impacts to EFO that included incremental advertising and performance based compensation. At the same time, an efficient restructuring, great progress on working capital, effectively generating proceeds and maintaining discipline around capital spending enabled us to complete the year with cash generation well above target. And, the company closed the year with a more efficient cost structure and with solid revenue momentum in our key digital businesses. While there were some variations in the phasing of earnings and net cash generation between fiscal quarters, we're extremely pleased with the overall performance for the year and where we're positioned as we look forward into 2008.

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

**Operator:**

Thank you. The question and answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key followed by the digit one on your touch-tone telephone. If you're using a speakerphone today, please make sure your mute function is turned off, to allow your signal to reach our equipment. Once again, please press star, one and we'll pause for a moment to give everyone a chance to signal.

And we'll take our first question, from Jay Vleeschhouwer from Merrill Lynch.

**Jay Vleeschhouwer:**

Antonio, last year you stepped up your investment to the home inkjet business with several 10's of millions of dollars of added investments to drive the new business. The question now, is there anything similar that you're planning for any business in 2008 in terms of accelerated or incremental spending given the multiple areas that you foresee for growth in any of the segments.

**Antonio Perez:**

Yes. We'll rather answer that question on the 7th, when you see the whole portfolio we have planned for 2008. It will be a much better time and place to answer that. We are going to continue to invest heavily in those key businesses where we see a lot of opportunity for growth and for profit obviously. Having said that, we expect a very good 2008.

We have very good momentum that allow us to both invest, aggressively with the new products, introductions and at the same time new profits, seeing how well the basic business is performing. CDG basic business without the new investment has improved dramatically year over year, thanks to a very effective cost structure and very effective supply chain. And that will allow us to invest. We believe to be successful with new products, so let's wait until the 7th. I won't be able to describe all the new products – all the new initiatives for the company until that time. But, the answer is yes, we will continue to invest aggressively in those areas that we see, you know, you know great opportunity for growth.

**Jay Vleeschhouwer:**

Second question is, on the last call, you acknowledged that you were facing something of a geography test. In as much as U.S. GCG was not doing so well as, non U.S. GCG conversely you were doing better domestically for CDG than outside the united states, do you think that you put in place a better balance of performance geographically within each of those important segments?

**Antonio Perez:**

We think so. We put a lot of investment in this business but not enough people in front of our customers for our digital presses. Both, Nexpress, and ink jet. We started to do that.

At that time, we hired more people and the results in the fourth quarter we placed more units than we ever did during the whole years and that shows that this is working. We still have some more work to do in Europe for that is a large region and we're not as connect to our customers as we would like to, so we'll continue to invest in that for next year. But the results of the fourth quarter are in and prove that we have solved some of that problem.

**Jay Vleeschhouwer:**

Finally for Frank, could you elaborate on your IP results for '07 and, you may want to hold this one next week as well, but can you say anything more about your expectation toward...

**Antonio Perez:**

Yes, I'm going to do it now Jay I'm going to do it myself, because I know I'm going to get this question 15 times. I said before that we were expecting at least, you know, \$250 million dollars for previously signed IP agreements in the forecast that you're going to see for the period 2008 to 2011 and you will see in on the 7<sup>th</sup> for at least from \$250 to \$350 million dollars every year, for each one of those four years.

Now that is net number that includes the royalties in the revenue that we get, and the royalties and the revenue that we have to pay. We don't win all of these cases, although, luckily for us, the majority are positive for us. So, those are the numbers that you're going to see; I want to remind you as well that the key objectives of the IP program is; number one, design freedom; number two, getting to new businesses or new partnerships or have access to the right data we might need in the future; and then, number three, is to generate revenue. And I did say, at least \$250 to \$350 every year, as an average for the four years because of this strategy that I just described to you it could be very one of those years will be a little larger than that in other years. It maybe another year, a lot smaller than that. As soon as the deals are coming and we have to decide between number, one, two, and three, I'm pretty confident that those are the numbers for the full year period.

