EASTMAN KODAK CO
Form 10-K
February 27, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the year ended December 31, 2007 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _________ to _________

Commission File Number 1-87

EASTMAN KODAK COMPANY

(Exact name of registrant as specified in its charter)

NEW JERSEY	**16-0417150**
(State of incorporation)	**(IRS Employer Identification No.)**
343 STATE STREET, ROCHESTER, NEW YORK	**14650**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: 585-724-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	**Name of each exchange on which registered**
Common Stock, $2.50 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o	Non-accelerated filer	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2007, was approximately $8.8 billion. The registrant has no non-voting common stock.

The number of shares outstanding of the registrant's common stock as of February 21, 2008 was 288,145,863 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

PART III OF FORM 10-K

The following items in Part III of this Form 10-K incorporate by reference information from the Notice of 2008 Annual Meeting and Proxy Statement:

Item 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Item 11 - EXECUTIVE COMPENSATION

Item 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Item 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Item 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES

Eastman Kodak Company
Form 10-K
December 31, 2007

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PART I

ITEM 1. BUSINESS

Eastman Kodak Company (the Company or Kodak) is the worlds foremost imaging innovator, providing imaging technology products and services to the photographic and graphic communications markets. When used in this report, unless otherwise indicated, we, our, us, the Company and Kodak refer to Eastman Kodak Company. Th Companys products span:

- Digital cameras and accessories
- Consumer inkjet printers and media
- Digital picture frames
- Retail printing kiosks and related media
- On-line imaging services
- Prepress equipment and consumables
- Workflow software for commercial printing
- Electrophotographic equipment and consumables
- Inkjet printing systems
- Document scanners
- Origination and print films for the entertainment industry
- Consumer and professional photographic film
- Photographic paper and processing chemicals
- Wholesale photofinishing services

Kodak was founded by George Eastman in 1880 and incorporated in 1901 in the State of New Jersey. The Company is headquartered in Rochester, New York.

This year Kodak substantially completed a four-year corporate restructuring and our 2007 results begin to reflect the benefits. We have a traditional business with a sustainable business model as a result of taking costs out ahead of the market decline. We have a strong digital portfolio with differentiated products in growing markets where our unique technology and brand allows us to have leading market positions.

Going forward, we are poised to achieve sustainable, profitable growth through portfolio expansion in our digital capture businesses and significant growth in our output businesses. These businesses will be built by continuing to create competitive solutions from a unique intellectual property portfolio combining materials science and digital image science.

During 2007, all key digital businesses grew and our digital profitability grew faster than total company revenue. We made significant improvement in our digital earnings from operations, and continue to see strong cash flow and earnings from our traditional businesses. We achieved market success with the new product launch of consumer inkjet printers, made great progress on the introduction of CMOS technology and products and drove top-line growth in the Graphic Communications Group through product line extension and entering new markets. We made significant progress toward installing our target cost model by substantially completing the corporate restructuring, reducing costs ahead of the decline in our traditional businesses, improving our go-to-market structure while taking out more than one percentage point of selling, general and administrative expenses (SG&A) costs as a percent of sales, and significantly improving our digital portfolio profitability. To ensure our future, we continued to make significant research and development (R&D) investments in key focus areas. We completed the sale of the Health Group and ended the year with a strong balance sheet.

For 2008, the Company will focus on the following key metrics:

- Cash generation before dividends
- Growth in revenue from the Consumer Digital Imaging Group and the Graphic Communications Group
- Growth in earnings from operations

In addition, the 2008 Strategic Imperatives include:

- Driving unit growth in digital output businesses for future annuities
- Margin enhancement in our digital capture businesses
- Cash generation from our traditional businesses, utilizing cost efficiencies to address industry demand declines
- Execution excellence to drive productivity gains

REPORTABLE SEGMENTS

As of and for the year ended December 31, 2007, the Company reported financial information for three reportable segments: Consumer Digital Imaging Group (CDG), Film Products Group (FPG), and Graphic Communications Group (GCG). The balance of the Company's operations, which individually and in the aggregate do not meet the criteria of a reportable segment, are reported in All Other.

The following business discussion is based on the three reportable segments and All Other as they were structured as of and for the year ended December 31, 2007. The Company's sales, earnings and assets by reportable segment for these three reportable segments and All Other for each of the past three years are shown in Note 24, Segment Information.

CONSUMER DIGITAL IMAGING GROUP (CDG) SEGMENT

Sales from continuing operations of the CDG segment for 2007, 2006 and 2005 were (in millions) $4,631, $4,711, and $5,646, respectively.

The Company is a global leader in providing digital photography products and services for consumer markets. Kodak holds top three market shares in many major categories in which it participates, such as digital still cameras, retail printing, and digital picture frames.

CDG's mission is to enhance peoples lives and social interactions through the capabilities of digital imaging technology, combined with Kodaks unique consumer knowledge, brand and intellectual property. This focus has

led to a full range of product and service offerings to the consumer. CDGs strategy is to extend picture taking, picture search/organizing, creativity, sharing and printing to bring innovative new experiences to consumers in ways that extend Kodaks legendary heritage in ease of use.

Digital Products: Consumer digital products include digital cameras, digital picture frames, home imaging accessory products, and snapshot printers and printer media. These product lines fuel Kodaks participation in the high revenue growth imaging device and accessory markets. Products are sold directly to retailers or distributors, and are also available to customers through the Internet at the Kodak store (www.kodak.com). Kodaks full line of camera products and accessories enable the consumer to personalize their digital camera and their photographic experience. In January 2007 Kodak introduced a new line of Digital Picture Frames that play customizable slideshows of pictures and videos that can be set to music.

Retail Printing: In January 2007, the Retail Printing Group was redefined to manage Kodaks complete set of digital printing hardware, media and infrastructure offerings to retailers. This consolidation enabled a complete set of resources to be applied to bringing innovative service products to retailers, and as such added scale and stability to CDGs ongoing revenue, cash flows and earnings. Kodaks product and service offerings to retailers include retail kiosks, color paper, processing chemistry, retail store merchandising and identity programs, after sale service and support, web infrastructure support, and wholesale printing services. Kodak Picture Kiosks and associated media, with approximately 90,000 installations worldwide, are sold directly to major retailers and provide consumers with a flexible array of output products from their digital images. These products include high-quality custom printed products, and the ability to automatically create collages and interactive, picture-movie DVDs set to music.

Online Imaging Services: Kodak Gallery, which has more than 50 million members, is a leading online merchandise and sharing service in the category. The Kodakgallery.com site provides consumers with a secure and easy way to view, store and share their photos with friends and family, and to receive Kodak prints and other creative products from their pictures, such as photo books, frames, calendars, and a host of other personalized merchandise. In 2006, Kodak entered a partnership to develop and sell a line of branded Martha Stewart photo products on Kodak Gallery. Products are distributed directly to consumers homes, or through relationships with major retailers. Additionally, the site is a chosen partner for leading companies such as Adobe, Apple, Microsoft, and Amazon.

Kodak also distributes Kodak EasyShare desktop software at no charge to consumers, which provides easy organization and editing tools, and unifies the experience between digital cameras, home printers, and the Kodak Gallery services.

Imaging Sensors: Kodak's line of CCD and CMOS sensors provides an attractive market opportunity, including mobile, automotive, industrial and professional imaging sectors. Kodak has leading sensor architecture intellectual property positions, and operates with an "asset light" manufacturing strategy that includes partnerships with key industry players for large-scale semiconductor manufacturing.

All-in-One Inkjet Printers: In February 2007, Kodak introduced the Kodak All-in-One Inkjet Printing System as a major initiative to drive future revenue growth and earnings. Four key components enable an expected breakthrough market entry: 1) a proprietary high-speed inkjet printing system; 2) nanoparticle pigment-based inks; 3) instant-dry, porous papers; and 4) Kodaks unique Image Science technologies. Additionally, the system is designed with a permanent print head. This unique offering is targeting the high-volume document and photo printer market with a breakthrough value proposition delivering lower cost per printed page as compared with competitive products. The inkjet operating model leverages Kodak technology and the efficiency of the current industry infrastructure to achieve an asset light approach to deliver this unmatched value proposition to the marketplace.

Marketing and Competition: The Company faces competition from other online service companies, consumer electronics and printer companies in the markets in which it competes, generally competing on price and technological advances. Rapid price declines shortly after product introduction are common in this environment, as producers are continually introducing new models with enhanced capabilities, such as improved resolution and/or optical systems in cameras.

The key elements of CDGs marketing strategy emphasize ease of use, quality and the complete solution offered by Kodak products and services. This is communicated through a combination of in-store presentation, online marketing, and advertising. The Company's advertising programs actively promote the segments products and services in its various markets, and its principal trademarks, trade dress, and corporate symbol are widely used and recognized. Kodak is frequently noted by trade and business publications as one of the most recognized and respected brands in the world.

The Companys strategy to address the decline in the market for color photographic papers is to offer a variety of color paper formulations designed to optimize digital printing workflows in consumer and professional photo processing labs. The Company also offers to professional and commercial labs an industry-leading family of digital workflow software designed to improve their workflows and enhance our position as a leading supplier of consumables.

FILM PRODUCTS GROUP (FPG) SEGMENT

Sales from continuing operations of the FPG segment for 2007, 2006 and 2005 were (in millions) $1,968, $2,312, and $2,841, respectively.

This segment is composed of traditional photographic products and services used to create motion pictures, and for consumer, professional and industrial imaging applications. The Company manufactures and markets films (motion picture, consumer, professional, industrial and aerial), and one-time-use and re-loadable film cameras.

The market for consumer and professional films and certain industrial and aerial films are in decline and are expected to continue to decline due to digital substitution. The market for motion picture films, however, has remained relatively stable, with any significant impact from digital substitution still expected to evolve sometime into the future. The future impact of digital substitution on the motion picture film market is difficult to predict due to a number of factors, including the pace of digital technology adoption in major world markets, the underlying economic strength or weakness in these markets, the timing of digital infrastructure installation, and the ability to finance the installation of digital systems.

Marketing and Competition: The fundamental elements of the Companys strategy with respect to the photographic products in this segment are to create a sustainable business model, serving customers for traditional products while aggressively managing our cost structure for those businesses that are in decline. Selective innovation plays a key element in this strategy.

The Companys strategy for the Entertainment Imaging business is to sustain motion picture films position as the pre-eminent capture medium for the creation of motion pictures, television dramas, and commercials. Selective investments to improve films superior image capture and quality characteristics are part of this strategy. Kodak has the leading share of the origination film market by a significant margin, led by the widely-acclaimed and Oscar-award-winning VISION2 series of motion picture films and the positive reception of our recently introduced VISION3 motion picture film.

The distribution of motion pictures to theaters on print film is another important element of the business, one in which the Company continues to be widely recognized as the market leader. Price competition is a bigger factor in this segment of the motion picture market, but the Company continues to maintain the leading share position, with several multi-year agreements with the major studios.

Throughout the world, most Entertainment Imaging products are sold directly to studios, laboratories, independent filmmakers or production companies. Quality and availability are important factors for these products, which are sold in a price competitive environment. As the industry moves to digital formats, the Company anticipates that it will face new competitors, including some of its current customers and other electronics manufacturers.

In the consumer and professional film markets, Kodak continues to maintain the leading worldwide share position despite continuing strong competition as the market declines, through ongoing product innovation and customer relations and service. In 2007, product innovations included upgrades to select consumer films, one-time-use cameras, and professional films. These products were introduced worldwide and won significant acclaim and

industry awards, especially among professional photographers. The continuing industry consolidation, along with the retailers move towards carrying fewer brands on their shelves, has enabled the Company to secure a number of preferred contract renewals with leading retailers in Europe and North America, strengthening our position.

Traditional film products and services for the consumer market are sold throughout the world, both direct to retailers and, increasingly, through distributors. Price competition continues to exist in all marketplaces. To be more cost competitive with its traditional film product offerings, the Company has rationalized capacity and restructured its go-to-market model. Digital substitution has led to substantial declines in film usage throughout most of the world. However, surveys conducted in the U.S. and Europe during 2007 have indicated that the majority of professional photographers will continue to use film, in addition to digital.

GRAPHIC COMMUNICATIONS GROUP (GCG) SEGMENT

Sales from continuing operations of the Graphic Communications Group segment for 2007, 2006 and 2005 were (in millions) $3,590, $3,477, and $2,825, respectively.

The Graphic Communications Group segment serves a variety of customers in the creative, in-plant, data center, commercial printing, packaging, newspaper, and digital service bureau market segments with a range of software, media, and hardware products that provide customers with a variety of solutions for prepress equipment, workflow software, digital and traditional printing, document scanning, and multi-vendor IT services. Products include digital and traditional prepress equipment and consumables, including plates, chemistry, and media; workflow software and digital controller development; color and black and white electrophotographic equipment and consumables; high-speed, high-volume continuous inkjet printing systems; wide-format inkjet inks and media; high-speed production and workgroup document scanners; and micrographic peripherals and media (including micrographic films). GCG also provides maintenance and professional services for Kodak and other manufacturers' products, as well as providing imaging services to customers.

Marketing and Competition: Throughout the world, graphic communications products are sold through a variety of direct and indirect channels. The end users of these products include businesses in the commercial printing, data center, in-plant and digital service provider market segments. While there is price competition, the Company has generally been able to maintain price by adding more attractive features to its products through technological advances. The Company has developed a wide-ranging portfolio of digital products - workflow, equipment, media, and services to meet the needs of customers who are interested in converting from analog to digital technology. Maintenance and professional services for the Company's products are sold either through product distribution channels or directly to the end users. In addition, a range of inkjet products for digital printing and proofing are sold through direct and indirect means. Document scanners are sold primarily through a two-tiered distribution channel to a number of different industries.

The growth in digital solutions has negatively affected revenues from traditional graphic arts films, analog plates and other traditional products. As a result, the Company has become more active in digital printing products, software and services in order to participate in these growth segments. The Company remains competitive by focusing on developing digital solutions based on inkjet, thermal and electrophotographic technologies including comprehensive workflow, training, and service systems.

ALL OTHER

Sales from continuing operations comprising All Other for 2007, 2006 and 2005 were (in millions) $112, $68, and $83, respectively.

All Other is composed of the Company's display business and other small, miscellaneous businesses.

