

# FINAL TRANSCRIPT

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## **EK - Q1 2009 Eastman Kodak Company Earnings Conference Call**

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Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

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## PRESENTATION

**Operator**

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

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

Good morning and welcome to our discussion of the 2009 first-quarter sales and earnings. I'm here this morning with Antonio M. Perez, Kodak's Chairman and CEO, as well as Chief Financial Officer, Frank Sklarsky. Antonio will begin this morning with his observations on the quarter, and then Frank will provide a review of the quarterly financial performance.

As usual, before we get started, I have some housekeeping activities to complete. Certain statements during this conference call may be forward looking in nature, or forward-looking statements as defined in the United States Private Securities Litigation Reform Act of 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, including transformation of certain of its businesses; its employment reductions and savings under its restructuring program and other rationalization activities; revenues and earnings goals; the ability to generate cash and cash needs; liquidity; its ability to achieve its intellectual property licensing targets; new product commercialization schedules; and product line manufacturing productivity and simplification objectives.

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 these forward-looking statements need to be evaluated in light of these important factors and uncertainties.

Now I'd like to turn the conference call over to Antonio Perez.

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

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

Thanks, Ann, and good morning, everyone. Since we presented at our investor meeting in February the level of economic uncertainty has not changed. Credit availability continues to be an issue for the industry, and as we expected, the historically-low consumer confidence has curtailed discretionary spending in general, which led to retailer inventory resets. The decline in global print demand has continued, which naturally led to distributors' inventory resets, as well, and Kodak, like most global companies, has been negatively impacted by the volatile currency environment.

During this uncertain time we continue to concentrate on the things that we can control. We are focusing on our customers, investing in our core digital businesses, aligning our costs with a new top line reality, conserving cash, and looking for ways to transform parts of our portfolio while maintaining or growing our market share in key businesses. Cash generation and cash conservation remain our top priorities. It was cash conservation that prompted me to recommend, and the board of directors to approve the suspension of the dividend payment. Like other technology companies we are suspending the dividend to ensure we have the cash to fulfill the promise of our core investments, which will generate greater volume for our shareholder over the long term.

It is important to note that we were able to limit our first-quarter cash usage to our typical seasonal range in this extremely weak economic environment, and we held or increased market share in our key businesses. We will continue to monitor all aspects of our cash plan, and we are holding our previously-announced cash generation goal of \$75 million to \$325 million before dividend and restructuring. We continue to make progress in focusing our R&D spend on our core digital investments and aligning our cost structure with new top line. When combined, the first-quarter SG&A and R&D costs declined by \$107 million, or 20% from the first quarter of 2008. We remain committed to implementing the majority of the previously-announced cost reductions in the first half of this year.

Today we announced an additional action to adjust our cost structure. This cost reduction will be achieved through temporary senior executive pay cuts and one-week unpaid leave for US employees. This action will reduce our 2009 cost and conserve cash. When we developed the 2009 plan that we shared with you in February we assumed that the first half of 2009 would look very similar to the fourth quarter of 2008, in that the economy will stabilize in the later part of the year. We continue to believe that will be the case.

Let's look at the segments and some key problems within those segment now. The first graphic communication group, GCG. GCG revenue declined 26% from the first quarter of 2008, including approximately 6% of unfavorable foreign exchange. a steeper year-over-year decline than what we experienced in the fourth quarter of 2008. This revenue decline was largely driven by a 30% reduction in Prepress Solutions and associated workflow were the combination of higher-than-anticipated market declines in commercial cleaning. Plus, these distributor's inventory resets reduced the demand for digital printing plates and associated equipment and workflow. However, we maintain our market position in this very important product category.

We saw a smaller decline in our Digital Printing revenues, which were down 12% in the first quarter compared to the first quarter of 2008, including the unfavorable foreign exchange, as commercial customers continue to invest in Kodak's color digital printing capabilities. As our Prepress Solution business adjusts to the market decline I'm confident we are focused on the right things. We are effectively serving our customers so that we can continue to maintain or grow market share. We developing new, innovative products for the right printing segments, such as packaging, which is a fast-growing segment for Kodak. We are enhancing our manufacturing productivity in our digital plates and digital output devices businesses and reducing the number of SKUs we use to simplifying the product line. We are streamlining our supply chain, improving speed, and generating cash by reducing inventory. This business' model changes in our sustained leading market share position gives me the confidence that Prepress will emerge from the recession as a stronger cash generator.

Now let's look at the Consumer Digital Imaging Group, CDG. The 2008 first-quarter year-over-year revenue decline of 33% was driven by lower consumer discretionary spend for higher-priced consumer electronics, competitive pricing market conditions,

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

combined with aggressive inventory reductions by retailers for digital cameras, for digital picture frames and for kiosk media. I'm encouraged by the strong sell-through of our digital cameras in the US, which was consistent with last year, as we continued to grow market share. I will talk later about this strong revenue performance for consumer inkjet. CDG current quarter revenue also reflects a decline in intellectual property royalty revenues. This decline was in our plan, and it was related to agreements where we completed our obligations last year, plus the lower demand for digital capture devices. Despite this first quarter decline, we are maintaining our forecasts of \$250 million to \$350 million per year on average, in income from intellectual property licensing agreements for 2009 and for the next few years.