We'll see significant legs to our program and we know because of the contacts that we have with a number of companies we have in front of us.

**Jay Vleeschhouwer:**

Thanks Antonio.

**Operator:**

And we'll take our next question Carol Sabbagha with Lehman Brothers.

**Carol Sabbagha:**

Thank you very much. A quick question, stepping back a little bit, you know, we had a lot of companies report the view on the economy has been sort of mixed. I mean, your fourth quarter revenue numbers were strong, but just asking you broadly what are you seeing out there in terms of demand in the consumer area and the graphics area. And what is your outlook – do you see any sort of broad slowing down in the economy you might be able to make gains share and make up for it but sort of a very broad economic picture, if you don't mind.

**Antonio Perez:**

OK, Carol that's a difficult question, but I'll give you, you know, our best. We were watching the economy in the fourth quarter and we were watching the economy declining and we haven't seen any effect on us so we were happily surprised and we are rationalizing why that would happen but we haven't seen an impact. Having said that, we – well you look at the plans that we have for the next four years, especially for 2008.

You will see they are I believe very good and very aggressive growth you're going to see that we're going include range in our goals. And that range will give you an idea of how much we think the economy can do to us if it goes one way or another. We still believe that we have – funny to say that, because we are new and many of these categories – even if the categories don't grow as much or don't grow at all over the next year for us, it will be a lot of growth because we were not there before, or we have very small presence.

And then as far as the large business is where we're in more than 60 percent of our revenue is outside the U.S. we think that we have a good balance of how we can deal with things. But in any case, we were cautious and we – you'll see that the ranges have grown, although, you very positive, very good growth. There will be a range because we don't really know how this is going to play out. So we look at the best case worst case, and we went from a lot of modeling and that's what you see in the range, that would be there.

We still feel very positive about 2008, the momentum we have created – I mean if you look at the company, first quarter, second, third and fourth, you certainly have to agree with me that there's a very strong momentum with our digital products both in the third and in the fourth quarter. I hope that you can agree with me ...

**Carol Sabbagha:**

No, absolutely you said that your revenues didn't show it, I just wanted to know if it was more gaining share or, you know, no impact on the economy ...

**Antonio Perez:** But, it's both. We're gaining share in many cases we have very little so it wasn't that difficult to take share. We're still have that situation coming. We still feel very strong about FPEG. What I read about it, it's a lot more negative than we feel. The truth is that year after year this group has an outstanding performance. We keep signing multiyear deals with our customers. They are the ones who really should know if film is used and they keep signing multiyear deals with us. So we have created a very low cost structure and we feel very well.

**Carol Sabbagha:** Antonio on inkjet I know you have been very happy with the performance and the unit performance. I don't know if you exactly said how many you placed for that year, but you beat your first 500K number. Can you distinguish between what sorts of unit number you had on sell in basis versus sell through basis?

**Antonio Perez:** Well we sold 520,000. The sell thru in the fourth – in the last month of the year was absolutely spectacular to the point all I can tell you, and I'm not very happy about this is that if we don't over perform and I had a long meeting with the team about this only a week ago. If we don't over perform in manufacturing in the first quarter we're going to be out of product – out of stock in many places which we're going to desperately try not to do that.

I think a lot of the data for sell through is available out there, we have a very, very strong sell through. All over the place, and in fact, you probably know, we ended up out of stock in several places in the fourth quarter. So, the question is, "Do we have an inventory over there?" You know, in the channel – the answer is no. We have a lot less than we wanted to have to deal with in the first quarter. At the same time, we're trying to have little inventory there because we came with a new platform that you probably saw at CES that's a much lower cost platform, for us, with – you know similar performance. And obviously we want to move as fast as we can all of our products to that platform. And that is the plan that we have for the year. And we'll talk more about that, February 7th.