DISCONTINUED OPERATIONS HEALTH GROUP

On April 30, 2007 the Company closed on the sale of its Health Group to Onex Healthcare Holdings, Inc., a subsidiary of Onex Corporation. Approximately 8,100 employees of the Company associated with the Health Group transitioned to Carestream Health Inc. as part of the transaction. Also included in the sale were manufacturing operations focused on the production of health imaging products, as well as an office building in

Rochester, NY. The results of the sale and operations for the Health Group are presented as discontinued operations in the Consolidated Statement of Operations. All prior periods have been revised for comparison purposes. See Note 23, Discontinued Operations in the Notes to Financial Statements for further discussion.

FINANCIAL INFORMATION BY GEOGRAPHIC AREA

Financial information by geographic area for the past three years is shown in Note 24, Segment Information.

RAW MATERIALS

The raw materials used by the Company are many and varied, and are generally readily available. Lithographic aluminum is the primary material used in the manufacture of offset printing plates. The Company procures raw aluminum coils from several suppliers on a spot basis or under contracts generally in place over the next one to three years. Silver is one of the essential materials used in the manufacture of films and papers. The Company purchases silver from numerous suppliers under annual agreements or on a spot basis. Paper base is an essential material in the manufacture of photographic papers. The Company has contracts to acquire paper base from certified photographic paper suppliers over the next several years.

SEASONALITY OF BUSINESS

Sales and earnings of the CDG segment are linked to the timing of holidays, vacations and other leisure or gifting seasons. In 2007, sales of digital products were highest in the last four months of the year. Digital capture and consumer inkjet printing products have experienced peak sales in this period as a result of the December holidays. Sales are normally lowest in the first quarter due to the absence of holidays and fewer picture-taking opportunities during that time. These trends are expected to continue as the Company continues to experience growth in sales of digital products.

Sales and earnings of the FPG segment are linked to the timing of holidays, vacations and other leisure activities. Sales and earnings are normally strongest in the second and third quarters as demand is high due to heavy vacation activity, events such as weddings and graduations, and the summer motion picture season.

Sales and earnings of the GCG segment exhibit modestly higher levels in the fourth quarter. This is driven primarily by the sales of continuous inkjet, electrophotographic printing, and document scanner products due to seasonal customer demand linked to commercial year-end advertising processes.

RESEARCH AND DEVELOPMENT

Through the years, the Company has engaged in extensive and productive efforts in research and development.

Research and development expenditures for the Companys three reportable segments and All Other were as follows:

(in millions)	**For the Year Ended December 31,**		
	2007	**2006**	**2005**
Consumer Digital Imaging Group	$ 248	$ 281	$ 300
Film Products Group	29	33	63
Graphic Communications Group	205	200	281
All Other	53	64	95
Total	$ 535	$ 578	$ 739

Research and development is headquartered in Rochester, New York. Other U.S. groups are located in Boston, Massachusetts; New Haven, Connecticut; and San Jose, Emeryville, and San Diego, California. Outside the U.S., groups are located in England, France, Israel, Germany, Japan, China, and Singapore. These groups work in close cooperation with manufacturing units and marketing organizations to develop new products and applications to serve both existing and new markets.

It has been the Company's general practice to protect its investment in research and development and its freedom to use its inventions by obtaining patents. The ownership of these patents contributes to the Company's ability to provide leadership products and to generate revenue from licensing. The Company holds portfolios of patents in several areas important to its business, including digital cameras and image sensors; network photo sharing and fulfillment; flexographic and lithographic printing plates and systems; digital printing workflow and color management proofing systems; color and black and white electrophotographic printing systems; wide-format, continuous, and consumer inkjet printers; inkjet inks and media; thermal dye transfer and dye sublimation printing systems; digital cinema; color negative films, processing and papers; and organic light-emitting diodes. Each of these areas is important to existing and emerging business opportunities that bear directly on the Company's overall business performance.

The Company's major products are not dependent upon one single, material patent. Rather, the technologies that underlie the Company's products are supported by an aggregation of patents having various remaining lives and expiration dates. There is no individual patent or group of patents the expiration of which is expected to have a material impact on the Company's results of operations.

ENVIRONMENTAL PROTECTION

The Company is subject to various laws and governmental regulations concerning environmental matters. The U.S. federal environmental legislation and state regulatory programs having an impact on the Company include the Toxic Substances Control Act, the Resource Conservation and Recovery Act, the Clean Air Act, the Clean Water Act, the NY State Chemical Bulk Storage Regulations and the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (the Superfund Law).

It is the Company�s policy to carry out its business activities in a manner consistent with sound health, safety and environmental management practices, and to comply with applicable health, safety and environmental laws and regulations. The Company continues to engage in programs for environmental, health and safety protection and control.

Based upon information presently available, future costs associated with environmental compliance are not expected to have a material effect on the Company's capital expenditures, earnings or competitive position. However, such costs could be material to results of operations in a particular future quarter or year.

Environmental protection is further discussed in Note 11, "Commitments and Contingencies," in the Notes to Financial Statements.

EMPLOYMENT

At the end of 2007, the Company employed the full time equivalent of approximately 26,900 people, of whom approximately 14,200 were employed in the U.S. The actual number of employees may be greater because some individuals work part time.

AVAILABLE INFORMATION

The Company files many reports with the Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. These reports, and amendments to these reports, are made available free of charge as soon as reasonably practicable after being electronically filed with or furnished to the SEC. They are available through the Company's website at www.Kodak.com. To reach the SEC filings, follow the links to Investor Center, and then SEC Filings. The Company also makes available its annual report to shareholders and proxy statement free of charge through its website.

We have included the CEO and CFO certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to this report. We have also included these certifications with the Form 10-K for the year ended December 31, 2006 filed on March 1, 2007. Additionally, we filed with the New York Stock Exchange (NYSE) the CEO certification, dated June 4, 2007, regarding our compliance with the NYSE's corporate governance listing standards pursuant to Section 303A.12(a) of the listing standards, and indicated that the CEO was not aware of any violations of the listing standards by the Company.

ITEM 1A. RISK FACTORS

If we do not effectively execute on our growth initiatives, our financial performance could be adversely affected.

The Company participates in digital product markets dominated by a few, large competitors with broad, well-established distribution channels and supplier arrangements. Achievement of scale, in those markets where Kodak has nascent, but growing, businesses, is necessary for the Company to successfully compete in these markets. The Company's failure to obtain sustainable growth in these businesses could adversely affect the Company's financial performance.

If we fail to comply with the covenants contained in our Secured Credit Agreement, including the two financial covenants, our ability to meet our financial obligations could be severely impaired.

There are affirmative, negative and financial covenants contained in the Company's Secured Credit Agreement. These covenants are typical for a secured credit agreement of this nature. The Company's failure to comply with these covenants could result in a default under the Secured Credit Agreement. If an event of default was to occur and is not waived by the lenders, then all outstanding debt, letters of credit, interest and other payments under the Secured Credit Agreement could become immediately due and payable and any unused borrowing availability under the revolving credit facility of the Secured Credit Agreement could be terminated by the lenders. The failure of the Company to repay any accelerated debt under the Secured Credit Agreement could result in acceleration of the majority of the Company's unsecured outstanding debt obligations.

If we cannot effectively anticipate technology trends and develop new products to respond to changing customer preferences, this could adversely affect our revenues.

Due to changes in technology and customer preferences, the market for traditional photography products and services is in decline. In its Film Products Group, the Company continues to experience declines in customer demand for film products, consistent with industry trends. Management has developed initiatives to address the anticipated impact of these trends on the Company's performance. In addition, the Company's product development efforts are focused on digital capture devices (digital cameras and scanners) designed to improve the image acquisition or digitalization process, software products designed to enhance and simplify the digital workflow, output devices (thermal and inkjet printers and commercial printing systems and solutions) designed to produce high quality documents and images, and media (thermal and silver halide) optimized for digital workflows. Kodak's success depends in part on its ability to develop and introduce new products and services in a timely manner that keep pace with technological developments and that are accepted in the market. The Company continues to introduce new consumer and commercial digital product offerings. However, there can be no assurance that the Company will be successful in anticipating and developing new products, product enhancements or new solutions and services to adequately address changing technologies and customer requirements. In addition, if the Company is unable to anticipate and develop improvements to its current technology, to adapt its products to changing customer preferences or requirements or to continue to produce high quality products in a timely and cost-effective manner in order to compete with products offered by its competitors, this could adversely affect the revenues of the Company.

If we cannot continue to license or enforce the intellectual property rights on which our business depends or if third parties assert that we violate their intellectual property rights our revenue, earnings and expenses may be adversely impacted.

Kodak relies upon patent, copyright, trademark and trade secret laws in the United States and similar laws in other countries, and agreements with its employees, customers, suppliers and other parties, to establish, maintain and enforce its intellectual property rights. Any of the Company's direct or indirect intellectual property rights could, however, be challenged, invalidated or circumvented, or such intellectual property rights may not be sufficient to permit the Company to take advantage of current market trends or otherwise to provide competitive advantages, which could result in costly product redesign efforts, discontinuance of certain product offerings or other competitive harm. Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States. Therefore, in certain jurisdictions, Kodak may be unable to protect its proprietary technology adequately against unauthorized third party copying or use, which could adversely affect its competitive position. Also, because of the rapid pace of technological change in the information technology industry, much of our business and many of our products rely on key technologies developed or licensed by third

parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties at all or on reasonable terms.

Kodak has made substantial investments in new, proprietary technologies and has filed patent applications and obtained patents to protect its intellectual property rights in these technologies as well as the interests of the Company�s licensees. The execution and enforcement of licensing agreements protects the Company's intellectual property rights and provides a revenue stream in the form of royalties that enables Kodak to further innovate and provide the marketplace with new products and services. There is no assurance that such measures alone will be adequate to protect the Company's intellectual property. The Company�s ability to execute its intellectual property licensing strategies could also affect the Company�s revenue and earnings. Kodak�s failure to develop and properly manage new intellectual property could adversely affect the Company�s market positions and business opportunities. Furthermore, the Company�s failure to identify and implement licensing programs, including identifying appropriate licensees, could adversely affect the profitability of Kodak�s operations.

Finally, third parties may claim that the Company or customers indemnified by Kodak are infringing upon their intellectual property rights. Such claims may be made by competitors seeking to block or limit Kodak�s access to digital markets. Additionally, in recent years, individuals and groups have begun purchasing intellectual property assets for the sole purpose of making claims of infringement and attempting to extract settlements from large companies like Kodak. Even if Kodak believes that the claims are without merit, the claims can be time-consuming and costly to defend and distract management�s attention and resources. Claims of intellectual property infringement also might require the Company to redesign affected products, enter into costly settlement or license agreements or pay costly damage awards, or face a temporary or permanent injunction prohibiting Kodak from marketing or selling certain of its products. Even if the Company has an agreement to indemnify it against such costs, the indemnifying party may be unable to uphold its contractual agreement to Kodak. If we cannot or do not license the infringed technology at all, license the technology on reasonable terms or substitute similar technology from another source, our revenue and earnings could be adversely impacted.

If we cannot attract, retain and motivate key employees, our business could be harmed.

In order for the Company to be successful, we must continue to attract, retain and motivate executives and other key employees, including technical, managerial, marketing, sales, research and support positions. Hiring and retaining qualified executives, research professionals, and qualified sales representatives are critical to the Company�s future and competition for experienced employees in the industries in which we compete can be intense. The market for employees with digital skills is highly competitive and therefore the Company�s ability to attract such talent will depend on a number of factors, including compensation and benefits, work location and persuading potential employees that the Company is well-positioned for success in the new digital markets Kodak has and will enter. The Company also must keep employees focused on the strategic initiatives and goals in order to be successful. If we cannot attract properly qualified individuals, retain key executives and employees or motivate our employees, our business could be harmed.

System integration issues could adversely affect our revenue and earnings.

Portions of our IT infrastructure may experience interruptions, delays or cessations of service or product errors in connection with systems integration or migration work that takes place from time to time; in particular, installation of SAP within our Graphic Communications Group. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive. Such disruption could adversely affect our ability to fulfill orders and interrupt other processes. Delayed sales, higher costs or lost customers resulting from these disruptions could adversely affect our financial results and reputation.

Our inability to effectively complete, integrate and manage acquisitions, divestitures and other significant transactions could adversely impact our business performance including our financial results.

As part of our business strategy, we frequently engage in discussions with third parties regarding possible investments, acquisitions, strategic alliances, joint ventures, divestitures and outsourcing transactions ("transactions") and enter into agreements relating to such transactions in order to further our business objectives. In order to pursue this strategy successfully, we must identify suitable candidates for and successfully

complete transactions, some of which may be large and complex, and manage post-closing issues such as the integration of acquired companies or employees. Integration and other risks of transactions can be more pronounced for larger and more complicated transactions, or if multiple transactions are pursued simultaneously. If we fail to identify and complete successfully transactions that further our strategic objectives, we may be required to expend resources to develop products and technology internally, we may be at a competitive disadvantage or we may be adversely affected by negative market perceptions, any of which may have a material adverse effect on our revenue, gross margin and profitability.

In 2005, Kodak completed two large business acquisitions in its Graphic Communications Group segment in order to strengthen and diversify its portfolio of businesses, while establishing itself as a leader in the graphic communications market. The Company has substantially completed its extensive restructuring of its traditional manufacturing and corporate infrastructure, but will need to continue to rationalize all items of cost to remain competitive. In the event that Kodak fails to effectively manage the continuing decline of its more traditional businesses while simultaneously integrating these acquisitions, it could fail to obtain the expected synergies and favorable impact of these acquisitions. Such a failure could cause Kodak to lose market opportunities and experience a resulting adverse impact on its revenues and earnings.

Economic trends in our major markets could adversely affect our financial performance.

Economic downturns and declines in consumption in Kodak’s major markets may affect the levels of both commercial and consumer sales and profitability. Purchases of Kodak’s consumer products are to a significant extent discretionary. Accordingly, weakening economic conditions or outlook could result in a decline in the level of consumption and could adversely affect Kodak’s results of operations.

If we do not timely implement our planned working capital improvements, this could adversely affect our cash flow.

Unanticipated delays in the Company's plans to continue working capital improvements could adversely impact Kodak’s cash flow. Planned inventory reductions could be compromised by slower sales due to the deteriorating economic environment, the competitive environment for digital products, and the continuing decline in demand for traditional products, which could also place pressures on Kodak’s sales and market share. Conversely, accounts receivable goals could be missed due to stronger sales or a decline in our customers’ ability to pay as a result of economic downturn. In addition, if the Company does not make the expected progress to align our accounts payable metrics with our peer groups our cash flow could be negatively impacted. In the event Kodak is unable to successfully manage these issues in a timely manner, they could adversely impact the planned working capital improvement.