Now for the film, photofinishing and entertainment imaging group, FPEG. FPEG revenue was down 31% for the first quarter when compared to the first quarter of 2008. The first-quarter decline was driven largely by the ongoing industry volume decline for film capture and traditional photo finishing, and unfavorable foreign exchange, primarily in entertainment imaging.

I will now provide an update on our core investments. As we discussed in February our core investments are aimed at delivering better customer solutions through superior technology, to large market segments that are either undergoing change or will benefit from a new business model or a unique value proposition. In this very challenging economic environment our consumer inkjet value proposition continues to resonate strongly with customers. In the first quarter Kodak's consumer inkjet hardware and ink revenue grew 100% in a market that was down. When we combined Kodak's share growth, a higher-unit install base, an improved revenue mix from a greater proportion of ink sales along with the lower-cost ESP platform, we have a working recipe for a continually improving earnings performance. Consumer inkjet first-quarter performance demonstrated that the additional investments we made in 2008 are paying off. We're making very substantial progress toward our target business model.

The additional investment in our new Stream technology with GCG is also delivering results. We now have a total of five global beta sites for the Stream inkjet technology printhead. The additional engineering resources we applied in 2008 are -- have allowed us to make significant improvements in the printhead performance, keeping us on track to achieve the accelerated schedule of having full Stream presses in the marketplace by early 2010. Combining our printing technology with our broad portfolio of workflow solutions enables our customers to offer new applications, expanding to adjacent markets and improve their bottom lines. The first-quarter decline in our workflow business was primarily driven by weak global print demand. However, Kodak continues to maintain its leading market share position and is growing rapidly in the enterprise space.

As we look at the digital businesses that have been transformed, overall their first-quarter revenue declined by 20% when compared to the first quarter of 2008. The operational results for those businesses, however, was essentially flat with last year's first-quarter loss, as all product lines benefited from the overall corporate restructuring, and the specific targeted actions taken to improve their operational performance. We are committed to achieving the full potential of our digital transformational businesses and continue to actively work toward achieving that objective.

Taking into account our first-quarter results and our typical seasonality where the first quarter is our lowest revenue quarter, we are maintaining our 2009 financial goals. We will continue to build on our cash generating business where we are holding or growing market share for our key products. We're gaining a foothold in the marketplace with our core investments, and consumer inkjet is growing dramatically and continuing to improve on its journey to its target business model. The Stream inkjet printheads are performing well, and we are on schedule for the launch of the full Steam press in early 2010. We are making significant progress in adjusting our cost structure and are confident that we will enter 2010 a leaner and a stronger company, ready to grow when the market recovers.

Now we'll turn over to Frank to discuss the detail of our financial performance. Frank?

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

**Frank Sklarsky** - Eastman Kodak Company - CFO

Thanks, Antonio, and good morning, everyone. As we shared with you at our investor meeting in February, the Company's main priorities for 2009 are to align our cost structure with external economic realities, fund our core investments, transform portions of our product portfolio, and drive positive cash flow before restructuring. Overall, during the first quarter the global economic downturn continued to have a substantial impact on the Company's revenue and growth margins. Despite these impacts the Kodak team made significant progress in reducing costs. This is enabling us to protect our investments in core digital technologies and to funnel appropriate investments into marketing, advertising, and commercial capital to enhance awareness and growth in key product categories.

We are achieving a high level of customer acceptance for the products associated with our core investments. The best example is Kodak's consumer inkjet products, whose unique value proposition continues to resonate strongly with our target customer base. As for our transformational businesses we continue to work toward optimizing the performance of these businesses while pursuing the various alternatives we outlined at the investor meeting.

As it relates to cash we had a use of \$808 million for the quarter. This corresponds with cash used from continuing operations from operating activities of \$784 million, similar to the \$767 million used in the prior year. This is in line with our anticipated seasonal use, and reflects efforts to maintain discipline over working capital, CapEx, and overall costs during a period of significant challenge as it relates to revenue and gross margins. I will share more details on the cash usage in a few minutes. In light of the continuing uncertain business environment, and as Antonio discussed, we believe it's prudent to take additional measures to further conserve cash and reduce costs. To that end, today's announcement of the compensation-related reductions for 2009 and the suspension of our dividend will result in significant cash savings this year.

Turning to our first-quarter results, we have previously indicated our first-half results, which show negative comparisons to the prior year. This is accentuated by the fact that digital revenues were growing by double digits in the first half of 2008, and to date, 2009 revenue trends are more in line with those of the dramatically-lower fourth quarter of 2008. Consolidated revenues for the quarter declined 29% to \$1.477 billion. Foreign exchange represented approximately six percentage points of the decline versus the prior year. Revenue was negatively impacted by the continued contraction in discretionary consumer spend, weak global print demand and inventory resets by retailers and distributors. In the quarter, the Company's gross profit margin was 13.1% versus 20.3% last year, a decline of 7.2 percentage points.