**Carol Sabbagha:** Last quick question on entertainment. Can you just provide a little bit more detail about the writers' strike, how it impacted you, how it should impact you, and then also – I mean, you mentioned in the discussions about when you'd film agreements were those in entertainment or in consumer film, it was hard to distinguish. They were all over ...

**Antonio Perez:**

They went all over. They were in entertainment image and they were in other parts of FPG. And we don't want to go deeper than that. And they did cost us some, but it's good news for us – very good news for us. This – the best information we have about E.I year over year is that that seven percent decline in revenue comes from three things.

From the writers' strike number one. Number two, is the titles success, this business is a very lumpy business, it's very hard to seasonalize in this business. A year when a group of very powerful titles come into the market, sales go through the roof.

This is what happened Christmas, fourth quarter in 2006 came with very strong titles. And that continued over the first and even the second quarter of this year. They're weaker titles at this point of time. So, those two were a significant impact and where the majority of the impact. And then we have the manufacturing slow down that we do to have more money to spend over the year to get ready for the productivity for next year and obviously that hit us with the cost. Let me tell you something else about that business.

The admissions have gone up one percent in the U.S., for the data that we have, and a lot more outside the U.S. This is how we explain that even though number of – the number of theatres that are moved to digital at about seven percent but our film, is basically flat. And this is due to the fact that we have many more new theatres that have been open. That's how we ended up with basically flat sales for us for the year with the seven percent digital screens. But as long as the audience keeps going to the movies and the audience actually keeps, growing a lot faster. Double digits I believe outside the U.S. that's even better for us, because the transition to digital is a lot slower there, if any. At the same time, I don't want you to forget that we are in the digital business too, we haven't talked much about it, but we have great technology and we are participating already in it. But as far as the film, you know, that's the story.

**Carol Sabbagha:**

Antonio, quick follow up – a dumb question, the writers' strike, I thought it only impacted TV but I obviously it sounds like it's impacted movies too. Is that ...

**Antonio Perez:**

We have a big business in TV. We still have a lot of 16 millimeters for TV productions.

**Carol Sabbagha:**

OK.

**Antonio Perez:**

And as well there is the studios actually, they close earlier this year. That cost another slowdown for us. So, yes, it impacted more TV films, but it's affecting everything.

**Carol Sabbagha:**

Thank you very much.

**Operator:**

And we'll take our next question from Matt Troy with Citigroup.

**Matt Troy:**

Antonio I had a question, can you refresh us on your thoughts for deployment of cash? You articulate it with the stock was at 27, stock is actually headed south 30 percent or so, but the cash balance has moved nicely upwards, close to three billion. At roughly half the market cap. Given those two parameters has the thinking changed about the priorities for cash deployment the next three years?

**Antonio Perez:**

Sorry Matt, it's the same answer I gave the other time. Our objectives are the same, internal growth. We will be looking for opportunities for inorganic growth. In one hand this is a good time to look, since everyone is suffering, as far as market cap, and enterprise value on the other hand it's getting more and more difficult to get good deals in which the seller doesn't keep all the benefit of the value. So, we'll keep looking for that. And we'll still considering, you know, buy back.

We considered it before, luckily it was an exercise to buy back two months ago. So we seem – we have to wait and see. The market is too volatile, and all I can tell you is we're going to be aggressive with our internal investment, looking to capitalize on the technologies that we have, and we have a lot more than we've shown you. So that's – that's going to be the first objective. It's not a bad thing to have this liquidity with a market that is so unstable. But obviously we want to put that cash for the very good use for our share holders and we'll do that. We'll keep – we're working on this a lot, but we have no news to report.

**Matt Troy:**

I understand. If I could then, I guess, segue for a question to Frank, on the cash flow issue. The ending that seems the strongest fourth quarter. A lot of cash on balance sheet – was wondering under the new business model, one, how do we think of Kodak as a net consumer of cash over the next quarter or two this seasonally weaker part of the year – I mean, what is potential burn rate under the new model, and I guess, looking forward three or five years when this model is just dated and you're comfortable with the debt levels and the ratings, how much cash on balance sheet do you think you'll have to maintain?