Delays in our plans to improve manufacturing productivity and control cost of operations could negatively impact our gross margins.

Kodak’s failure to successfully manage operational performance factors could delay or curtail planned improvements in manufacturing productivity. Delays in Kodak’s plans to improve manufacturing productivity and control costs of operations, could negatively impact the gross margins of the Company. Furthermore, if Kodak is unable to successfully negotiate competitive raw material costs with its suppliers, or incurs adverse pricing on certain of its commodity-based raw materials, gross margins could be adversely impacted.

We depend on third party suppliers and, therefore, our revenue and gross margins could suffer if we fail to manage supplier relationships properly.

Kodak’s operations depend on its ability to anticipate the needs for components, products and services and Kodak’s suppliers’ ability to deliver sufficient quantities of quality components, products and services at reasonable prices in time for Kodak to meet its customers’ demand. Given the wide variety of products, services and systems that Kodak offers, the large number of suppliers and contract manufacturers the Company depends upon that are dispersed across the globe, and the long lead times that are required to manufacture, assemble and deliver certain components and products, problems could arise in planning production and managing inventory levels that could seriously harm Kodak. Other supplier problems that Kodak could face include component shortages, excess supply, risks related to terms of its contracts with suppliers, and risks related to dependency on single source suppliers.

We have outsourced a significant portion of our overall worldwide manufacturing and back-office operations and face the risks associated with relying on third party manufacturers and external suppliers.

We have outsourced a significant portion of our overall worldwide manufacturing, customer support and administrative operations (such as human resource, credit and collection, and general ledger accounting functions) to third parties and various service providers. To the extent that we rely on third party manufacturing relationships, we face the risk that those manufacturers may not be able to develop manufacturing methods appropriate for our products, they may not be able to maintain an adequate control environment, they may not be able to quickly respond to changes in customer demand for our products, they may not be able to obtain supplies and materials necessary for the manufacturing process, they may experience labor shortages and/or disruptions, manufacturing costs could be higher than planned and the reliability of our products could decline. If any of these risks were to be realized, and assuming alternative third-party manufacturing relationships could not be established, we could experience interruptions in supply or increases in costs that might result in our being unable to meet customer demand for our products, damage to our relationships with our customers, and reduced market share, all of which could adversely affect our results of operations and financial condition.

If our ongoing efforts to improve our supply chain efficiency are not achieved, this could adversely affect our revenue and earnings.

Kodak□s improvement in supply chain efficiency, if not achieved, could adversely affect its business by preventing shipments of certain products to be made in their desired quantities and in a timely and cost-effective manner. The ongoing efficiencies could be compromised if Kodak expands into new markets with new applications that are not fully understood or if the portfolio broadens beyond that anticipated when the plans were initiated. Any unforeseen changes in manufacturing capacity could also compromise our supply chain efficiencies.

The competitive pressures we face could harm our revenue, gross margins and market share.

The markets in which we do business are highly competitive, and we encounter aggressive price competition for all our products and services from numerous companies globally. Over the past several years, price competition in the market for digital products (including consumer inkjet printers), film and services has been particularly intense as competitors have aggressively cut prices and lowered their profit margins for these products. In the Graphic Communications Group segment, aggressive pricing tactics by our competitors have intensified the contract negotiation process. Our results of operations and financial condition may be adversely affected by these and other industry-wide pricing pressures. If the Company is unable to obtain pricing or programs sufficiently competitive with current and future competitors, Kodak could also lose market share, adversely affecting its revenue and gross margins.

If we fail to manage distribution of our products and services properly, our revenue, gross margins and earnings could be adversely impacted.

The Company uses a variety of different distribution methods to sell our products and services, including third-party resellers and distributors and both direct and indirect sales to both enterprise accounts and customers. Successfully managing the interaction of direct and indirect channels to various potential customer segments for our products and services is a complex process. Moreover, since each distribution method has distinct risks and costs, our failure to implement the most advantageous balance in the delivery model for our products and services could adversely affect our revenue, gross margins and earnings. Due to changes in the Company□s go-to-market models, the Company is more reliant on fewer distributors. This has concentrated the Company□s credit risk, which, if not appropriately managed, could result in an adverse impact on the Company□s financial performance.

We may provide financing and financial guarantees to our customers, some of which may be for significant amounts.

The competitive environment in which we operate may require us to provide financing to our customers in order to win a contract. Customer financing arrangements may include all or a portion of the purchase price for our products and services. We may also assist customers in obtaining financing from banks and other sources and

may provide financial guarantees on behalf of our customers. Our success may be dependent, in part, upon our ability to provide customer financing on competitive terms and on our customers creditworthiness. If we are unable to provide competitive financing arrangements to our customers or if we extend credit to customers that are not creditworthy, this could adversely impact our revenues, profitability and financial position.

Because we sell our products and services worldwide, we are subject to changes in currency exchange rates and interest rates that may adversely impact our results of operations and financial position.

Kodak, as a result of its global operating and financing activities, is exposed to changes in currency exchange rates and interest rates, which may adversely affect its results of operations and financial position. Exchange rates and interest rates in certain markets in which the Company does business tend to be more volatile than those in the United States and Western Europe. There can be no guarantees that the economic situation in developing markets or elsewhere will not worsen, which could result in future effects on revenue and earnings should such events occur.

If we cannot protect our reputation due to product quality and liability issues, our business could be harmed.

Kodak products are becoming increasingly sophisticated and complicated to design and build as rapid advancements in technologies occur. Although Kodak has established internal procedures to minimize risks that may arise from product quality and liability issues, there can be no assurance that Kodak will be able to eliminate or mitigate occurrences of these issues and associated damages. Kodak may incur expenses in connection with, for example, product recalls, service and lawsuits, and Kodaks brand image and reputation as a producer of high-quality products could suffer.

Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

Our worldwide operations could be subject to earthquakes, power shortages, telecommunications failures, water shortages, tsunamis, floods, hurricanes, typhoons, fires, extreme weather conditions, medical epidemics and other natural or manmade disasters or business interruptions, for which we are predominantly self-insured. The occurrence of any of these business disruptions could seriously harm our revenue and financial condition and increase our costs and expenses. In addition, some areas, including parts of the east coast of the United States, have previously experienced, and may experience in the future, major power shortages and blackouts. These blackouts could cause disruptions to our operations or the operations of our suppliers, distributors and resellers, or customers. These events could seriously harm our revenue and financial condition, and increase our costs and expenses.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's worldwide headquarters is located in Rochester, New York.

The CDG segment of Kodaks business in the United States is headquartered in Rochester, New York. A manufacturing facility in Harrow, England produces photographic paper. Kodak Gallery operations are managed from Emeryville, California. Kodak Consumer Inkjet Systems operations are located in San Diego, California and Rochester, New York. Many of CDGs businesses rely on manufacturing assets, company-owned or through relationships with design and manufacturing partners, which are located close to end markets and/or supplier networks. There are a number of photofinishing laboratories in the U.S.

The FPG segment of Kodaks business is centered in Rochester, New York, where film and photographic chemicals and related materials are manufactured. Additional manufacturing facilities supporting the business are located in Windsor, Colorado; China; Mexico; India; Brazil; and Russia. Entertainment Imaging has business operations in Hollywood, California and Rochester, New York.

Products in the GCG segment are manufactured in the United States, primarily in Rochester, New York; Dayton, Ohio; Columbus, Georgia; Weatherford, Oklahoma; and Windsor, Colorado. Manufacturing facilities outside the United States are located in the United Kingdom, Germany, Israel, Bulgaria, China, Japan, Canada, and Mexico.

Properties within a country may be shared by all segments operating within that country.

Regional distribution centers are located in various places within and outside of the United States. The Company owns or leases administrative, manufacturing, marketing, and processing facilities in various parts of the world. The leases are for various periods and are generally renewable.

The Company has significantly reduced its property portfolio as a result of the 2004-2007 Restructuring Program. Under this program, the Company planned to reduce its traditional manufacturing infrastructure by two-thirds below 2004 levels. The program was substantially complete by year-end 2007.

ITEM 3. LEGAL PROCEEDINGS

During March 2005, the Company was contacted by members of the Division of Enforcement of the SEC concerning the announced restatement of the Company's financial statements for the full year and quarters of 2003 and the first three unaudited quarters of 2004. An informal inquiry by the staff of the SEC into the substance of that restatement is continuing. The Company continues to fully cooperate with this inquiry, and the staff has indicated that the inquiry should not be construed as an indication by the SEC or its staff that any violations of law have occurred.

The Company is one of several Potentially Responsible Parties named in connection with the closure of the LWD, Inc. site, a former permitted hazardous waste treatment facility in Calvert City, Kentucky. The Company has entered into a Consent Order with the EPA based upon evidence that the Company sent waste to the facility for incineration. The Company's expected cost in connection with this matter is estimated to be $150,000, of which the Company has paid $87,200.

The Company and its subsidiaries are involved in various lawsuits, claims, investigations and proceedings, including commercial, customs, employment, environmental, and health and safety matters, which are being handled and defended in the ordinary course of business. In addition, the Company is subject to various assertions, claims, proceedings and requests for indemnification concerning intellectual property, including patent infringement suits involving technologies that are incorporated in a broad spectrum of the Company's products. These matters are in various stages of investigation and litigation, and are being vigorously defended. Although the Company does not expect that the outcome in any of these matters, individually or collectively, will have a material adverse effect on its financial condition or results of operations, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered, that could adversely affect the Company's operating results or cash flows in a particular period.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instructions G (3) of Form 10-K, the following list is included as an unnumbered item in Part I of this report in lieu of being included in the Proxy Statement for the Annual Meeting of Shareholders.

			Date First Elected	
Name	**Age**	**Positions Held**	**an Executive Officer**	**to Present Office**
Robert L. Berman	50	Senior Vice President	2002	2005
Philip J. Faraci	52	President and Chief Operating Officer	2005	2007
Joyce P. Haag	57	General Counsel and Senior Vice President	2005	2005
Mary Jane Hellyar	54	Executive Vice President	2005	2007
James T. Langley	57	Senior Vice President	2003	2003

William J. Lloyd	68	Senior Vice President	2005	2005
Antonio M. Perez	62	Chairman of the Board, Chief Executive Officer	2003	2005
Frank S. Sklarsky	51	Chief Financial Officer and Executive Vice President	2006	2006
Diane E. Wilfong	46	Chief Accounting Officer and Corporate Controller	2006	2006

Executive officers are elected annually in February.

All of the executive officers have been employed by Kodak in various executive and managerial positions for at least five years, except: Mr. Perez, who joined the Company on April 2, 2003; Mr. Lloyd, who joined the Company on June 16, 2003; Mr. Faraci, who joined the Company on December 6, 2004; and Mr. Sklarsky who joined the Company on October 30, 2006.

The executive officers' biographies follow:

Robert L. Berman

Mr. Berman was appointed to his current position in January 2002 and was elected a Vice President of the Company in February 2002. In March 2005, he was elected a Senior Vice President by the Board of Directors. In this capacity, he is responsible for the design and implementation of all human resources strategies, policies and processes throughout the corporation. He is a member of the Eastman Kodak Company Executive Council, and serves on the Company's Senior Executive Diversity and Inclusion Council and Ethics Committee. He works closely with Kodak's CEO, Board of Directors and Executive Compensation and Development Committee on all executive compensation and development processes for the corporation. Prior to this position, Mr. Berman was the Associate Director of Human Resources and the Director and divisional vice president of Human Resources for Global Operations, leading the delivery of strategic and operational human resources services to Kodak's global manufacturing, supply chain and regional operations around the world. He has held a variety of other key human resources positions for Kodak over his 25 year career, including the Director and divisional vice president of Human Resources for the global Consumer Imaging business and the Human Resources Director for Kodak Colorado Division.

Philip J. Faraci

Philip Faraci was named President and Chief Operating Officer, Eastman Kodak Company, in September 2007. As President and COO, Mr. Faraci is responsible for the day-to-day management of Kodak's two major digital businesses: the Consumer Digital Imaging Group (CDG) and the Graphic Communications Group (GCG). Mr. Faraci had been President of CDG and a Senior Vice President of the Company. He joined Kodak as Director, Inkjet Systems Program in December 2004. In February 2005 he was elected a Senior Vice President of the Company. In June 2005, he was also named Director, Corporate Strategy & Business Development.

Prior to Kodak, Mr. Faraci served as Chief Operating Officer of Phogenix Imaging and President and General Manager of Gemplus Corporation's Telecom Business Unit. Prior to these roles, he spent 22 years at Hewlett-Packard, where he served as Vice President and General Manager of the Consumer Business Organization and Senior Vice President and General Manager for the Inkjet Imaging Solutions Group.

Joyce P. Haag

Ms. Haag began her Kodak career in 1981, as a lawyer on the Legal Staff. She was elected Assistant Secretary in December 1991 and elected Corporate Secretary in February 1995. In January 2001, she was appointed to the additional position of Assistant General Counsel. In August 2003, she became Director, Marketing, Antitrust, Trademark & Litigation Legal Staff and in March 2004, she became General Counsel, Europe, Africa and Middle Eastern Region (EAMER). In July 2005, she was promoted to General Counsel and Senior Vice President.

Prior to joining the Kodak Legal Staff, Ms. Haag was an associate with Boylan, Brown, Code, Fowler Vigdor & Wilson LLP in Rochester, New York.

Mary Jane Hellyar

Mary Jane Hellyar joined Eastman Kodak Company in 1982 as a research scientist in the Kodak Research Laboratories and over the next ten years held a variety of positions within R&D, Film Manufacturing, and chemical process development. Following a one-year program at the Sloan School, she joined Consumer Imaging in the Strategic Planning function in 1994.

In 1995 Ms. Hellyar became director of the Color Product Platform, responsible for development and commercialization of all color films, papers and chemicals.

Effective May 1999, Ms. Hellyar was named general manager, Consumer Film Business, Consumer Imaging and was elected a corporate vice president. Subsequently, her responsibilities were expanded to include professional films, photographic paper and chemicals.

In November 2004, Ms. Hellyar was named President, Display and Components Group. In January 2005, the Board of Directors elected her a Senior Vice President.

In September 2005, the Company moved to four vertical businesses. Ms. Hellyar became President, Film & Photofinishing Systems Group, while also continuing responsibility for Kodak's Display business.