The decrease in gross profit margins was largely attributable to unfavorable price mix across most product categories, lower intellectual property licensing revenues and unfavorable foreign exchange. These factors were partially offset by the favorable impact of improved consumer inkjet productivity, driven by more than doubling consumer inkjet hardware and ink revenue, and the shift to a lower-cost platform. The net silver and aluminum commodity impact to the Company for the quarter was essentially flat with the prior-year quarter. As I stated earlier, the Company continues to focus on aligning our cost structure with the external economic realities. In the quarter, SG&A costs decreased by \$77 million, and our R&D spend decreased by \$30 million as compared to the prior year. It's important to note that while overall R&D spend is down we continue to utilize R&D resources where they have the most impact.

So it's a matter of focusing the spend on those areas, like Stream technology, where the Company has the highest potential for product commercialization and sustainable, profitable growth. As we said at the investors meeting, this is about a strong focus and discipline around our core strategy. During the first quarter we incurred approximately \$116 million in restructuring charges, and made restructuring-related payments from corporate cash of \$48 million. The Company eliminated approximately 1,600 positions during the first quarter, and as we complete our planned restructuring actions we fully expect to accrue additional savings as the year progresses.

First-quarter GAAP loss from continuing operations was \$360 million, or \$1.34 per share, reflecting a significant impact on revenue due to the difficult economic environment, lower gross profit margins, higher restructuring costs, and lower interest income due to lower cash balances and interest rates. Unfavorable foreign exchange also had a significant impact on first-quarter

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

earnings as compared to the prior year, as FX represented roughly one-quarter of the year-over-year decline in GAAP EFO. These factors were partially offset by the substantial reductions in SG&A and a more-focused R&D spend.

Now let's look at results by segment. Graphic Communications Group's revenue declined by 26% from \$812 million to \$603 million for the quarter, a decrease of \$209 million. On the earnings side GCG posted a \$60 million loss in the first quarter as compared to a loss of \$1 million loss in the year-ago quarter. The revenue and earnings decrease is largely reflective of the continued industry weakness and volume declines in Prepress and associated workflow software, along with foreign exchange. These factors were partially offset by cost reductions in SG&A and R&D.

Taking a look at the Consumer Digital Imaging Group, CDG revenue declined by \$185 million, or 33% for the first quarter. The revenue declines were largely due to lower intellectual property licensing revenues, lower volumes, and negative price mix for digital cameras and digital picture frames, reduced media volumes from kiosks, as major US retailers reset inventory levels, and unfavorable foreign exchange. The lower sales volume in digital cameras is also largely related to inventory reductions by retailers. We believe sell-through for digital cameras was roughly in line with the prior-year's first quarter, as Antonio indicated.

The segment loss from operations increased by \$46 million from \$111 million in last year's first quarter to a \$157 million loss this year. The earnings decrease was primarily due to the lower IP revenues. This decline, which was in our plan, is largely related to arrangements where our obligations were fulfilled as of the end of 2008, as well as overall volume declines in the digital capture device market. That said, we're still maintaining of guidance of between \$250 million and \$350 million in IP revenue, on average, in 2009 and for the next few years. CDG's earnings loss was partially offset by shifting to the lower-cost platform for consumer inkjet printers, more than doubling the inkjet printer hardware and ink revenue, and cost reduction efforts across all businesses.

With respect to FPEG, revenue declined by 31% to \$503 million, year-over-year earnings from operations declined by \$18 million to \$8 million for the quarter. This reduction in revenue and earnings was reflective of the industry-wide volume declines in film capture and traditional photo finishing. The entertainment imaging business volume was negatively impacted by the overall economic environment, continued uncertainty over the Screen Actors Guild contract negotiations, and negative price mix resulting from lower origination film volume in the quarter. Entertainment imaging print film was up slightly. Also, all the FPEG businesses, but particularly entertainment imaging, were impacted by unfavorable foreign exchange, partially offset by the reductions in other post-employment benefits, SG&A, and other cost reductions.

Now on to cash. Despite a difficult economic environment and the impact it has had on our operations, the Company's cash position remains solid. The Company's cash and cash equivalents for the end of the first quarter was approximately \$1.3 billion. It's important to note that we have well in excess of \$1 billion of cash on hand coming out of what is our seasonally lowest cash-generating quarter and following what has probably been two of most challenging quarters in the modern history of the Company and the overall economy. The Company's first-quarter cash use of about \$800 million was essentially in line with our seasonal trends and the prior year.

The first-quarter cash consumption was primarily due to lower earnings related to the global recession, seasonal working capital usage and restructuring payments, partially offset by cash received from an intellectual property licensing arrangement for which the Company recognized earnings in 2008. We continue to focus on working capital efficiency initiatives across all elements of the cash conversion cycle, and we are committed to delivering \$100 million in working capital improvements for the year. As for CapEx, we reduced expenditures by 50% from \$52 million to \$26 million for the quarter, and will continue our focused discipline in this area while protecting core investments and by providing commercial capital for selective creditworthy customers. We will continue to pursue the sale of excess real estate, but will execute those transactions in a way that will maximize value versus being driven by any artificial timeline.