I mean, I would think that it's very structurally lower than we are today but is there a broad perimeter where you could just directionally point us, in terms of the cash requirements for running the new business model.

**Frank Sklarsky:**

Yes, the first question around seasonality you could probably plot the proportion of the seasonality of the last couple years and you look towards 2008. You would see something that's not too dissimilar, although what I would say is that the more our graphics communications business continues to grow, and that has a very good geographic dispersion across the globe, you might see gradually a little less seasonality over time. Not necessarily that significant in 2008, but as you go out through time you're going to longer term, that (in a sense) you continue to get more annuities, an annuity stream and consumables, from both our consumer business and graphic communications business.

That will, over time, tend to have a smoothing out effect. Again, it won't be as significant in '08 but as we go through time it will have a beneficial impact on our seasonality.

The second question, around the cash on the – the balance you want the requirement will be because over time we will have a lower impact of seasonality, it will tend to reduce the overall minimum cash cushion we need. I wouldn't say that in terms of where are ratings are or not, and where are seasonality is now that we're going to come off necessarily in the next few months that that billion dollars which we've been messaging is our cash cushion so that will probably remain in place at least in the near term.

But you're correct, longer term, we certainly would not want to have the requirement to have that amount of cash on the balance sheet. And over time I would suspect that would be – we'd be able to bring that down.

**Antonio Perez:** We've 60 percent of our business that we are building. Already 60 percent of that revenue what we call, "output" businesses, with is a combination of both the consumer and the commercial space. And those businesses are there because they generate a very healthy annuity stream/. And that is exponential growth so the more we sell digital presses, ink jet printers, kiosks, and retail printing devices we just announced. You put all those things together – and because when you get into a deal you keep serving that customer for a long time. The more you do this, the more you're going to see the company's going have a lot less variability over the quarters – that was the whole intention of this right?

**Matt Troy:** Right.

**Antonio Perez:** So it's already 60 percent of the revenue, we're very pleased with that, and we are (selling) those products aggressively (seeding) and most of the time cost you some. But that is a very good business, it's a very good return for our shareholders. And it's already 60 percent.

**Matt Troy:** On the annuity stream, the plate business or just, I guess GCG more broadly came slightly light on margins. I understand what aluminum prices can do to that business. That said, the industry as a whole had pushed though some price increases a few quarters ago. And I think it sources up a potential leverage in your business model, if those price increases hit in '08. You get a tail off in aluminum, you know, you could actually save some very nice leverage in that annuity stream – I was wondering ...

**Antonio Perez:** I hope you're right.

**Matt Troy:** What is the penetration, or hit rate, in terms of price increases because they are ...

**Antonio Perez:** We didn't do very well in price increases this year. We did try, believe me, but it is a very good margin business, digital plates and the choice was to lose revenue with a very good margin, or raise the price. So we haven't done very well raising the prices because of the aluminum so we didn't get much back unfortunately for us. Now we are starting to hedge some aluminum so we have a little more control over that. But, we didn't get much of that but – that is, I mean it's a phenomenal business for us so – and think about the digital business of this company. If I look at the stability of the digital business of this company you have to look – when you think 2008 you have to look at two businesses, consumer digital capture, which is very strong coming into next year, the combination of products and IP looks very strong for next year. And the digital plates, which is a very stable business, where we have the number one position world wide the combination of those two businesses is a large share of our digital revenue.

So I feel strong about next year because I know that those two businesses are in incredibly well positioned like they've never been and then we have the rest of the businesses in which the role is growing market share and invest in them, which we'll continue to do. The answer we didn't get much of that – of that price increase .

**Frank Sklarsky:** Antonio's point, we don't break out individual product lines in terms of growth rates or revenue but ...