In January 2007, Ms. Hellyar's business was renamed the Film Products Group reflecting its three core businesses: Entertainment Imaging, Film Capture, and Aerial and Industrial Markets. At the same time she assumed the added responsibility of President, Entertainment Imaging. In October 2007, the Board of Directors elected Ms. Hellyar an Executive Vice President.

James T. Langley

Mr. Langley is a Senior Vice President, Eastman Kodak Company. He joined Kodak as President, Commercial Printing, in August 2003. In September 2003, he was elected a Senior Vice President of the Company. The Commercial Printing Group was renamed Graphic Communications Group in May 2004. In September 2007, the Company created the new position of President, Chief Operating Officer, and, as a result, eliminated the position of President for GCG. Mr. Langley will leave Kodak once he completes his work on several special projects, and he remains a Senior Vice President until his departure in mid-2008.

He was vice president of commercial printing at HP from March 2000 to August 2002. Prior to that assignment, Mr. Langley served for three years as vice president of inkjet worldwide office printers, responsible for expanding the presence of HP's inkjet products in new, higher-end markets. From August 1993 to June 1997, Mr. Langley served as the general manager of HP's Vancouver Printer Division.

William J. Lloyd

Mr. Lloyd joined Kodak in June 2003 as director, Portfolio Planning and Analysis. In October 2003, he was named director, Inkjet Systems Program, and was elected Vice President of the Company. In February 2005, he was elected a Senior Vice President. He assumed his current position as Chief Technical Officer in March 2005.

Prior to Kodak, Mr. Lloyd was president of the consulting firm, Inwit, Inc. focused on imaging technology. From November 2000 until March 2002, he served as executive vice president and chief technology officer of Gemplus International, the leading provider of Smart Card-based secure solutions for the wireless and financial markets.

In 2000, Mr. Lloyd served as the Co-CEO during the startup phase of Phogenix Imaging, a joint venture between Eastman Kodak and Hewlett-Packard.

Mr. Lloyd has extensive expertise in imaging and printing technologies, stemming from his 31-year career at Hewlett-Packard Company where he was group vice president and CTO for consumer imaging and printing. In his career at HP, Mr. Lloyd held a variety of positions in product development and research both in the U.S. and Japan. During his tenure in Japan (from 1990 until 1993) he directed the establishment of a branch of HP

Laboratories.

Prior to joining Hewlett-Packard, he spent 7-years in the aerospace industry, where, among other things, he served as the project manager for the communications antenna on the Apollo Command and Service Module used in the lunar landing program.

Antonio M. Perez

Since joining the Company in April 2003, Kodak’s Chairman and Chief Executive Officer, Antonio M. Perez, has led the worldwide transformation of Kodak from a business based on film to one based primarily on digital technologies. In the past three years, Kodak introduced an array of new disruptive digital technologies and products for consumers, from inkjet printers to CMOS sensors for digital cameras and mobile phones. During this same period, Kodak built a new profitable commercial printer business with $3.6 billion in revenue. As a result, in 2006, a new Kodak began to emerge — for the first time in history more than 50 percent of Kodak revenue came from digital products, and the growth of Kodak’s digital earnings exceeded the decline of traditional earnings.

Mr. Perez brings to the task his experience from a 25-year career at Hewlett-Packard Company, where he was a corporate vice president and a member of the company’s Executive Council. As President of H-P’s Consumer Business, Mr. Perez spearheaded the Company’s efforts to build a business in digital imaging and electronic publishing, generating worldwide revenue of more than $16 billion.

Prior to that assignment, Mr. Perez served as President and CEO of H-P’s inkjet imaging business for five years. During that time, the installed base of H-P's inkjet printers grew from 17 million to 100 million worldwide, with revenue totaling more than $10 billion.

After H-P, Mr. Perez was President and CEO of Gemplus International, where he led the effort to take the company public. While at Gemplus, he transformed the company into the leading Smart Card-based solution provider in the fast-growing wireless and financial markets. In the first fiscal year, revenue at Gemplus grew 70 percent, from $700 million to $1.2 billion.

Frank S. Sklarsky

Mr. Sklarsky joined Kodak on October 30, 2006 as Executive Vice President, and became the Chief Financial Officer effective November 13, 2006.

Mr. Sklarsky is responsible for worldwide financial operations, including Financial Planning and Analysis, Treasury, Audit, Controllership, Tax, Investor Relations, Aviation, and Corporate Mergers & Acquisitions. He is also responsible for the Global Shared Services organization and the Worldwide Information Systems organization.

Prior to joining Kodak, Mr. Sklarsky was Executive Vice President and Chief Financial Officer of ConAgra Foods Inc., one of North America's leading packaged food companies. At ConAgra, he implemented a new financial organization, significantly strengthened the balance sheet, and played a major role in building credibility with the investment community. He also helped expand profit margins at the $14 billion company. In his 26-year career, he has developed a reputation for improving the financial operations, as well as the overall financial performance, of the companies he has served.

Prior to joining ConAgra in 2004, Mr. Sklarsky was Vice President, Product Finance, at DaimlerChrysler, a position he held between 2001 and 2004. He returned to DaimlerChrysler to assist with the company's turnaround efforts after spending more than one year as Vice President, Corporate Finance, and Vice President of Dell’s $5 billion consumer business. He first joined DaimlerChrysler in 1983 and held a series of increasingly responsible finance positions before leaving for Dell in 2000. At the time of his departure for Dell, he was DaimlerChrysler’s Vice President, Corporate Financial Activities, and also had financial responsibility for procurement, product quality, cost management and worldwide manufacturing during his tenure. Prior to DaimlerChrysler, Mr. Sklarsky, a certified public accountant, served as a Senior Accountant with Ernst & Young International from 1978 to 1981.

Diane E. Wilfong

Ms. Wilfong was appointed Corporate Controller and Chief Accounting Officer, Eastman Kodak Company in September 2006. She began her Kodak career in July 1999, as Director Finance and Vice President, Kodak Professional Division. In late 2000, she was named Assistant to the Chairman and President and Chief Executive Officer, where she served the Chairman's office in an executive capacity until early 2003. At that time, she took an operating line position as General Manager, Graphics and Printing Systems SPG, in the Commercial Imaging Group (now Graphic Communications Group). In mid-2005, Ms. Wilfong was appointed Director, Corporate Audit.

Prior to joining Kodak, Ms. Wilfong was Chief Financial Officer of Corning Asahi Video Products of Corning Incorporated, in Corning, New York. Ms. Wilfong joined Corning in 1990 and held a variety of management positions in its finance organization. She began her career at Price Waterhouse, where she was an audit manager in the Charlotte, North Carolina office of the firm.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Eastman Kodak Company common stock is traded on the New York Stock Exchange under the symbol "EK." There were 58,477 shareholders of record of common stock as of January 31, 2008.

MARKET PRICE DATA

	2007		2006	
Price per share:	**High**	**Low**	**High**	**Low**
1st Quarter	$ 27.08	$ 22.41	$ 30.91	$ 23.49
2nd Quarter	$ 30.20	$ 22.54	$ 28.68	$ 22.49
3rd Quarter	$ 29.29	$ 24.71	$ 23.87	$ 18.93
4th Quarter	$ 29.60	$ 21.42	$ 27.57	$ 21.93

DIVIDEND INFORMATION

The Company's dividend policy is to pay semi-annual dividends, when declared, on the Company's 10th business day each July and December to shareholders of record on the close of the first business day of the preceding month.

On May 9, and October 16, 2007, the Board of Directors declared semi-annual cash dividends of $.25 per share payable to shareholders of record at the close of business on June 1, and November 1, 2007, respectively. These dividends were paid on July 16 and December 14, 2007. Total dividends paid for the year ended December 31, 2007 were $144 million.

On May 10, and October 17, 2006, the Board of Directors declared semi-annual cash dividends of $.25 per share payable to shareholders of record at the close of business on June 1, and November 1, 2006. These dividends were paid on July 18, and December 14, 2006. Total dividends paid for the year ended December 31, 2006 were $144 million.

PERFORMANCE GRAPH - SHAREHOLDER RETURN

The following graph compares the performance of the Company's common stock with the performance of the Standard & Poor's 500 Composite Stock Price Index and the Dow Jones Industrial Index by measuring the changes in common stock prices from December 31, 2002, plus reinvested dividends.

Performance Graph - Shareholder Return

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www.researchdatagroup.com/S&P.htm

	12/02	12/03	12/04	12/05	12/06	12/07
Eastman Kodak Company	100.00	76.23	97.50	72.24	81.33	70.23
S&P 500	100.00	128.68	142.69	149.70	173.34	182.87
Dow Jones US Industrial Average	100.00	128.28	135.09	137.42	163.60	178.13

The graph assumes that $100 was invested on December 31, 2002 in each of the Company's common stock, the Standard & Poor's 500 Composite Stock Price Index and the Dow Jones Industrial Index, and that all dividends were reinvested. In addition, the graph weighs the constituent companies on the basis of their respective market capitalizations, measured at the beginning of each relevant time period.

ITEM 6. SELECTED FINANCIAL DATA

Refer to Summary of Operating Data on page 110.

ITEM 7. MANAGEMENT's DISCUSSION AND ANALYSIS (MD&A) OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the results of operations and financial condition of Kodak for the three years ended December 31, 2007. All references to Notes relate to Notes to the Financial Statements in Item 8. "Financial Statements and Supplementary Data."

OVERVIEW

Kodak is the world's foremost imaging innovator and generates revenue and profits from the sale of products, technology, solutions and services to consumers, businesses and creative professionals. The Company's portfolio is broad, including image capture and output devices, consumables and systems and solutions for consumer, business, and commercial printing applications. Kodak has three reportable business segments, which are more fully described later in this discussion in "Kodak Operating Model and Reporting Structure." The three business segments are: Consumer Digital Imaging Group ("CDG"), Film Products Group ("FPG") and Graphic Communications Group ("GCG").

During 2007, the Company met or exceeded each of its strategic objectives established for the year:

- Net cash generation
- Earnings growth from digital products and services
- Revenue growth from digital products and services

The Company's 2007 performance was the result of a series of actions taken and business model changes deployed over the last several years to dramatically transform the Company. Over this time period, the Company divested of businesses that were not strategic to the core value proposition of the new Kodak, while investing in targeted acquisitions which built critical capability, scale and portfolio breadth in high value-creating segments. The Company has also been keenly focused on reducing manufacturing capacity in the traditional imaging businesses ahead of demand reduction and rationalizing its go-to-market and administrative infrastructure through its 2004-2007 Restructuring Program, while concurrently investing in people, technology and capabilities in the growing digital businesses. These actions have led to a more sustainable global business model for Kodak. The Company's 2007 financial results begin to reflect this improved business model.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accompanying consolidated financial statements and notes to consolidated financial statements contain information that is pertinent to management□s discussion and analysis of the financial condition and results of operations. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities.

The Company believes that the critical accounting policies and estimates discussed below involve the most complex management judgments due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. Specific risks associated with these critical accounting policies are discussed throughout this MD&A, where such policies affect our reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, refer to the Notes to Financial Statements.

REVENUE RECOGNITION

The Company's revenue transactions include sales of the following: products; equipment; software; services; equipment bundled with products and/or services and/or software; integrated solutions, and intellectual property licensing. The Company recognizes revenue when it is realized or realizable and earned. For the sale of multiple-element arrangements whereby equipment is combined with services, including maintenance and training, and other elements, including software and products, the Company allocates to, and recognizes revenue from, the various elements based on their fair value.

At the time revenue is recognized, the Company also records reductions to revenue for customer incentive programs in accordance with the provisions of Emerging Issues Task Force (EITF) Issue No. 01-09, "Accounting for Consideration Given from a Vendor to a Customer (Including a Reseller of the Vendor's Products)." Such incentive programs include cash and volume discounts, price protection, promotional, cooperative and other advertising allowances and coupons. For those incentives that require the estimation of sales volumes or redemption rates, such as for volume rebates or coupons, the Company uses historical experience and internal and customer data to estimate the sales incentive at the time revenue is recognized. In the event that the actual results of these items differ from the estimates, adjustments to the sales incentive accruals would be recorded.

Incremental direct costs of a customer contract in a transaction that results in the deferral of revenue are deferred and netted against revenue in proportion to the related revenue recognized in each period if: (1) an enforceable contract for the remaining deliverable items exists; and (2) delivery of the remaining items in the arrangement is expected to generate positive margins allowing realization of the deferred costs. Incremental direct costs are defined as costs that vary with and are directly related to the acquisition of a contract, which would not have been incurred but for the acquisition of the contract.

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VALUATION OF LONG-LIVED ASSETS, INCLUDING GOODWILL AND PURCHASED INTANGIBLE ASSETS

The Company reviews the carrying value of its long-lived assets, including goodwill and purchased intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

The Company□s assessments of impairment of long-lived assets, including goodwill and purchased intangible assets, and its periodic review of the remaining useful lives of its long-lived assets are an integral part of the Company's ongoing strategic review of the business and operations, and are also performed in conjunction with the Company□s restructuring actions. Therefore, changes in the Company□s strategy, the Company's digital transformation and other changes in the operations of the Company could impact the projected future operating results that are inherent in the Company□s estimates of fair value, resulting in impairments in the future. Additionally, other changes in the estimates and assumptions, including the discount rate and expected long-term growth rate, which drive the valuation techniques employed to estimate the fair value of long-lived assets and goodwill could change and, therefore, impact the assessments of impairment in the future.

INCOME TAXES

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" and Financial Accounting Standards Board (FASB) Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). The asset and liability approach underlying SFAS No. 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of the Companys assets and liabilities. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on various related matters such as derecognition, interest and penalties, and disclosure.

The Company records a valuation allowance to reduce its net deferred tax assets to the amount that is more likely than not to be realized. The Company has considered forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which the Company operates and prudent and feasible tax planning strategies in determining the need for these valuation allowances. If Kodak were to determine that it would not be able to realize a portion of its net deferred tax assets in the future, for which there is currently no valuation allowance, an adjustment to the net deferred tax assets would be charged to earnings in the period such determination was made. Conversely, if the Company were to make a determination that it is more likely than not that the deferred tax assets, for which there is currently a valuation allowance, would be realized, the related valuation allowance would be reduced and a benefit to earnings would be recorded.

The Companys effective tax rate considers the impact of undistributed earnings of subsidiary companies outside of the U.S. Deferred taxes have not been provided for the potential remittance of such undistributed earnings, as it is the Companys policy to indefinitely reinvest its retained earnings. However, from time to time and to the extent that the Company can repatriate overseas earnings on essentially a tax-free basis, the Company's foreign subsidiaries will pay dividends to the U.S. Material changes in the Companys working capital and long-term investment requirements could impact the decisions made by management with respect to the level and source of future remittances and, as a result, the Companys effective tax rate.