As Antonio indicated our board has approved suspension of the dividend in the interest of conserving cash and protecting our core investments. This is the right thing to do for the Company, and is being done in order to protect our ability to pursue profitable growth and long-term value creation for our shareholders. Cash generation and cash conservation is our highest

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

priority and we're dedicated to maintaining a solid balance sheet. Earlier this month we announced that in this difficult credit environment we were successful in achieving our objective of amending our credit agreement by the end of the first quarter. This amendment removes the uncertainty around the need to comply with short-term, EBITDA-based covenant requirements. Second, we were able to extend the credit facility by 1.5 years. The agreement, which is asset based provides up to \$500 million in lending capacity. In addition, lenders represented approximately 75% of the total amount have agreed to extension through March, 2012, and we have the ability to add new lenders to the extension over time. We're pleased with both the liquidity and the improved financial flexibility the new amended and restated agreement provides.

Overall we're committed to achieving the financial goals outlined in our February investor meeting, and we will continue to focus on the things under our control. We have a maniacal focus on cash flow and cash conservation. We are taking the necessary steps to further reduce our cost structure to address current economic realities and enhance our flexibility in this dynamic environment. We believe the core strategy we've established is sound and the actions we're taking will allow us to emerge from this difficult period an even leaner, stronger Company.

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

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). We'll take our first question with Shannon Cross with Cross Research. Please go ahead.

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### Shannon Cross - Cross Research - Analyst

Thank you very much. Good morning. To start with, can I just ask a question on IP licensing? What I'm just curious about is you're holding to your numbers on average going forward, but I'm curious as to whether or not the current economic environment is making it harder for the negotiations or if you can just characterize how we should think about timing because, obviously, getting that money in is very key to your cash generation?

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### Antonio Perez - Eastman Kodak Company - Chairman & CEO

Yes, Shannon. I don't think the economic conditions are going to help with those negotiations, for sure, but as it has happened in the last four years we always concluded the negotiation in the third or the fourth quarter, so I don't see any difference from that point of view. The reason for the lower royalties in the first quarter was agreements -- multi-year agreements that we had in the past that basically ended and those were in our plans. But we do have deals that we're working on and that we believe will allow us to achieve the \$250 million to \$350 million that we've been aiming at for a long time and we've been achieving every year. I don't disagree that the economic conditions makes everybody be more cautious with cash, but the facts are that we have an extremely strong IP portfolio, with a lot -- lots of fundamental patents. They are very hard to design around and that is what has led to this program to be very successful in the past and I don't see any reason why it wouldn't be this year and in the next few years.

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### Shannon Cross - Cross Research - Analyst

Okay. And then Frank, a question to you on the cash side. Just with regard to working capital and as your revenues are coming down and you're focusing more on your core businesses, what levels do you think you need to have of inventory and AR and that as you have the revenue pressure and the overall business contracts. Can you give us some idea of targets you have or how we should gauge goals over the year?

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

**Frank Sklarsky** - Eastman Kodak Company - CFO

As opposed to giving you specific dollar targets by element let me see if I can help in this respect. In accounts receivable, for instance, we've been very successful on working on our past-due amounts, so really receivables overall tend to float up and down in terms of the total balance along with revenue. The lever we can pull is around past dues. We ended the first quarter with less than \$10 million of total past due over 60 days. So there is a terrific level of collaboration amongst all the functions in the Company to really manage this tightly in the current environment, so we're very pleased with that. So that's really the initiative there. So if you can look -- you can look at our typical trend on DSOs and that hasn't changed that much and probably won't change significantly. It's really about managing past dues.

On inventories, the opportunity there is to continue to improve as a result of continuing to reduce the complexity of the businesses. So as we -- Antonio talked about SKU reduction, particularly as it relates in our Graphic Communications business, that's going to allow us to reduce the level of inventories and lean up supply chain. We've been very successful in achieving our targets each year and we think we'll be -- continue to do so. I can't give you an exact number, but I can assure you we have some very aggressive internal targets for inventories across the board, and I have every reason to believe that teams will be able to achieve, as they have in the past.

On the payables, we said last year that we were trying to move our payables to terms that were more in line with our technology peer group. We have been sorry successful in moving the majority of our suppliers to 60-day terms. Now there are some suppliers where we're unable to do that because of regulatory issues and by practices in certain industries and where we might have less leverage, but we've been very, very successful in our digital businesses in getting that number over 50 days. A little bit less so in the FPEG businesses. So that would serve as a general guide for you on three elements.

**Shannon Cross** - Cross Research - Analyst

Okay, that was very helpful. The final question I have is, Antonio, can you talk about linearity during the quarter, any early indications from April, any -- whether it's geographic or by product? I think everybody right now is grasping for anything positive, so hopefully you're going to do say something in that direction, but --?

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

I do that every day, Shannon. I do that every week. It really makes -- so I couldn't say, I wish I could. I couldn't say that I see the light at the end of the tunnel or anything like that, but there are certain positive things. Let me give you some of the pros -- some of the negatives that I've seen. Some of them I can quantify. some of this these are anecdotal.