**Matt Troy:** Right

**Frank Sklarsky:** As you know you saw the whole growth rate for GCG and for prepress. You can rest assured that the digital side of the, of prepress grew very, very nicely ...

**Matt Troy:** Right.

**Frank Sklarsky:** In the fourth quarter ...

**Antonio Perez:** Double digits ...

**Frank Sklarsky:** And double digits, yes ...

**Antonio Perez:** Double digits.

**Matt Troy:** You talked in the past about the manufacturing capacity for the digital plates being close to a limit, and that potentially a catalyst for the business would be migrating some of the analog capacity to the digital plates ...

**Antonio Perez:** That's correct.

**Matt Troy:** Is that process done? Is that still ahead of you or is that something

**Antonio Perez:** Well we opened China which has been a big, you know, liberation. So, you know, China ((inaudible)) China plan was open three months ago. So that's going to help us a lot. And we keep moving, we keep moving customers from analog, you know, to digital, and we are – whenever we can – not in 100 percent owe the money back to you in places we can actually move that capacity of analog to digital.

In fact, we are considering doing some contract manufacturing outside for the analog plates so we can use, more effectively, those general resources for digital plates.

**Matt Troy:** Excellent. Thank you for the detail.

**Operator:** And we'll take our next question from Bill Shope from JPMorgan.

**Bill Shope:** OK. Thanks. On (inkjets) I know obviously you're on the very early stages and still clearly in share gain mode. But how should we think about seasonality in that business or whether or not we'll see any as we get into the first half of the year?

**Antonio Perez:** Well the back of the year will – going to be very strong. That's an industry issue. Now again, we are (small) as you said so we still have a lot of room to grow. But having said that, our business model is one that fits very well with the percentage of the users. You can put it – I don't want to put a number on it, but it doesn't fit with every user. It fits only well with those users that print more than the average.

Those are the only ones that are going to see the value of buying our printers obviously. If you don't know if you're going to print enough, there's no reason for you to buy – unless you like the better quality that we have, but other than that, you don't have a reason to buy our printer so we don't address in the home market place with this business model. This is in our model. Now with time, we got a, you know, external data shows that we've been selling our printers 30 percent over the average price of the industry.

The truth is we're priced slightly higher than what we wanted to do. We didn't want to do that as much because we want to reinforce the value proposition we have and obviously we can sell the printers higher the happier we well be, obviously. But there is no fundamental reason why we have to sell our printers at a higher price than anybody else, with an exception of the fact that we have a head in the printer that thermal printers do not have. A permanent head that is the difference but it's a small number compared to the total price of the printer. Contrasts for our competitors with thermal engines they have a head in every cartridge ...

**Bill Shope:**

Right.

**Antonio Perez:**

And that is a number that is significant compared to the price of the cartridge. So this is the strategy that we take. With those two combinations – I'm trying to answer your questions all around. We still have a lot room to grow, so we should be able to grow all across the year. We have only introduced one platform. We just announced one and the second at CES. As you can imagine without pre-announcing anything, obviously we have plans to announce products with our platform as soon as we can. So we think that's going to help with growth. We are small we are in a growth mode, so we'll have maybe less of a seasonality we'll still have the big seasons to deal with.

**Bill Shope:**

OK. And then a second question on that. Obviously, you know, considering your constraints on availability how did you look at your shelf space trends of the fourth quarter and, you know, how should we think about your goals on shelf space going into 2008 as well as expanded distribution opportunities.

**Antonio Perez:**

We're going to keep expanding. We – at this point of time every retailer I know of maybe I don't know all, have an interest in having this value proposition in their store. So while at the beginning we had to defend our value proposition even to the retailers for obvious reasons. That's not the case now. This printers getting phenomenal reports everywhere.

Our database, which obviously is internal data, and you have to realize I'm sharing with you internal data that I don't – I'm not pretending that is – that it's generic in any way shape or form. Our internal database shows that our customers self report to us that they're printing a lot more, color, a lot more full density pages and just because – think cheap.