The Company operates within multiple taxing jurisdictions worldwide and is subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time for resolution. Although management believes that adequate provision has been made for such issues, there is the possibility that the ultimate resolution of such issues could have an adverse effect on the earnings of the Company. Conversely, if these issues are resolved favorably in the future, the related provisions would be reduced, thus having a positive impact on earnings.

PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company accounts for its defined benefit pension plans and its other postretirement benefits in accordance with SFAS No. 87, "Employers' Accounting for Pensions," SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," and SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." These standards require that the amounts recognized in the financial statements be determined on an actuarial basis. See Note 18, "Retirement Plans," and Note 19, "Other Postretirement Benefits," in the Notes to Financial Statements for disclosure of (i) the nature of the Company's plans, (ii) the amount of income and expense included in the Consolidated Statement of Operations for the years ended December 31, 2007, 2006 and 2005, (iii) the Company's contributions and estimated future funding requirements and (iv) the amount of unrecognized gains and losses at December 31, 2007 and 2006.

Kodaks defined benefit pension and other postretirement benefit costs and obligations are dependent on the Company's assumptions used by actuaries in calculating such amounts. These assumptions, which are reviewed annually by the Company, include the discount rate, long-term expected rate of return on plan assets (EROA), salary growth, healthcare cost trend rate and other economic and demographic factors. Actual results that differ from our assumptions are recorded as unrecognized gains and losses and are amortized to earnings over the estimated future service period of the plan participants to the extent such total net unrecognized gains and losses exceed 10% of the greater of the plan's projected benefit obligation or the market-related value of assets. Significant differences in actual experience or significant changes in future assumptions would affect the Companys pension and other postretirement benefit costs and obligations.

Generally, the Company bases the discount rate assumption for its significant plans on high quality corporate long-term bond yields in the respective countries as of the measurement date. Specifically, for its U.S. and Canada plans, the Company determines a discount rate using a cash flow model to incorporate the expected timing of benefit payments and a AA-rated high quality corporate bond yield curve. For the Company's other non-U.S. plans, the discount rates are determined by comparison to published local long-term high quality bond indices.

The EROA assumption is based on a combination of formal asset and liability studies, historical results of the portfolio, and management's expectation as to future returns that are expected to be realized over the estimated remaining life of the plan liabilities that will be funded with the plan assets. The salary growth assumptions are determined based on the Company's long-term actual experience and future and near-term outlook. The healthcare cost trend rate assumptions are based on historical cost and payment data, the near-term outlook and an assessment of the likely long-term trends.

The Company reviews its EROA assumption annually for the Kodak Retirement Income Plan (KRIP), the major U.S. defined benefit plan. To facilitate this review, every three years, or when market conditions change materially, the Company undertakes a new asset and liability study to reaffirm the current asset allocation and the related EROA assumption. In March 2005, an asset and liability modeling study was completed and the KRIP EROA assumption for 2005, 2006 and 2007 was 9.0%. The KRIP EROA assumption is expected to remain at 9.0% for 2008 as well. Due to a reduced number of active participants in the KRIP lowering the projected benefit obligation, service and interest cost are expected to continue to decline in 2008. Therefore, total pension income from continuing operations before special termination benefits, curtailments and settlements for the major funded and unfunded defined benefit plans in the U.S. is expected to increase from $156 million in 2007 to $177 million in 2008. Pension expense from continuing operations before special termination benefits, curtailments and settlements in the Company's major funded and unfunded non-U.S. defined benefit plans is projected to increase from $32 million in 2007 to $42 million in 2008, which is primarily attributable increased amortization of actuarial losses. Additionally, due to favorable claims experience and changes in plan design, the Company expects the cost, before curtailment and settlement gains and losses of its major other postretirement benefit plans, to approximate $148 million in 2008, as compared with $184 million for 2007.

The following table illustrates the sensitivity to a change to certain key assumptions used in the calculation of expense for the year ending December 31, 2008 and the projected benefit obligation (PBO) at December 31, 2007 for the Company's major U.S. and non-U.S. defined benefit pension plans:

	Impact on 2008 Pre-Tax Pension Expense Increase (Decrease)		**Impact on PBO December 31, 2007 Increase (Decrease)**	
(in millions)	**U.S.**	**Non-U.S.**	**U.S.**	**Non-U.S.**
Change in assumption:				
25 basis point decrease in discount rate	$ (2)	$ 13	$ 119	$ 148
25 basis point increase in discount rate	2	(13)	(114)	(140)
25 basis point decrease in EROA	15	9	N/A	N/A
25 basis point increase in EROA	(15)	(9)	N/A	N/A

ENVIRONMENTAL COMMITMENTS

Environmental liabilities are accrued based on estimates of known environmental remediation responsibilities. The liabilities include accruals for sites owned or leased by Kodak, sites formerly owned or leased by Kodak, and other third party sites where Kodak was designated as a potentially responsible party (PRP). The amounts accrued for such sites are based on these estimates, which are determined using the ASTM Standard E 2137-01, "Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters." The overall method includes the use of a probabilistic model that forecasts a range of cost estimates for the remediation required at individual sites. The Company's estimate includes equipment and operating costs for investigations, remediation and long-term monitoring of the sites. Such estimates may be affected by changing determinations of what constitutes an environmental liability or an acceptable level of remediation. Kodak's estimate of its environmental liabilities may also change if the proposals to regulatory agencies for desired methods and outcomes of

remediation are viewed as not acceptable, or additional exposures are identified. The Company has an ongoing monitoring and identification process to assess how activities, with respect to the known exposures, are progressing against the accrued cost estimates, as well as to identify other potential remediation issues that are presently unknown.

Additionally, in many of the countries in which the Company operates, environmental regulations exist that require the Company to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. The Company records a liability equal to the estimated fair value of its obligation to perform asset retirement activities related to the asbestos, computed using an expected present value technique, when sufficient information exists to calculate the fair value.

RECENTLY ISSUED ACCOUNTING STANDARDS

For discussion of the adoption and potential impacts of recently issued accounting standards, refer to the “Recently Issued Accounting Standards” section of Note 1, “Significant Accounting Policies,” in the Notes to Financial Statements.

KODAK OPERATING MODEL AND REPORTING STRUCTURE

For 2007, the Company had three reportable segments: Consumer Digital Imaging Group (CDG), Film Products Group (FPG), and Graphic Communications Group (GCG). Within each of the Company’s reportable segments are various components, or Strategic Product Groups (SPGs). Throughout the remainder of this document, references to the segments’ SPGs are indicated in italics. The balance of the Company's continuing operations, which individually and in the aggregate do not meet the criteria of a reportable segment, are reported in All Other. A description of the segments is as follows:

Consumer Digital Imaging Group Segment (CDG): CDG encompasses digital capture, kiosks, snapshot printing, digital picture frames, consumer imaging services, photographic paper and chemicals, photofinishing services, consumer inkjet printing and imaging sensors. This segment provides consumers and professionals with a full range of products and services for capturing, storing, printing and sharing images. CDG also includes the licensing activities related to intellectual property associated with products included in this segment.

Film Products Group Segment (FPG): FPG encompasses consumer and professional film, one-time-use cameras, aerial and industrial film, and entertainment imaging products and services. This segment provides consumers, professionals, cinematographers, and other entertainment imaging customers with film-related products and services.

Graphic Communications Group Segment (GCG): GCG serves a variety of customers in the creative, in-plant, data center, commercial printing, packaging, newspaper and digital service bureau market segments with a range of software, media and hardware products that provide customers with a variety of solutions for prepress equipment, workflow software, digital and traditional printing, document scanning and multi-vendor IT services. Products and related services include workflow software and digital controller development; continuous inkjet and electrophotographic products, including equipment, consumables and service; prepress equipment and consumables; and document scanners. GCG also provides maintenance and professional services for Kodak and other manufacturers’ products, as well as providing imaging services to customers.

All Other: All Other is composed of Kodak's display business and other small, miscellaneous businesses.

Prior period segment results have been revised to conform to the current period segment reporting structure.

CHANGE IN REPORTING STRUCTURE

In November 2007, the Company announced that effective January 1, 2008 the Film Products Group (FPG) would be renamed the Film, Photofinishing, and Entertainment Group (FPEG), and that certain strategic product groups (SPG's) previously included in CDG, GCG, and All Other would become part of FPEG. This change in structure is to align the Company’s reporting structure to the way in which the Company manages its business effective

January 1, 2008. The most significant changes (the transfer of photographic paper and chemicals and photofinishing services to FPEG from CDG and the transfer of the graphic arts film business from GCG to FPEG) reflect the common traditional technology and infrastructure associated with manufacturing and supply chain for all FPEG products. The following indicates the changes from the 2007 reporting structure to the new reporting structure that will be implemented beginning in the first quarter of 2008:

Consumer Digital Imaging Group Segment (CDG): This segment will no longer include photographic paper and chemicals, and photofinishing services.

Film, Photofinishing, and Entertainment Group (FPEG): The Film, Photofinishing, and Entertainment Group will include photographic paper and chemicals, and photofinishing services, formerly part of CDG, and graphic arts film, formerly part of GCG. Additionally, supply and tolling agreements with Carestream Health, Inc. and other third parties will move from All Other to this segment.

Graphic Communications Group Segment (GCG): The graphic arts film business will move from GCG to FPEG.

All Other: During 2007, the Company sold its Light Management Films business, which was formerly part of All Other. Additionally, supply and tolling agreements with Carestream Health, Inc. and other third parties will move from All Other to FPEG.

DETAILED RESULTS OF OPERATIONS
Net Sales from Continuing Operations by Reportable Segment and All Other (1)

	For the Year Ended December 31,						
(in millions)	**2007**	**Change**	**Foreign Currency Impact**	**2006**	**Change**	**Foreign Currency Impact**	**2005**
Consumer Digital Imaging Group							
Inside the U.S.	$ 2,525	-2%	0%	$ 2,564	-12%	0%	$ 2,927
Outside the U.S.	2,106	-2	+5	2,147	-21	+1	2,719
Total Consumer Digital Imaging Group	4,631	-2	+2	4,711	-17	0	5,646
Film Products Group							
Inside the U.S.	458	-30	0	657	-24	0	864
Outside the U.S.	1,510	-9	+4	1,655	-16	+1	1,977
Total Film Products Group	1,968	-15	+3	2,312	-19	+1	2,841
Graphic Communications Group							
Inside the U.S.	1,190	-5	0	1,248	+16	0	1,079
Outside the U.S.	2,400	+8	+6	2,229	+28	+1	1,746
Total Graphic Communications Group	3,590	+3	+4	3,477	+23	+1	2,825
All Other							
Inside the U.S.	81	+62	0	50	+6	0	47
Outside the U.S.	31	+72	0	18	-50	0	36
Total All Other	112	+65	0	68	-18	0	83
Consolidated							
Inside the U.S.	4,254	-6	0	4,519	-8	0	4,917
Outside the U.S.	6,047	0	+5	6,049	-7	+1	6,478
Consolidated Total	$ 10,301	-3%	+3%	$ 10,568	-7%	+1%	$ 11,395

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(1) Sales are reported based on the geographic area of destination.

Earnings (Loss) from Continuing Operations Before Interest, Other Income (Charges), Net and Income Taxes by Reportable Segment and All Other

	For the Year Ended December 31,				
(in millions)	**2007**	**Change**	**2006**	**Change**	**2005**
Consumer Digital Imaging Group	$ (92)	+62%	$ (240)	+36%	$ (374)
Film Products Group	369	+0	368	-36	573
Graphic Communications Group	116	+16	100	+241	(71)
All Other	(50)	+25	(67)	+48	(128)
Total of segments	343	+113	161		□
Restructuring costs and other	(662)		(698)		(1,092)
Other operating income (expenses), net	96		59		40
Adjustments to contingencies and legal reserves/(settlements)	(7)		2		(21)
Interest expense	(113)		(172)		(139)
Other income (charges), net	87		65		4
Loss from continuing operations before income taxes	$ (256)	+56%	$ (583)	+52%	$ (1,208)

2007 COMPARED WITH 2006

RESULTS OF OPERATIONS - CONTINUING OPERATIONS

CONSOLIDATED

	For the Year Ended December 31,					
(in millions, except per share data)	**2007**	**% of Sales**	**2006**	**% of Sales**	**Increase / (Decrease)**	**% Change**
Digital net sales	$ 6,392		$ 5,945		$ 447	8%
Traditional net sales	3,877		4,574		(697)	-15%
New technologies	32		49		(17)	-35%
Net sales	10,301		10,568		(267)	-3%
Cost of goods sold	7,785		8,159		(374)	-5%
Gross profit	2,516	24.4%	2,409	22.8%	107	4%
Selling, general and administrative expenses	1,764	17%	1,950	18%	(186)	-10%
Research and development costs	535	5%	578	5%	(43)	-7%
Restructuring costs and other	543	5%	416	4%	127	31%
Other operating expenses (income), net	(96)		(59)		(37)	63%
Loss from continuing operations before interest, other income (charges), net and income taxes	(230)	-2%	(476)	-5%	246	52%
Interest expense	113		172		(59)	-34%
Other income (charges), net	87		65		22	34%
Loss from continuing operations before income taxes	(256)		(583)		327	56%
(Benefit) provision for income taxes	(51)		221		(272)	-123%
Loss from continuing operations	(205)	-2%	(804)	-8%	599	75%
Earnings from discontinued operations, net of income taxes	881	9%	203	2%	678	334%
NET EARNINGS (LOSS)	$ 676		$ (601)		$ 1,277	212%

	For the Year Ended December 31,		Change vs. 2006			
	2007 Amount	Change vs. 2006	Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Total net sales	$ 10,301	-2.5%	-2.2%	-3.4%	3.1%	0.0%
Gross profit margin	24.4%	1.6pp	0.0pp	-4.2pp	1.4pp	4.4pp

Worldwide Revenues
For the year ended December 31, 2007, net sales from traditional products (traditional revenues or traditional net sales) declined, driven by significant industry-related volume declines in the traditional businesses within all three segments. Partially offsetting this decrease was growth in revenues from digital product sales (digital revenues or digital net sales) in CDG and GCG. In addition, foreign exchange resulted in a positive impact to net sales during the period. The volume declines presented above were primarily driven by *Film Capture* within FPG, and the traditional portion of *Retail Printing* within CDG. Negative price/mix was primarily driven by the product portfolio shifts within *Digital Capture and Devices* and by *Retail Printing* within CDG. These items were partially offset by increases in intellectual property royalties.