But we've seen the sell-through of digital cameras -- we sold the same amount of digital cameras this quarter than last year's quarter, which is kind of strange, very strange. We didn't expect that. Now what did happen is that we sold a lot more than the low-end cameras, which obviously we don't have the same margins. Then what we have seen, as well, is the retailers, they haven't been replacing their inventories at the same level and the reason for that is they don't know, they're not sure what the market is going to be like yet.

So that was -- that is not a bad sign. There is -- that means that there are enough number of people going into the store, still going for the purchase, so that is positive. Some negative shows in the first quarter, for instance in our media, is not that people are not printing photographs in kiosks, but the retailers they've been obviously looking at their cash management, and they're trying to work with a lower level of inventories. Again, the sell-through is decent and we're not unhappy with it, but the sell-in is poor.

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

Now I could go -- digital plates is very similar. We believe we kept share or we gain share. We have about 36% market share worldwide. But what happens is, because the overall demand has gone down, all the distributors -- and we have -- we use a lot of distributors in the middle -- they are cautious with their inventory. So there is an imbalance between the -- the sell-through is not as bad as our results are, but the sell-through has been affected by everybody trying to manage cash and in a prudent way. Now there is one -- one positive thing about that is that the demand is not as bad as number shows. And second, if assume that as a sign of recovery we're going to have a double benefit here. One will be the sell-through and -- but overall, I still think that the second quarter will be a tough quarter like the first quarter. If I see any signs of any recovery they will be more toward the third quarter.

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**Shannon Cross** - *Cross Research - Analyst*

Thank you very much. That was very helpful.

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**Operator**

We'll take our next question with Arun Seshadri with Credit Suisse. Please go ahead.

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**Arun Seshadri** - *Credit Suisse - Analyst*

Good morning. Thank you for taking my question. Just wanted to start off with your guidance -- or I guess your goals for the year. On CDG, if I remember right, your revenue guidance was roughly for revenue to be in that \$3 billion ballpark, which is just almost flat sequentially -- I mean, sorry, almost flat for 2009 versus 2008 and gross margins flattish, as well. As you've -- based on your first-quarter results do you see anything to change that, or are you generally still comfortable with that? And then basically what does that imply for the back of the year in terms of assumptions?

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**Frank Sklarsky** - *Eastman Kodak Company - CFO*

Yes, I think that we are not walking away from our goals. At this point in the year our goals and our targets remain as they were that we laid out in February. I think what it implies goes back to a comment Antonio made and that is that typically in that business it tend to be heavily seasonally weighted toward the back half of the year and particularly the last four months of the year. In addition to that, the intellectual property licensing revenues tend to come in the back half of the year. The combination of those two factors mean that both the revenue and the earnings and the cash flow associated with that business are much more weighted toward the back half and really the back third of the year and so there's no reason for us to walk away from our goals right now because the dynamics are similar.

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

Yes, I will add something else is first the seasonality, but as well, as you probably know, the deals for the big season, many of the deals of what products are going to be promoted in certain places they're already done, so we know what products we have won already with what products for what retailers at what time. Now we don't know what the economy's going to be like. We still play with the idea that it's not going to be as bad as the first and second quarter and we know that it compares obviously in the third and the fourth quarter are going to be a lot easier. If you'll remember, last year first and second quarter our digital businesses were growing by 10% so this is a very hard compare that we have now in the first and the second quarter. The third and the fourth it will be very easy compares. And again, in our planning, in our funnel we already know that we have been selected for a number of deals that will generate certain units and certain profits.

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

**Arun Seshadri** - *Credit Suisse - Analyst*

Appreciate that --

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

Based on all of that, we don't have any reason to change either way, neither up nor down the goals we had at the beginning of the year.

**Arun Seshadri** - *Credit Suisse - Analyst*

Okay, I appreciate that. And also on your IP revenue, is your IP revenue to be negotiated based on volume, i.e, is there a fairly significant component that depends on the number of units sold in a period of time?

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

Yes, royalties, they get associated with volumes. Yes. Normally royalties there is a percentage of the value of the equipment that is attached to the number of units. So for the deals that we have in which there are ongoing deals, if they -- if the industry is low and those people that pay royalties they're selling less products they give us less royalties, yes. And when we negotiate -- when it's a new negotiation what happens is there is a period in which those companies [that we don't know] that include a lot of volume already, so it doesn't make such big a difference if there is a period of time in which the volumes are lower.

**Arun Seshadri** - *Credit Suisse - Analyst*

Okay, appreciate that, as well. Then on restructuring, you've basically outlined previously your goals on cash restructuring expenses through the year. How much was roughly spent in the first quarter, and how should we be thinking about distribution of those cash restructuring expense for the rest of the year?

**Frank Sklarsky** - *Eastman Kodak Company - CFO*

Yes. In the first quarter the charges to the P&L were \$116 million, and the cash payments associated with restructuring from corporate cash were \$48 million. There's always this component that we talked about in the past related -- that came from -- for some of the US employees from US pension assets for special termination plan. As we go through the year we are still holding to the ranges we provided at the beginning of February, which were total charges \$250 million to \$300 million and total cash payments from corporate cash of \$225 million to \$275 million. I don't have an exact breakdown for you by quarter, but we expect to have the majority of the charges incurred by the end of the first half of the year, and then there's always a lag time between the charges and the payments because of deferred -- either deferred lump sums or deferred annuities to certain employees for severance costs, so the cash payments will be more evenly distributed throughout the year.