Again, it's early to make any statement about that, I would suggest that you go to the retailers, like you go and you ask them what's the attach rate of cartridges that is normally you buy an inkjet printer the average of the industry is about 0.5 cartridges extra that they get buy – that gets bought with a printer. It will be good for you guys to check what the attach rate for us. I can tell you that the data that we have is, you know, (anecdotal) but we got it the same way you can get it going and talking to the retailers, it's 1.5. I don't want to get too happy about this because it's too early because – but it's really, really encouraging.

This has never happened in the industry. The people go buy the printer and they buy already so many cartridges with it. And then they self report that when – they use more because it's cheaper. I mean, I'm just trying to give you all we got. All we got is an early indication, some data that is external that you – that you can check, and some of the data that you have to – have to go and check by yourself. But it is very, very encouraging. You know, for me, being in this industry for more than 20 years.

**Bill Shope:**

OK, thank you. That was very helpful.

**Antonio Perez:**

Thank you.

**Operator:**

Now we'll take our next question from Ulysses Yannas with Buckman Buckman Reid.

**Ulysses Yannas:**

The 11 inch TV from Sony. It's an OLED based TV. Finally OLED seems to be coming of age. Is Sony part of what you are doing?

**Antonio Perez:** Hi Ulysses, No we did disclose that we have a broad cross license deal with Sony – was announced last year.

**Ulysses Yannas:** Right.

**Antonio Perez:** We can't disclose anymore but it was a broad cross license and soon after we gave that they announced. And we're very happy becomes – is becoming more of a standard product, although they were just showing the product they were not talking about the cost

**Ulysses Yannas:** It is selling very well in Japan.

**Antonio Perez:** Well I'm very happy for that. Because this good news for us. Sony has both elements of the technology. They have the deposition technology in which we are a leading company, if not, the leader. And then the back plane technology that we don't have. And they do have. We're still in our process of finding an appropriate back plane leader. Having said that Ulysses you probably saw as well that LCD has made incredible in roads into the industry I don't know if you noticed that we're – that LCD screens – with LED back light ...

**Ulysses Yannas:** Right.

**Antonio Perez:** Yes. That LED back light has made the size of the LCDs very, very thin. Very close to what OLED can do today. You probably noticed as well that the reviews – the amount of energy that is need to run those products. And as well that the visibility from different angles is much better than it was before. So LCD has improved dramatically too, which probably leads to us to conclude that the biggest opportunity for OLED is really in the small size and lessen the large size at this point.

For that reason and as well because it's very hard to get the back plane to work properly with OLED for large size. We're in the same position we were in the last few years. We keep investing in the parts of technology that we have, that we're very strong and we have a value there that we can monetize in several ways and we keep looking for the opportunity for a partner that has the same interest that we have, in the application of the technology.

**Ulysses Yannas:** Talking of investment. Your investment in inkjet. Went higher than what you had last year weren't they.

**Antonio Perez:** Oh yes. You know significantly higher, not only because we get it into now different platforms that you will see – that you will be seeing in 2008 but as well we get it into volumes so we have more investment and to go to market.

**Ulysses Yannas:** Well, judging from the 50 million plus cost associated with the project in the fourth quarter you might have gone way over a 100 million.

**Antonio Perez:** Yes, we went over a 100 million, at least – well we don't disclose that ...

**Ulysses Yannas:** Right.

**Antonio Perez:** You have to – you have to in this business. We have a great value proposition, but we are late. And we have value proposition that needs to be understood by customers that been used in this industry for 20 years, in one way So, we know that it's an uphill, but we know, as well, that our cost for our products are going down dramatically, from platform to platform. We know that a value proposition is being very well accepted and we just have to get it through and make it well known. But we don't disclose how much we invest because that would be competitive data.