Gross Profit
Gross profit improved in the year ended December 31, 2007 in both dollars and as a percentage of sales, due largely to reduced manufacturing and other costs as a result of a number of factors, as well as increased intellectual property royalties within CDG. In addition, foreign exchange was a positive contributor to gross profit as a result of the weak U.S. dollars net impact on revenues and costs. The decreases in manufacturing and other costs were due to a combination of the impact of the Company's cost reduction initiatives, strategic manufacturing and supply chain initiatives within CDG, lower restructuring-related charges, and lower depreciation expense, partially offset by increased silver and aluminum costs. The unfavorable price/mix was driven by product portfolio shifts in *Digital Capture and Devices* within CDG, and across the businesses within FPG.

Included in gross profit for the year are a non-recurring extension and amendment of an existing license arrangement and new non-recurring license arrangements. The impact of these licensing arrangements contributed approximately 2.3% of revenue to consolidated gross profit dollars in the current year, as compared with 1.7% of revenue to consolidated gross profit dollars for similar arrangements in the prior year. These types of arrangements provide the Company with a return on portions of historical R&D investments and similar opportunities are expected to have a continuing impact on the results of operations.

Selling, General and Administrative Expenses
The year-over-year decrease in consolidated SG&A in dollars and as a percent of sales was primarily attributable to significant Company-wide cost reduction actions, partially offset by increased advertising costs related to *Consumer Inkjet Systems* and the impacts of foreign exchange.

Research and Development Costs
The decrease in R&D costs was primarily driven by the continuing realignment of resources, as well as the timing of development of new products.

Restructuring Costs and Other
The most significant charge within restructuring costs was a $238 million impairment charge related to the sale of the Company's Xiamen, China facility in the second quarter. These costs, as well as the restructuring-related costs reported in cost of goods sold, are discussed in further detail under "RESTRUCTURING COSTS AND OTHER" below.

Other Operating (Income) Expenses, Net
The other operating (income) expenses, net category includes gains and losses on sales of capital assets and certain asset impairment charges. The year-over-year increase in other operating (income) expenses, net was largely driven by gains on sales of capital assets in the current year of $158 million, partially offset by asset impairments including the impairment of an intangible asset of $46 million in connection with the Company's plan to dispose of its stake in Lucky Film Co. Ltd.

Interest Expense
Lower interest expense was primarily due to lower debt levels resulting from the full payoff of the Company's Secured Term Debt in the second quarter of 2007, partially offset by higher interest rates in the current year.

Other Income (Charges), Net
The Other income (charges), net category includes interest income, income and losses from equity investments, and foreign exchange gains and losses. The increase in other income (charges), net as compared with the prior year period was primarily attributable to increased interest income due to higher cash balances resulting from the proceeds on the sale of the Health Group (See Note 23, "Discontinued Operations" in the Notes to Financial Statements) and higher interest rates. This increase was partially offset by an impairment of an equity method investment.

Income Tax (Benefit) Provision

	For the Year Ended December 31,	
(dollars in millions)	**2007**	**2006**
Loss from continuing operations before income taxes	($256)	($583)
(Benefit) provision for income taxes	($51)	$221
Effective tax rate	19.9%	(37.9)%

The change in the Company's annual effective tax rate from continuing operations is primarily attributable to the ability to recognize a tax benefit in continuing operations associated with the realization of current year losses in certain jurisdictions where it has historically had a valuation allowance due to the recognition of the pre-tax gain in discontinued operations and due to the favorable outcome of income tax audits in various jurisdictions around the world.

During the fourth quarter of 2007, based on the Company's assessment of positive and negative evidence regarding the realization of the net deferred tax assets, the Company recorded a benefit associated with the release of valuation allowances of $20 million in certain jurisdictions outside the U.S.

During 2007, the Company reached a settlement with the Internal Revenue Service covering tax years 1999-2000. As a result, the Company recognized a tax benefit from continuing operations in the U.S. of $17 million, including interest. Also during 2007, the Company reached a settlement with the taxing authorities in two locations outside of the U.S. resulting in a tax benefit of $76 million.

During the second quarter of 2007, the Company identified a deferred tax asset in a recently acquired non-U.S. subsidiary that was overstated at the date of acquisition. Therefore, the Company recorded an increase in the value of goodwill of $24 million in the second quarter of 2007 to appropriately reflect the proper goodwill balance. The Company also recorded a valuation allowance of $20 million, which should have been recorded in 2006, in order to properly reflect the value of the net deferred tax asset. This amount is included in the $51 million tax benefit for the year ended December 31, 2007. The Company has determined that this correction is not material to the current period or to any prior period financial statement amounts.

CONSUMER DIGITAL IMAGING GROUP

(dollars in millions)	2007	% of Sales	2006	% of Sales	Increase / (Decrease)	% Change
	For the Year Ended December 31,					
Digital net sales	$ 3,242		$ 2,995		$ 247	8%
Traditional net sales	1,389		1,716		(327)	-19%
Total net sales	4,631		4,711		(80)	-2%
Cost of goods sold	3,711		3,885		(174)	-4%
Gross profit	920	19.9%	826	17.5%	94	11%
Selling, general and administrative expenses	764	16%	785	17%	(21)	-3%
Research and development costs	248	5%	281	6%	(33)	-12%
Loss from continuing operations before interest, other income (charges), net and income taxes	$ (92)	-2%	$ (240)	-5%	$ 148	62%

	For the Year Ended December 31, 2007 Amount	Change vs. 2006	Change vs. 2006 Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Total net sales	$ 4,631	-1.7%	0.6%	-4.7%	2.4%	0.0%
Gross profit margin	19.9%	2.3pp	0.0pp	-5.2pp	1.6pp	5.9pp

Worldwide Revenues

Net sales in CDG declined due to significant volume declines in the traditional portion of *Retail Printing* consistent with market trends and snapshot printing within *Digital Capture and Devices*, partially offset by increases in intellectual property royalties, new digital picture frames, and the introductory launch of inkjet printers. The negative price/mix was primarily driven by digital camera product portfolio shifts within *Digital Capture and Devices* and by price declines in *Retail Printing.*

Net worldwide sales of *Digital Capture and Devices*, which includes consumer digital cameras, digital picture frames, accessories, memory products, snapshot printers and related media, and intellectual property royalties, increased 7% in the year ended December 31, 2007 as compared with the prior year, primarily reflecting higher digital camera volumes, increased intellectual property royalties, sales of new digital picture frames, and favorable foreign exchange, partially offset by negative price/mix and lower snapshot printing volumes. For 2007, Kodak remains in the top three market position for digital cameras on a worldwide basis.

Retail Printing includes color negative paper, photochemicals, service and support, photofinishing services, and retail kiosks and related media. Net worldwide sales of *Retail Printing* decreased 13% in the year ended December 31, 2007 as compared with the prior year, reflecting volume declines in the traditional portion of the business, and negative price/mix, partially offset by favorable foreign exchange. Paper, photochemicals, and output systems revenues declined 14% and sales of photofinishing services declined 35% as compared with the prior year, reflecting continuing industry volume declines. These declines were partially offset by increased sales of kiosks and related media, which increased 8% from the prior year.

Gross Profit

The increase in gross profit dollars and margin for CDG was primarily attributable to reductions in cost, increases in intellectual property royalties, and favorable foreign exchange. The reductions in manufacturing and other costs were primarily driven by strategic manufacturing and supply chain initiatives to improve margins in *Digital Capture and Devices*. In addition, cost reductions were driven by the benefits of previous restructuring activities and lower depreciation expense, partially offset by adverse silver costs, and costs associated with the scaling of manufacturing and new product introduction activities in the *Consumer Inkjet Systems* business. The gross profit margin improvement was partially offset by unfavorable price/mix in *Digital Capture and Devices* products.

Included in gross profit is the impact of a non-recurring extension and amendment of an existing license arrangement and new non-recurring license arrangements during the current year. The impact of these licensing arrangements contributed approximately 5.1% of revenue to segment gross profit dollars in 2007, as compared with 3.8% of revenue to segment gross profit dollars for similar arrangements in 2006. These types of arrangements provide the Company with a return on portions of historical R&D investments and similar opportunities are expected to have a continuing impact on the results of operations.

Selling, General and Administrative Expenses
The decrease in SG&A expenses for CDG in dollars and as a percent of sales was primarily driven by focused cost reduction initiatives and improved go-to-market structure, partially offset by increased advertising expenses associated with *Consumer Inkjet Systems*.

Research and Development Costs
The decrease in R&D costs for CDG is largely attributable to spending incurred in 2006 related to the development of *Consumer Inkjet Systems*, which were introduced in the first quarter of 2007. The decrease was also impacted by cost reduction actions.

FILM PRODUCTS GROUP

(dollars in millions)	For the Year Ended December 31, 2007	% of Sales	2006	% of Sales	Increase / (Decrease)	% Change
Total net sales	$ 1,968		$ 2,312		$ (344)	-15%
Cost of goods sold	1,242		1,460		(218)	-15%
Gross profit	726	36.9%	852	36.9%	(126)	-15%
Selling, general and administrative expenses	328	17%	451	20%	(123)	-27%
Research and development costs	29	1%	33	1%	(4)	-12%
Earnings from continuing operations before interest, other income (charges), net and income taxes	$ 369	19%	$ 368	16%	$ 1	0%

	For the Year Ended December 31, 2007 Amount	Change vs. 2006	Change vs. 2006: Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Total net sales	$ 1,968	-14.9%	-14.0%	-3.8%	2.9%	0.0%
Gross profit margin	36.9%	0.0pp	0.0pp	-4.7pp	2.1pp	2.6pp

Worldwide Revenues
The decrease in FPG worldwide net sales was comprised of: (1) lower volumes, which were in line with industry trends, and (2) declines related to negative price/mix associated with new and renewed film agreements and geographic mix. These decreases were partially offset by favorable foreign exchange.

Net worldwide sales of *Film Capture*, including consumer roll film (35mm and APS film), one-time-use cameras (OTUC), professional films, and reloadable film cameras, decreased 30% in 2007 as compared with the prior year, primarily reflecting continuing industry volume declines and negative price/mix, partially offset by favorable exchange.

Net worldwide sales for *Entertainment Imaging*, which include origination, intermediate, and print films, and digital systems and services for the entertainment industry, were flat as compared with the prior year.

Gross Profit
FPG gross profit margin was unchanged, despite the 15% decrease in net sales for the year. The decrease in gross profit dollars was primarily a result of lower volumes in *Film Capture*, negative price/mix associated with new and renewed film agreements, partially offset by foreign exchange and reduced manufacturing and other costs. The reduced manufacturing and other costs were driven by the manufacturing footprint reduction and other cost reduction initiatives, partially offset by higher silver costs.

Selling, General and Administrative Expenses
The decline in SG&A expenses for FPG in dollars and as a percent of sales was attributable to the concentrated efforts of the business to reduce costs and shifting to a distributor model in regions with lower sales volumes.

GRAPHIC COMMUNICATIONS GROUP

	For the Year Ended December 31,					
(dollars in millions)	2007	% of Sales	2006	% of Sales	Increase / (Decrease)	% Change
Digital net sales	$ 3,150		$ 2,950		$ 200	7%
Traditional net sales	440		527		(87)	-17%
Total net sales	3,590		3,477		113	3%
Cost of goods sold	2,606		2,480		126	5%
Gross profit	984	27.4%	997	28.7%	(13)	-1%
Selling, general and administrative expenses	663	18%	697	20%	(34)	-5%
Research and development costs	205	6%	200	6%	5	3%
Earnings from continuing operations before interest, other income (charges), net and income taxes	$ 116	3%	$ 100	3%	$ 16	16%

	For the Year Ended December 31,		Change vs. 2006			
	2007 Amount	Change vs. 2006	Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Total net sales	$ 3,590	3.2%	0.7%	-1.6%	4.1%	0.0%
Gross profit margin	27.4%	-1.3pp	0.0pp	-0.4pp	0.6pp	-1.5pp

Worldwide Revenues
Digital revenue growth of 7% in 2007 contributed to total revenue growth of 3% for GCG, mainly driven by favorable foreign exchange and volume increases within *Digital Printing Solutions* and *Enterprise Solutions.* Partially offsetting this growth was unfavorable price/mix across all SPGs.

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Net worldwide sales of *Prepress Solutions,* including consumables, prepress equipment and related services, increased 3%, primarily driven by increased sales of digital plates, partially offset by declines in sales of analog plates and prepress equipment sales. Unfavorable price/mix also negatively impacted net worldwide sales.

Net worldwide sales of *Document Imaging,* which includes document scanners and services, media, and imaging services, were flat compared with prior year. Unfavorable volume and price/mix were offset by favorable exchange.

Net worldwide sales of *Digital Printing Solutions,* including all continuous inkjet and electrophotographic equipment, consumables and service, increased 5%, primarily driven by favorable foreign exchange and volume growth in color electrophotographic solutions and inkjet printing solutions, partially offset by volume and price/mix declines in black-and-white electrophotographic solutions.

Net worldwide sales of *Enterprise Solutions*, which includes workflow software and digital controller development, increased 10%, primarily driven by the introduction of web-enabled solutions software and volume growth in the workflow software, partially offset by price/mix.

Gross Profit
The decrease in gross profit margin compared with the prior year was primarily driven by increased manufacturing costs in *Prepress Solutions* associated with adverse aluminum costs, as well as unfavorable price/mix across all SPGs. Favorable foreign exchange partially offset these negative impacts.

Selling, General and Administrative Expenses
The decrease in SG&A expenses for GCG was largely attributable to concentrated efforts of the business to achieve targeted cost reductions.

ALL OTHER

Worldwide Revenues
Net worldwide sales for All Other were $112 million for the year ended December 31, 2007 as compared with $68 million for the year ended December 31, 2006, representing an increase of $44 million, or 65%. This increase is attributable to ongoing manufacturing supply and tolling arrangements with Carestream Health, Inc.

Loss From Continuing Operations Before Interest, Other Income (Charges), Net and Income Taxes
The loss from continuing operations before interest, other income (charges), net and income taxes for All Other was $50 million in the current year as compared with a loss of $67 million in the year ended December 31, 2006. This $17 million improvement in earnings is largely driven by cost reduction actions within the display business.