**Arun Seshadri** - *Credit Suisse - Analyst*

Okay, I appreciate that, as well. And the last question -- just a couple of things actually. First, asset sale proceeds. Again, you've talked about \$150 million in broad real estate-oriented asset sale proceeds. I presume you're still maintaining that guidance. And the second thing, your lending facility, is the right way to think about it that you have \$500 million in capacity -- basically in your facility through 2012 and that 75% of that is basically available from lenders as of now? That's it, thank you.

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

**Frank Sklarsky** - Eastman Kodak Company - CFO

Let me take those one at a time. On the real estate, what we're saying is our goal continues to be \$150 million in proceeds. That said, considering the current credit environment we want to make sure that when we monetize these assets we do so in a way that's going to be the most economically beneficial and financially beneficial for the shareholders. So we're not going to lock into any particular artificial timeline so the timing could move around a little bit. But our goal continues to be \$150 million. And that said, when we look at the cash flow statement we look at a lot of different levers that we can pull. We have CapEx. We have working capital. We have earnings. We have restructuring costs. We have proceeds, and so on. And so our goal is to get to that break-even or better on cash flow before restructuring and dividend. Proceeds is but one piece. We don't -- we're not changing our goals, but we have to be agile as we realize based on the current economic environment.

On the second item, on the lending facility, it provides up to \$500 million in financing. It is asset based, so obviously as the asset base goes up and down that changes the -- technically the amount of the availability. and that's really receivables, inventories and certain properties. We have that full capacity, obviously regulated by the asset base, available through October, 2010, and lenders representing 75% of that capacity have already agreed to the extension out through March, 2012. And over time we have the ability to bring more lenders into that. So it's \$500 million. We have full \$500 million, according to the amended agreement, through October, 2012, and commitments of 75% of that through Mar -- 2010, I should say, and 75% of that through March, 2012.

**Arun Seshadri** - Credit Suisse - Analyst

Thank you. I'll get back in line.

**Operator**

We go next to Ulysses Yannas with Buckman, Buckman & Reid.

**Ulysses Yannas** - Buckman, Buckman & Reid - Analyst

I'm glad your board of directors decided not to force on shareholders a dividend they didn't expect. Can I go back to your inkjet and ask -- last year, if my memory serves me right, you had a strong first half and a weak second half in inkjet placements. Essentially then the 100% increase is on a strong placement situation in the first half -- or in the first quarter of last year. Is that correct?

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

Yes. We have a -- actually this is not the last quarter. In the last quarter we've been experiencing a huge increase in sell-through, so -- but this quarter has been more than 100%. The increase in revenue that comes from ink, from the install base, and as well very importantly from from har -- from printer hardware revenue. The sell-through is higher than 100%. The sell-through -- I could give you data of the month of March. The sell-through in March was actually 200%. Now it coincided with the campaign that we launched and we don't expect that to continue that at 200%.

But even before the campaign we've seen a -- a constant increase on the natural demand of these products, which is the expectation we had. We knew it would be difficult to break through the business model that has been established in this industry for 20 years, but with time people will realize that this is true, very valuable business model and if you print enough you're going to get a tremendous amount of benefit by choosing a Kodak printer. And then the more people we have the more take talk to their friends. And obviously right now, once we went through the start-up phase that we talked about last year, we feel empowered to do more advertising and to increase the awareness that was very low before and is beginning to come up. So we are very excited. We are very -- we feel very well with this program.

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

**Ulysses Yannas** - *Buckman, Buckman & Reid - Analyst*

So essentially you are suggesting that your target of doubling the number of printers in people's hands by year end will be --

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

That is the goal.

**Ulysses Yannas** - *Buckman, Buckman & Reid - Analyst*

-- at least achieved.

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

That is the goal and we think we can achieve that even in this market conditions when the overall market is going down.

**Ulysses Yannas** - *Buckman, Buckman & Reid - Analyst*

In these market conditions have you noticed any kind of effect on the use of ink?

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

No. It still is between -- it still is -- for our install base it still is close to eight cartridges, you know, per year. It's 7.9, I think is the last time I saw it and the average of the industry is 4.2, I believe. So we obviously are attracting people that that print more.

**Ulysses Yannas** - *Buckman, Buckman & Reid - Analyst*

Thank you, Antonio. May I ask another question of Frank?

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

Sure.

**Ulysses Yannas** - *Buckman, Buckman & Reid - Analyst*

Frank, can you give us the effect of currency on SG&A.