**Ulysses Yannas:** I have heard that the average soccer-mom. Can recoup her investment in one your printers in less than 18 months, is that out of line? I mean is that totally wrong?

**Antonio Perez:** No, if it's a working mom, like my wife it would be a lot quicker than that. I mean, it depends how much you print. You can recover very quickly, – I mean look at the difference ...

**Ulysses Yannas:** No, I mean your average customer. A question the whole world.

**Antonio Perez:** Well, it we ...

**Ulysses Yannas:** The high-end users.

**Antonio Perez:**

OK. And that is the data I was trying to give to JPMorgan. It is too early for me to establish that formally; that would be naive. I've been in this business for too long to do that. The data that we have is that our customers are going to use significantly more cartridges than the average. But I don't know if in another year and a half, maybe when we have more of an expansive consumer base. I want to be able to say that, I sure hope it will continue to be higher, and I believe we'll be higher than the average. But, how high?

I don't know. The data we have now is phenomenal. But, logically the first customers they go for this product they want to print a lot. So with those the data is very favorable. If I knew that the whole business would be like this that would be paradise. Your statement generically will be true. If you use – I mean the industry uses about four and a half cartridges a year, that's an industry number. You can go from there. So, if you – you can do anymore that you want. If you assume that our customer uses, I don't know, five, six?

You see how quickly they say, very quickly – very quickly. So the average inkjet user in the market, according to the external data, uses four and a half cartridges a year. And ours I believe will use slightly more. We can't tell you more because the data we have is limited and we won't put a number there yet. We believe there will be more so you can do that modeling and you'll get very quickly to what you – what you concluded. You get actually to a much quicker recovery in a much shorter time.

**Ulysses Yannas:**

if I may ask you a question, your competitor Xerox, in the fourth quarter didn't have the kind of performance you had in your commercial printing division. In addition to that they've been talking about 10 percent price declines. Have you been experiencing price declines? And the other side, you must be gaining market share.

**Antonio Perez:**

I don't have third party data Ulysses to put on this phone call to answer that, and I ...

**Ulysses Yannas:**

How about pricing?

**Antonio Perez:** Yes, we have pricing in all, the electronic products, no matter what prices just keep going down year over year. But that's part of our planning. We always plan that. I think the biggest difference is a

tremendous portfolio thiers is mostly concentrated in digital presses, by large. The advantage that we have is that we have a very broad portfolio.

We serve both the analog printing all the off-set machines remember it's still 85 percent of the printing, and then we serve as well digital presses. When people say we are competing in GCG with HP and with Xerox, I hope that they realize that only with 25 percent we compete with them, the other part of the business they don't have products that we have. They don't have plates, they don't have the workflow, the variety of work (flow) software that we have. So maybe the advantage we have is an explanation.

We cover the whole business, they cover one slice, very strongly. They are the number one without any doubt in digital presses. They have very big portfolio. We have a small portfolio, the answer is we only serve with digital presses the production speed. The side of the market they go lower than that. They go into copiers they go into the (low) end and we don't go into that space. So, it's hard to compare without looking at both companies completely.

**Ulysses Yannas:** Thank you very, very much, Antonio.

**Antonio Perez:** Thank you.

**Operator:** And we'll take our last question from Shannon Cross from Cross Research.

**Shannon Cross:** Hi. Yes, thank you for taking my question. The first one is with regard to the inkjet Antonio I just wanted to sort of confirm or clarify your comments but with the new, I think it's the ESP3 line-up, you essentially expect to transition out the three you launched about seven months ago. And, you're now moving on to another product platform or do you anticipate having both of them side by side in the channel for a while?

**Antonio Perez:** No, they will be both – they will be both. What I meant to say – what I meant to say Shannon is that we have created a basic engine with the same performance that is much lower cost for us. That was the intention, and that platform will eventually replace a good part of the value proposition that we have with the different it will be over time.