RESULTS OF OPERATIONS DISCONTINUED OPERATIONS

Total Company earnings from discontinued operations for the year ended December 31, 2007 and 2006 of $881 million and $203 million, respectively, were net of provisions for income taxes of $262 million and $34 million, respectively.

Earnings from discontinued operations in 2007 were primarily driven by the $986 million pre-tax gain on the sale of the Health Group segment on April 30, 2007, and the $123 million pre-tax gain on the sale of Hermes Precisa Pty. Ltd. (HPA) on November 2, 2007. Also included in discontinued operations in 2007 are the results of operations of the Health Group segment and HPA through their respective dates of sale.

Earnings from discontinued operations in 2006 were primarily driven by results of operations of the Health Group segment.

For a detailed discussion of the components of discontinued operations, refer to Note 23, Discontinued Operations, in the Notes to Financial Statements.

NET EARNINGS

Consolidated net earnings for 2007 were $676 million, or earnings of $2.35 per basic and diluted share, as compared with a net loss for 2006 of $601 million, or a loss of $2.09 per basic and diluted share, representing an increase in earnings of $1,277 million or 212%. This improvement is attributable to the reasons outlined above.

2006 COMPARED WITH 2005

RESULTS OF OPERATIONS - CONTINUING OPERATIONS

CONSOLIDATED

	For the Year Ended December 31,

(in millions, except per share data)	2006	% of Sales	2005	% of Sales	Increase / (Decrease)
Digital net sales	$ 5,945		$ 5,561		$ 384
Traditional net sales	4,574		5,777		(1,203)
New technologies	49		57		(8)
Net sales	10,568		11,395		(827)
Cost of goods sold	8,159		8,864		(705)
Gross profit	2,409	22.8%	2,531	22.2%	(122)
Selling, general and administrative expenses	1,950	18%	2,240	20%	(290)
Research and development costs	578	5%	739	6%	(161)
Restructuring costs and other	416	4%	665	6%	(249)
Other operating expenses (income), net	(59)		(40)		(19)
Loss from continuing operations before interest, other income (charges), net and income taxes	(476)	-5%	(1,073)	-9%	597
Interest expense	172		139		33
Other income (charges), net	65		4		61
Loss from continuing operations before income taxes	(583)		(1,208)		625
Provision for income taxes	221		449		(228)
Loss from continuing operations	(804)	-8%	(1,657)	-15%	853
Earnings from discontinued operations, net of income taxes	203	2%	451	4%	(248)
Loss from cumulative effect of accounting change, net of income taxes	—		(55)		—
NET LOSS	$ (601)		$ (1,261)		$ 660

	For the Year Ended December 31,		Change vs. 2005			
	2006 Amount	Change vs. 2005	Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Total net sales	$ 10,568	-7.3%	-10.1%	-3.3%	0.5%	0.0%
Gross profit margin	22.8%	0.6pp	0.0pp	0.4pp	0.1pp	-0.4pp

Worldwide Revenues

The decrease in net sales was primarily due to significant industry-related volume declines in the traditional businesses within all three segments, partially offset by growth in digital revenues. The volume declines were primarily driven by *Film Capture* within FPG, and *Digital Capture and Devices* and the traditional portion of *Retail Printing* within CDG. Negative price/mix was primarily driven by *Prepress Solutions* within GCG, *Retail Printing* and *Digital Capture and Devices* within CDG, and *Film Capture* within FPG. These items were partially offset by an increase in digital revenue due to the KPG and Creo acquisitions in the second quarter of 2005, intellectual property royalties, and favorable foreign exchange.

Gross Profit

Gross profit margin for 2006 increased as compared with 2005 due largely to the 2005 acquisitions of Kodak Polychrome Graphics ("KPG") and Creo Inc. ("Creo"), favorable price/mix in *Digital Capture and Devices* within CDG, including increased intellectual property royalties, and favorable foreign exchange. These increases were partially offset by increased manufacturing and other costs.

Included in gross profit for the year are extensions and amendments of existing license arrangements and a new licensing arrangement. The non-recurring portions of these licensing arrangements contributed approximately 1.7% of revenue to consolidated gross profit dollars in 2006, as compared with 0.5% of revenue to consolidated gross profit dollars for similar arrangements in 2005.

Selling, General and Administrative Expenses

The year-over-year decrease in consolidated SG&A was primarily attributable to ongoing Company-wide cost

reduction initiatives.

Research and Development Costs
The decrease in R&D costs was primarily driven by: (1) write-offs in 2005 of purchased in-process R&D of $54 million associated with acquisitions made during 2005, (2) significant spending reductions related to traditional products and services, (3) lower R&D spending related to the display business, and (4) integration synergies within the GCG segment.

Restructuring Costs and Other
These costs, as well as the restructuring-related costs reported in cost of goods sold, are discussed in further detail under "RESTRUCTURING COSTS AND OTHER" below.

Other Operating (Income) Expenses, Net
The other operating (income) expenses, net category includes gains and losses on sales of capital assets and certain asset impairment charges. Other operating income was $59 million for 2006 as compared with other operating income of $40 million for 2005, representing an improvement of $19 million. This improvement was largely driven by lower asset impairments.

Interest Expense
Higher interest expense is primarily attributable to increased levels of debt associated with the 2005 acquisitions of KPG and Creo, and higher interest rates.

Other Income (Charges), Net
The other income (charges), net component includes interest income, income and losses from equity investments, and foreign exchange gains and losses. The increase in other income (charges), net was primarily attributable to: (1) a year-over-year increase in interest income of $35 million, (2) lower losses on foreign exchange, which resulted in an increase in other income of $31 million, and (3) lower impairment charges on equity method investments, which increased other income by $19 million. These increases were partially offset by a loss on the early extinguishment of debt in 2006 of $9 million.

Income Tax Provision

	For the Year Ended December 31,	
(dollars in millions)	2006	2005
Loss from continuing operations before income taxes	($583)	($1,208)
Provision for income taxes	$221	$449
Effective tax rate	(37.9)%	(37.2)%

The change in the Company□s annual effective tax rate from continuing operations is primarily attributable to the inability to recognize a benefit from losses in the U.S. and in certain jurisdictions outside the U.S., as a result of the requirement to record a valuation allowance against net deferred tax assets in those jurisdictions that the Company has determined it is no longer more likely than not that these net deferred tax assets will be realized, and the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S.

CONSUMER DIGITAL IMAGING GROUP

	For the Year Ended December 31,					
(dollars in millions)	2006	% of Sales	2005	% of Sales	Increase / (Decrease)	% Change
Digital net sales	$ 2,995		$ 3,290		$ (295)	-9%
Traditional net sales	1,716		2,356		(640)	-27%
Total net sales	4,711		5,646		(935)	-17%

Cost of goods sold		3,885			4,685			(800)	-17%
Gross profit		826	17.5%		961	17.0%		(135)	-14%
Selling, general and administrative expenses		785	17%		1,035	18%		(250)	-24%
Research and development costs		281	6%		300	5%		(19)	-6%
Loss from continuing operations before interest, other income (charges), net and income taxes	$	(240)	-5%	$	(374)	-7%	$	134	36%

	For the Year Ended December 31, 2006 Amount	Change vs. 2005	Change vs. 2005 Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Total net sales	$ 4,711	-16.6%	-14.3%	-2.7%	0.4%	0.0%
Gross profit margin	17.5%	0.5pp	0.0pp	3.0pp	0.2pp	-2.7pp

Worldwide Revenues
CDG net sales decreased due to significant volume declines in the traditional portion of *Retail Printing* and *Digital Capture and Devices* partially offset by volume increases in the digital portion of *Retail Printing*. The negative price/mix was primarily driven by *Digital Capture and Devices* and by price declines in *Retail Printing*.

Net worldwide sales of *Digital Capture and Devices*, which includes consumer digital cameras, accessories, memory products, snapshot printers and related media, and intellectual property royalties, decreased 13% in 2006 as compared with 2005, primarily reflecting volume decreases, as well as negative price/mix. These decreases were partially offset by increased intellectual property royalties as well as favorable foreign currency. According to the NPD Group's consumer tracking service, Kodak EasyShare digital cameras were number one in unit market share in the U.S. for the year 2006.

Retail Printing includes color negative paper, photochemicals, service and support, photofinishing services, and retail kiosks and related media. Net worldwide sales of *Retail Printing* decreased 21% in the year ended December 31, 2006 as compared with 2005 due to volume and price/mix declines in the traditional portion of the business and price/mix declines in kiosks and related media. These declines were partially offset by volume increases in kiosks and related media and favorable foreign exchange. Paper, photochemicals, and output systems revenues declined 20% and sales of photofinishing services declined 43% as compared with 2005, reflecting continuing industry volume declines.

Gross Profit
The increase in gross profit margin for CDG was primarily a result of improvements in price/mix within *Digital Capture and Devices,* which includes increases in intellectual property royalties, and favorable foreign exchange. The gross profit margin improvement was partially offset by increased manufacturing costs.

Included in gross profit is the impact of a non-recurring extension and amendment of existing license arrangement and new non-recurring license arrangements during the current year. The impact of these licensing arrangements contributed approximately 3.8% of revenue to segment gross profit dollars in 2006, as compared with 1.0% of revenue to segment gross profit dollars for similar arrangements in 2005. These types of arrangements provide the Company with a return on portions of historical R&D investments.

Selling, General and Administrative Expenses
The year-over-year decrease in SG&A was primarily driven by a decline in advertising spending as a result of focused cost reduction activities.

Research and Development Costs
The decrease in R&D costs is attributable to cost reduction actions partially offset by spending related to the development of *Consumer Inkjet Systems* subsequently launched in 2007.

FILM PRODUCTS GROUP

(dollars in millions)	For the Year Ended December 31, 2006	% of Sales	2005	% of Sales	Increase / (Decrease)	% Change
Total net sales	$ 2,312		$ 2,841		$ (529)	-19%
Cost of goods sold	1,460		1,605		(145)	-9%
Gross profit	852	36.9%	1,236	43.5%	(384)	-31%
Selling, general and administrative expenses	451	20%	600	21%	(149)	-25%
Research and development costs	33	1%	63	2%	(30)	-48%
Earnings from continuing operations before interest, other income (charges), net and income taxes	$ 368	16%	$ 573	20%	$ (205)	-36%

	For the Year Ended December 31, 2006 Amount	Change vs. 2005	Change vs. 2005: Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Total net sales	$ 2,312	-18.6%	-16.6%	-2.5%	0.5%	0.0%
Gross profit margin	36.9%	-6.7pp	0.0pp	-2.8pp	0.4pp	-4.3pp

Worldwide Revenues

The decrease in net sales was comprised of: (1) lower volumes, which was primarily attributable to *Film Capture*; and (2) unfavorable price/mix related to *Film Capture* and *Entertainment Imaging*. These declines were partially offset by favorable foreign exchange.

Net worldwide sales of *Film Capture*, including consumer roll film (35mm and APS film), one-time-use cameras (OTUC), professional films, and reloadable film cameras, decreased 30% in 2006 as compared with 2005, primarily reflecting industry volume declines.

Net worldwide sales for *Entertainment Imaging*, including origination, intermediate, and print films, and digital products and services for the entertainment industry decreased 4%, primarily reflecting origination film and services volume declines and negative price/mix for print film, partially offset by volume increases for intermediate film and favorable foreign exchange. These results also reflect more conservative motion picture release strategies by major studios including the maturation of industry practice regarding simultaneous worldwide releases of major feature films.

Gross Profit

The decrease in gross profit margin was primarily a result of unfavorable price/mix within *Film Capture*, and increased manufacturing and other costs. These decreases were partially offset by favorable foreign currency, and price/mix within *Entertainment Imaging*. The increases in manufacturing and other costs are largely related to increased depreciation expense due to asset useful life changes in the third quarter of 2005 and higher silver costs.

Selling, General and Administrative Expenses

The year-over-year decline in SG&A was attributable to Company-wide cost reduction initiatives.

Research and Development Costs

The decrease in R&D costs was primarily attributable to significant reductions in spending related to traditional products and services.

GRAPHIC COMMUNICATIONS GROUP

(dollars in millions)	For the Year Ended December 31, 2006	% of Sales	2005	% of Sales	Increase / (Decrease)	% Change
Digital net sales	$ 2,950		$ 2,271		$ 679	30%
Traditional net sales	527		554		(27)	-5%
Total net sales	3,477		2,825		652	23%
Cost of goods sold	2,480		2,066		414	20%
Gross profit	997	28.7%	759	26.9%	238	31%
Selling, general and administrative expenses	697	20%	549	19%	148	27%
Research and development costs	200	6%	281	10%	(81)	-29%
Earnings (loss) from continuing operations before interest, other income (charges), net and income taxes	$ 100	3%	$ (71)	-3%	$ 171	241%

	For the Year Ended December 31, 2006 Amount	Change vs. 2005	Change vs. 2005 Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs	Acqui
Total net sales	$ 3,477	23.1%	4.9%	-5.3%	0.9%	0.0%	
Gross profit margin	28.7%	1.8pp	0.0pp	1.2pp	-0.4pp	0.5pp	

Worldwide Revenues

Digital net sales are comprised of *Enterprise Solutions*, *Digital Printing Solutions*, portions of *Prepress Solutions* and portions of *Document Imaging*. The 30% growth in digital product sales led to total revenue growth of 23%, which was primarily attributable to acquisitions of KPG and Creo in the second quarter of 2005.

The increase in sales was also driven by volume increases in *Prepress Solutions,* offset by unfavorable price/mix in *Prepress Solutions* and *Document Imaging*.

Net worldwide sales of *Prepress Solutions*, including consumables, prepress equipment and related services, increased 33% primarily driven by the acquisitions of KPG and Creo and strong volume increases within the digital portion of *Prepress Solutions*.

Net worldwide sales of *Document Imaging*, which includes document scanners and services, media, and imaging services, were flat compared with 2005. Favorable volume and foreign currency were offset by unfavorable price/mix.

Net worldwide sales of *Digital Printing Solutions*, including all continuous inkjet and electrophotographic equipment, consumables and service, was flat compared with 2005.

Net worldwide sales of *Enterprise Solutions*, which includes workflow software and digital controller development, grew 55% driven by the acquisitions of KPG and Creo.

Gross Profit

The increase in gross profit margin as compared with 2005 was primarily driven by the acquisitions of KPG and Creo, favorable price/mix within *Prepress Solutions*, and decreased manufacturing and other costs. These increases were partially offset by unfavorable foreign currency.