**Frank Sklarsky** - *Eastman Kodak Company - CFO*

I don't have exactly an effect on SG&A. Obviously, there is clearly an impact. And I guess what I would say is six percentage points on the revenue line, a little bit less than that on the gross margin line, and because of the way we incur SG&A around the world, last year it went slightly in our favor. But if you look at the Euro, for instance, when the dollar to the Euro went from 160 to 130, which it's hovering around right now, we took a major hit on revenue, and it helped us a little bit on SG&A. At the end of the quarter, when things went back the other way a little bit, it helped very, very, very slightly at the end of quarter and hurt our SG&A. So while we don't track specifically SG&A -- we concentrate on revenue, gross profit, EFO line -- I guess I'll stick

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

to the comment that about one-quarter of the \$250 million or so of the change in GAAP EFO, so the GAAP EFO last year of \$81 million loss, the GAAP EFO this year of minus \$336 million, that difference of \$255 million, about a quarter of that was FX impact, which is a combination of gross margin, and SG&A.

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**Ulysses Yannas** - *Buckman, Buckman & Reid - Analyst*

And finally, your payables. There was a very sharp decline, \$800 million, in that particular category. Your payables at year end were \$1.288 million. What were the actual payable end of the end of the third -- first quarter? Do you have any figure on that?

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**Frank Sklarsky** - *Eastman Kodak Company - CFO*

Yes. And let's remember that on the -- there are two categories that are shown in the overall summary amount of payables. There is trade account payable and other current liabilities.

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**Ulysses Yannas** - *Buckman, Buckman & Reid - Analyst*

That's what I was talking about. Trade accounts payable, which is identifying your 10-K.

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**Frank Sklarsky** - *Eastman Kodak Company - CFO*

Yes. Trade account payable went down by about \$500 million, and that was really related to the dynamic that we see every first quarter where our highest level of economic and financial activity -- sales activity is in the fourth quarter and this is a paydown of payables. So if you look -- there's an explanation -- there's little table on page ten of the 10-Q, which shows a specific figure broken out between trade payables and other liabilities and -- but that's really the dynamic is paying down payables from -- as we do every year.

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**Ulysses Yannas** - *Buckman, Buckman & Reid - Analyst*

Thank you very much, Frank.

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**Frank Sklarsky** - *Eastman Kodak Company - CFO*

Okay.

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**Operator**

We'll take our next question with Chris Whitmore with Deutsche Bank. Please go ahead.

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**Chris Whitmore** - *Deutsche Bank - Analyst*

Thanks very much. It seems like your guidance implies a significant improvement in your business in the back half of the year, both from a top line and a margin standpoint. Can you maybe highlight the top two or three reasons for that expected improvement?

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

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

Yes, the -- well, the first one is the seasonality of our sales. That actually is in the month of October -- some where in the month of October it's actually 50% of our volumes in the consumer space are sold between sometime in October and the end of the year and the other 50% they go out before January and that time in October. That's not an exact date, but it's about that time. So there is a huge concentration of volume that happens and -- in the last part of the year. The second, our IP deals they have happened in the last four years since we've been doing this always in the third, mostly in the fourth quarter. And what -- the reason for that is a negotiating process and both parties, they normally try to use all the time they can to get to the best resolution. As far as the sales is not just retail. Our commercial sales actually they get affected, as well, because a lot of printing is done -- a lot of commercial printing is done when there is a lot of economic activity in the market, which happens to be towards the end of the year. That is the most -- those are the three most important reasons.

**Chris Whitmore** - Deutsche Bank - Analyst

Can you comment on where you think channel inventories are currently versus what you would consider normal channel inventories?

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

We actual have done a pretty good job. We feel pretty well. I mentioned before -- I think it was Shannon asked me the question about -- another question that for us -- I cannot talk about the rest of the companies. For us our sell-through in the majority of our products -- and I will put one exception, which will be digital frames -- but with the majority of -- with the rest of our products we've been having a much higher sell-through than sell to. This is one of the reasons why the number are the way they are. So the customers are buying more products that we are selling to the retailers and this is because retailers are taking precautions with their inventories. And I think they're doing that with everybody. I cannot assure you of that because the data I have is with me, with our products.

But we feel very well with our inventories in the channel. Actually, we think that this cannot continue for very long and retailers they're going to have to buy more products because they're going to be without inventory if they don't. And with the exception of digital frames, which is a different case, the whole industry has really collapsed significantly so that will be different. So -- and then a -- and same thing applies for digital plates. So the two largest businesses where inventory plays a very significant role for us, which is Prepress that has the digital plates, and this a \$2 billion business, and digital commerce and accessories, which again is almost a \$2 billion business, those two we feel very well with inventory situation in the channel.

**Chris Whitmore** - Deutsche Bank - Analyst

Okay. One question for Frank. Frank, it looked like you had \$100 million benefit in cash flow from realization of past IP income. How do you think about sequentially cash from operations in Q2 versus Q1, or even perhaps on a year-on-year basis? Do you expect -- in Q1 cash flow was down year over year, do you expect Q2 cash flow to be down year over year or any color on Q2 would be great?

**Frank Sklarsky** - Eastman Kodak Company - CFO

Yes, we're not providing a specific guidance by quarter now. We do manage it for the year. We are, as we typically do, expect significantly improved cash performance sequentially, Q2 versus Q1, so we're definitely coming out of our trough in terms of cash usage coming out of Q1. We won't have the same payables dynamic coming out of Q4. We've paid the Q4 bills so our payables are running at the rate of Q4 COGS activity. The -- you mentioned the \$100 million. The \$100 million is a combination of payment received from the prior year, as well as the absence of some payments going the other way from the prior year so we didn't get \$100 million receipt. A part of that was a receipt, part of that was the absence of a payment from the prior year.