**Shannon Cross:** OK. And then a question on the IP that you talked about the \$250 to \$350 million on average over the next, like I said three years four years ...

**Antonio Perez:** Yes.

**Shannon Cross:** How much of that is actually signed contract sitting at Kodak right now that you can look at it, and know ...

**Antonio Perez:** I won't say that Shannon. We won't put a number there and then the other part is new deals that we know they are in the pipeline and by looking back over the last four years we have a pretty good experience in how long it takes to settle those deals. And right now we have a pretty good feeling on how many of those deals, of trading IP one with the other, or which one of those are going to be revenues generating, and it's based on that; that includes that number.

And I keep saying that at least, and I don't know what else to say. We want to have the full freedom to practice, or making deals to work with companies and products that otherwise we cannot get into and only after those two things we can't work for whatever reason. Then we will – we'll try to make a deal with them that will generate revenue and cash ...

**Shannon Cross:** OK.

**Antonio Perez:** Having said all of that, we put into this analysis.. We feel pretty strong that those will be the numbers - \$250 to \$350, average for the four years. And I say average because those deals sometimes they will come in the fourth quarter or in the first quarter and they might be higher one year, and lower next year, and that's the best forecast we have.

**Shannon Cross:** OK. I mean, you understand all the questions right? Because obviously, you know, it's such an important part of your profitability still.

**Antonio Perez:**

I do, well yes. Yes it is. It is an important part of our profitability as it is a profitability of many other businesses and we can't just look at one – I don't look at it anyway Shannon to look at just one part of the profitability – I mean if I wouldn't be invested so much money in inkjet you would have seen a very profitable CDG, so this is a company that is managed, you know, that we manage the portfolio, that is an important part of the company. We said it already from 2003, we said that we wouldn't have the portfolio of IP that the company created for the last 20 years, we wouldn't have a chance do what we are doing. Yes, we're very proud, and it's very important and we got to capitalize on it for as long as we can.

**Shannon Cross:**

OK. And then one other question in regards to CMOS because I don't think we had a lot of a discussion on CMOS. Any update on where you stand on that – you know, but in regard to internal Kodak as well as deals with, let's say, Motorola, or any of the other carriers?

**Antonio Perez:**

Yes, we'll do more on February 7th, but we introduced one camera with our own CMOS in it and selling very well. And allowed us to go in to a lower price point and keep our margins in good shape. We have the deal with, Motorola, that will be delivering. Motorola has to announce introduction because I cannot, but in the next six months you should be seeing products from Motorola with our contribution.

And we – you will see an announcement that will come between now and the 7th, so I'm pre-announcing, which I shouldn't be doing, but I'm doing it anyway since started and we announced two initial break through – break through technologies about six months ago or something like that. Those are becoming a product and we will be announcing that that will be product available for sale in the industry; I won't tell you anymore but it will come in the next few days. We're making a lot of progress, this is a long cycle business we have very good technology, good partnerships, I feel very well about the business but it takes time to build this business.

**Shannon Cross:**

Just to clarify, the contract with Motorola is take or pay so if they don't actually ever use your product, because it's been months and we've been talking about this for a long time and I understand you can't control Motorola, but, just from a Kodak share holder stand point, if they don't use your stuff they still have to pay you ...

**Antonio Perez:** Can't answer that Shannon.

**Shannon Cross:** OK. Thank you.

**Antonio Perez:** Thank you very much.

**Operator:** And this does conclude today's question and answer session. At this time, I'd like to turn the conference back over to Mr. Perez for any additional or closing remarks.

**Antonio Perez:** Why thank you so much, all of you. And thank you for the people that asked the questions. We had a great year. I see many of the (faces) of the company have come together and we have delivered all the key objectives that we have set ('07). We have launched what we like to call a new Kodak, so we'll see you next week, we'll tell you more about it. Thank you very much.

**Operator:** And this does conclude today's conference. Thank you for your participation, you may now disconnect.

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