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

More of it was a receipt. But that's what I could tell you is that we're expecting some significant improvement Q2 over Q1. I don't have a good call for you yet. We're not giving any guidance in terms of how Q will shape up versus prior-year Q2.

**Chris Whitmore** - Deutsche Bank - Analyst

Thank you.

**Operator**

We'll take our next question with Richard Gardner with Citigroup. Please go ahead.

**Richard Gardner** - Citigroup - Analyst

Thank you for taking the question and good morning. Frank, you mentioned that commodities were a neutral year over year and if we take a look at the main commodity prices that affect you, aluminum is down about 50% year over year, silver's down 25% to 30%, and oil is down 55%. Is the lack of impact, is that because hedges are still in place? And should we still expect some benefit from commodities in coming quarters as these hedges expire?

**Frank Sklarsky** - Eastman Kodak Company - CFO

Yes, let me take them a little bit of time. We said that silver and aluminum combined were flat year over year, which is the case and we have some level of hedging activity on each of those. There's been less -- a little less volatility over the past nine months as it relates to silver so we think we're in pretty decent shape on that one. On aluminum, as we put some hedging in place over the past year there has been obviously extreme volatility. The prices went from the mid-2,000s up to the low 3,000s per metric ton, and then back down into the low teens. And so what we've said is, look, as the year goes on and as prior activity rolls off we will continue to benefit. Now as it relates to oil, we didn't make any comment associated with that, but we are seeing and we believe we will continue to see favorable performance on things that oil impacts and that's plastics, that's resins, it's transportation, and utilities cost. So we will -- as that benefit continues to roll through COGS -- we saw a little bit of benefit in Q1, I think we'll continue to see benefits on that going forward.

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

We still have a negative impact from FX this quarter, though.

**Frank Sklarsky** - Eastman Kodak Company - CFO

We do from FX, from currency. But for strictly commodities it's flat for silver and aluminum and some benefit from oil.

**Richard Gardner** - Citigroup - Analyst

Frank, is there any assistance you can provide regarding delinquency of the hedge expirations throughout the year?

**Frank Sklarsky** - Eastman Kodak Company - CFO

Given the competitive sensitivity around hedging and potential impacts on pricing and so on we choose not to give any particular guidance, any specific guidance on the hedging.

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

**Richard Gardner** - Citigroup - Analyst

Okay. Then just one other question from me, and that's regarding entertainment imaging. You mentioned a number of different factors that contributed to the accelerated decline in entertainment imaging during the quarter, including FX and contract negotiations within the industry. Could you give us a sense of how big FX versus contract negotiations were and what your expectations are for that business for the remainder of the year? Should we expect a recovery, or should we be now thinking that the business is down 15% to 20% for the year?

**Frank Sklarsky** - Eastman Kodak Company - CFO

Well, one by one, the FX impact, we talked about a 7 percentage point FX impact on FPG in total and obviously entertainment imaging is quite a big piece of that, so there's a pretty good size impact there. As it relates to the other impacts on revenue, it's really the origination film. Print film was up a bit. Origination film was down because of some of this uncertainty around -- the studios have around the contract negotiation issues and not wanting to start a lot of features, a lot of television and so on having stop/start cost. We think that's going to recover. We don't know when, but that was a dynamic in the first quarter.

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

We do know, though, that when this happens and there's no purchase of originating film for a significant amount of time, which means they're not creating new movies, soon the portfolio or movies that made that they have in the back office to release becomes very, very, very, very small, and we believe we are going to reach soon that point. So we expect the recovery not withstanding the issues of the guild -- of the contract. Obviously we don't know what's going to happen with that. We don't know when the resolution will come. But we do know that the studios they're going to be pressured to go and make movies because they're not going to have any movies to publish if they don't do that.

**Richard Gardner** - Citigroup - Analyst

Okay. Great. Thanks, Antonio and Frank.

**Frank Sklarsky** - Eastman Kodak Company - CFO

Okay.

**Operator**

This does conclude the question-and-answer session. I'd like to turn it back over to Antonio Perez for any additional or closing remarks.

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

Well, thank you very much for attending the session. This global recession is truly unprecedented. I know that you know that. None of us have seen anything like that in our business career. I was -- as we manage through this we're just going to keep focusing on our customers and generating and conserving cash. The bottom line for me is that we have the financial resources that we need to fully execute our business strategy. I'm very happy with the traction of our new businesses. They show a tremendous amount of potential for the future and there -- and we know a few things that will happen at the end of the year that allow us to maintain the full-year goals that we set for ourselves in February. So thank you, again, and we'll talk to you soon.

Apr. 30. 2009 / 11:00AM, EK - Q1 2009 Eastman Kodak Company Earnings Conference Call

**Operator**

Once again, ladies and gentlemen, this does conclude today's conference. We thank you for your participation.

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