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Selling, General and Administrative Expenses

The increase in SG&A is primarily attributable to $148 million of SG&A costs associated with the acquired KPG and Creo businesses, and redistribution of corporate costs associated with bringing acquired businesses into the

Kodak portfolio, partially offset by integration synergies.

Research and Development Costs
The decrease in R&D costs was primarily driven by $52 million of write-offs in 2005 for purchased in-process R&D associated with acquisitions, and was also driven by integration synergies.

ALL OTHER

Worldwide Revenues
Net worldwide sales for All Other were $68 million for 2006 as compared with $83 million for 2005, representing a decrease of $15 million, or 18%. Net sales in the U.S. were $50 million for 2006 as compared with $47 million for the prior year, representing an increase of $3 million, or 6%. Net sales outside the U.S. were $18 million in 2006 as compared with $36 million in the prior year, representing a decrease of $18 million, or 50%.

Loss From Continuing Operations Before Interest, Other Income (Charges), Net and Income Taxes
The loss from continuing operations before interest, other income (charges), net and income taxes for All Other was $67 million in 2006 as compared with a loss of $128 million in 2005. This improvement in earnings was primarily driven by overall SG&A cost reductions of $37 million, and reductions in R&D spending for the display business of $31 million.

EARNINGS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES

Earnings from discontinued operations for 2006 were $203 million, as compared with earnings from discontinued operations for 2005 of $451 million. Earnings from discontinued operations in 2006 were primarily driven by results of operations of the Health Group segment and also include the operations of HPA. (See Note 23, Discontinued Operations in the Notes to Financial Statements.)

The 2005 earnings from discontinued operations were primarily driven by results of operations of the Health Group segment, and by a $203 million reversal of certain tax accruals as a result of a settlement between the Company and the Internal Revenue Service on the audit of the tax years 1993 through 1998. These accruals had been established in 1994 in connection with the Company's sale of its pharmaceutical, consumer health and household products businesses during that year. These items were partially offset by a pension settlement charge of $54 million resulting from the finalization of the transfer of pension assets to ITT Industries, Inc. (ITT) in connection with the sale of the Company's Remote Sensing Systems business (RSS) in August 2004.

LOSS FROM CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF INCOME TAXES

There was no loss from cumulative effect of accounting change, net of income taxes for 2006. The loss from cumulative effect of an accounting change, net of income taxes, of $55 million or $.19 per basic and diluted share for 2005 was the result of the Company's adoption of FASB Interpretation No. (FIN) 47, "Accounting for Conditional Asset Retirement Obligations," as of December 31, 2005. Under FIN 47, the Company is required to record an obligation and an asset for the present value of the estimated cost of fulfilling its legal obligation with respect to the retirement of an asset when the timing or method of settling that obligation is conditional upon a future event (for example, the sale of, exiting from or disposal of an asset - the "settlement date"). The primary application of FIN 47 to the Company is with respect to asbestos remediation. The $55 million charge represents the present value of the Company's asset retirement obligations (net of the related unamortized asset) relating to facilities with estimated settlement dates. Refer to further discussion in the "Recently Issued Accounting Standards" section within Note 1 in the Notes to Financial Statements.

NET LOSS

The consolidated net loss for 2006 was $601 million, or a loss of $2.09 per basic and diluted share, as compared with a net loss for 2005 of $1,261 million, or a loss of $4.38 per basic and diluted share, representing an increase in earnings of $660 million or 52%. This improvement is attributable to the reasons outlined above.

RESTRUCTURING COSTS AND OTHER

The Company has undertaken a cost reduction program that was initially announced in January 2004. This program has been referred to as the 2004 2007 Restructuring Program. This program was initially expected to result in total charges of $1.3 billion to $1.7 billion over a three-year period ending in 2006. Overall, Kodak's worldwide facility square footage was expected to be reduced by approximately one-third, and approximately 12,000 to 15,000 positions worldwide were expected to be eliminated, primarily in global manufacturing, selected traditional businesses, and corporate administration.

As the 2004-2007 Restructuring Program underpinned a dramatic transformation of the Company, the underlying business model necessarily evolved. This required broader and more costly manufacturing infrastructure reductions (primarily non-cash charges) than originally anticipated, as well as similarly broader rationalization of selling, administrative and other business resources (primarily severance charges). As a result, the Company expanded the program to extend into 2007 and increased the expected employment reductions to 28,000 to 30,000 positions and total charges to $3.6 billion to $3.8 billion. In addition, the divestiture of the Health Group in the second quarter of 2007 further increased the amount of reductions necessary to appropriately scale the corporate infrastructure.

In the third quarter of 2007, the Company revised its expectations for total employment reductions to be in the range of 27,000 to 28,000 positions and total charges in the range of $3.4 billion to $3.6 billion. These new estimates reflected greater efficiencies in manufacturing infrastructure projects as well as the Company s ability to outsource or sell certain operations, which reduced involuntary severance charges.

During the year ended December 31, 2007, the Company made cash payments of approximately $446 million related to restructuring. Of this amount $424 million was paid out of restructuring reserves, while $22 million was paid out of reserves for pension and other postretirement liabilities.

The costs incurred, net of reversals, which total $685 million for the year ended December 31, 2007, include $23 million of costs which were presented as discontinued operations. Included in the $23 million presented as discontinued operations were $20 million and $4 million of severance and exit costs, respectively, which were associated with the 2004-2007 Restructuring Program, and a reversal of $1 million of exit costs associated with prior programs. The costs incurred, net of reversals, of $662 million, which were presented as continuing operations include $107 million and $12 million of charges related to accelerated depreciation and inventory write-downs, respectively, which were reported in cost of goods sold in the accompanying Consolidated Statement of Operations for the year ended December 31, 2007. The remaining costs incurred, net of reversals, of $543 million were reported as restructuring costs and other in the accompanying Consolidated Statement of Operations for the year ended December 31, 2007. The Company expects to incur approximately $5 million of additional accelerated depreciation in 2008 as a result of the initiatives already implemented under the 2004-2007 Restructuring Program.

The restructuring actions implemented during fiscal year 2007 under the 2004-2007 Restructuring Program are expected to generate future annual cost savings of approximately $295 million, $274 million of which are expected to be future annual cash savings. These cost savings began to be realized by the Company beginning in the first quarter of 2007, and the majority of the savings are expected to be realized by the end of 2008 as most of the actions and severance payouts are completed. These total cost savings are expected to reduce future cost of goods sold, SG&A, and R&D expenses by approximately $154 million, $122 million, and $19 million, respectively.

Based on all of the actions taken to date under the 2004-2007 Restructuring Program, the program is expected to generate annual cost savings of approximately $1,680 million, including annual cash savings of $1,605 million, as compared with pre-program levels. The Company began realizing these savings in the second quarter of 2004, and expects the majority of the savings to be realized by the end of 2008 as most of the actions and severance payouts are completed. These total cost savings are expected to reduce cost of goods sold, SG&A, and R&D expenses annually by approximately $1,051 million, $473 million, and $156 million, respectively.

These estimates are based primarily on objective data related to the Company's severance actions. Savings resulting from facility closures and other non-severance actions that are more difficult to quantify are not included.

The Company has substantially completed the restructuring activities contemplated in the 2004-2007 Restructuring Program. Under this program, on a life-to-date basis as of December 31, 2007, the Company has recorded charges of $3,397 million, which were composed of severance, long-lived asset impairments, exit costs, inventory write-downs and accelerated depreciation of $1,398 million, $620 million, $385 million, $80 million and $935 million, respectively, less reversals of $21 million. The severance costs related to the elimination of approximately 27,650 positions, including approximately 6,750 photofinishing, 13,125 manufacturing, 1,575 research and development and 6,200 administrative positions.

Modest rationalization charges are expected in 2008 and beyond as the Company will continue to explore and execute on cost efficiency opportunities with respect to its sales, manufacturing and administrative infrastructure.

LIQUIDITY AND CAPITAL RESOURCES

2007

Cash Flow Activity

The Company's primary sources and uses of cash for the year ended December 31, 2007 included proceeds on the sale of businesses/assets, loss from continuing operations adjusted for non-cash items of income and expense, debt payments, restructuring payments, capital additions, working capital sources and needs, dividend payments and employee and retiree benefit plan payments/contributions.

Net cash provided by continuing operations from operating activities was $351 million for the year ended December 31, 2007. The Company's primary sources of cash from operating activities for the period are earnings from continuing operations, as adjusted for non-cash items of income and expense, which provided $652 million of operating cash. Included in cash flow from operating activities is approximately $306 million that relates to current and prior-year non-recurring licensing arrangements. The Company's other primary sources and uses of cash in operating activities in 2007 include:

- Decreases in receivables, driven by focused collection efforts including the reduction of past-due trade receivables;
- Decreases in inventories, driven by management of year-end inventory levels; and
- The net decrease in liabilities, excluding borrowings, including:
  - The decrease in pension and other postretirement liabilities due to settlement and curtailment activities related to restructuring;
  - Recognition of deferred income on intellectual property arrangements;
  - Decrease in restructuring liabilities driven by cash payments for severance benefits, partially offset by restructuring charges within the current year;
  - The settlement of asset retirement obligations due to footprint reduction actions; and
  - These decreases were partially offset by an increase in trade accounts payable due to the Company's efforts to bring accounts payable metrics more in line with its peer group.

Included in the uses of cash in operating activities discussed above were:

- Cash expenditures of $446 million against restructuring reserves and pension and other postretirement liabilities, primarily for the payment of severance benefits. Certain employees whose positions were eliminated could elect to receive severance payments for up to two years following their date of termination;
- Contributions (funded plans) or benefit payments (unfunded plans) totaling approximately $111 million relating to major U.S. and non-U.S. defined benefit pension plans; and

- Benefit payments totaling approximately $218 million relating to postretirement benefit plans in the U.S., United Kingdom and Canada.

Net cash used in continuing operations in investing activities for the year ended December 31, 2007 of $41 million includes capital additions of $259 million. The majority of this spending supports new products, manufacturing capacity, productivity and quality improvements, infrastructure improvements, equipment placements with customers, and ongoing environmental and safety initiatives. Proceeds from sales of businesses and assets in the period provided cash of $227 million.

Net cash provided by discontinued operations from investing activities in 2007 was $2,449 million largely due to the proceeds received in connection with the sale of the Health Group business, and the HPA business previously included in GCG. The Company utilized a portion of the cash received from the sale of the Health Group for the full repayment of the Secured Term Debt of $1.15 billion, as reflected in net cash used in financing activities in the period.

Net cash used in continuing operations in financing activities in 2007 was $1,324 million, including the repayment of debt discussed above and dividends of $144 million. The Companys dividend policy is to pay semi-annual dividends, when declared, on the Companys 10th business day each July and December to shareholders of record on the close of the first business day of the preceding month. On May 9, and October 16, 2007, the Board of Directors declared semi-annual cash dividends of $.25 per share payable to shareholders of record at the close of business on June 1, and November 1, 2007, respectively. These dividends were paid on July 16 and December 14, 2007. Total dividends paid for the year ended December 31, 2007 were $144 million.

The Company believes that its cash flow from operations, in addition to asset sales, will be sufficient to cover its working capital and capital investment needs and the funds required for future debt reduction, restructuring payments, dividend payments, employee and retiree benefit plan payments/contributions, and potential acquisitions. The Company's cash balances and its financing arrangements, which are principally the Companys committed and uncommitted credit lines, as further discussed in Note 9, Short-Term Borrowings and Long Term Debt in the Notes to Financial Statements, will be used to bridge timing differences between expenditures and cash generated from operations.

Sources of Liquidity
Refer to Note 9, "Short-Term Borrowings and Long-Term Debt" in the Notes to Financial Statements for further discussion of sources of liquidity, presentation of long-term debt, related maturities and interest rates as of December 31, 2007 and 2006.

Credit Quality
Moody's and S&P's ratings for the Company, including their outlooks, as of the filing date of this Form 10-K are as follows:

	Senior Secured Rating	Corporate Rating	Senior Unsecured Rating	Outlook
Moody's	Ba1	B1	B2	Stable
S&P	BB	B+	B	Negative

On September 11, 2007, Standard & Poor's (S&P) concluded a review on Kodak. The conclusion of this work has resulted in an affirmation of the Company's Corporate Rating at B+, and an unchanged outlook of negative. However, S&P has removed the Company from credit watch, where it had been placed with negative implications on August 2, 2006. The Company's Senior Secured rating has improved two levels to BB.

S&P's ratings reflect their concerns regarding the continued decline in the Company's traditional business, the Company's uncertain profitability and cash flow generation of its digital business, and the potential for additional restructuring charges.

On May 7, 2007, Moodys concluded a review for possible downgrade, which was initiated in May 2006 after the Company announced its intention to explore strategic alternatives for its Health business. As a result, the Companys Corporate and Senior Unsecured ratings were confirmed at B1 and B2, respectively, and the Senior Secured rating, reflecting the remaining 5-Year Revolving Credit Facility, was upgraded from Ba3 to Ba1. The rating outlook was changed from negative to stable.

Moodys ratings reflect their views regarding the Companys significant challenges to replace revenue and cash flow from declining legacy film businesses as well as the Companys market position, operating profit margin and free cash flow volatility, asset returns (net of cash), financial leverage, and liquidity.

The stable rating outlook reflects Moodys expectation that the Company will continue to maintain liquidity and generate earnings sufficient to withstand further secular declines of its legacy film businesses, lack of substantial profitability in certain of its digital businesses and its sizable new business start-up costs.

The Company is in compliance with all covenants or other requirements set forth in its credit agreements and indentures. Further, the Company does not have any rating downgrade triggers that would accelerate the maturity dates of its debt. However, the Company could be required to increase the dollar amount of its letters of credit or provide other financial support up to an additional $70 million at the current credit ratings. As of the filing date of this Form 10-K, the Company has not been requested to materially increase its letters of credit or other financial support. Downgrades in the Companys credit rating or disruptions in the capital markets could impact borrowing costs and the nature of its funding alternatives.

Contractual Obligations

The impact that our contractual obligations are expected to have on the Company's liquidity and cash flow in future periods is as follows:

	As of December 31, 2007						
(in millions)	**Total**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013+**
Long-term debt (1)	$ 1,589	$ 300	$ 45	$ 43	$ 40	$ 38	$ 1,123
Operating lease obligations	412	99	81	68	45	36	83
Purchase obligations (2)	1,130	563	178	121	87	87	94
Uncertain tax positions and interest (3)	62	62					
Total (4) (5)	$ 3,193	$ 1,024	$ 304	$ 232	$ 172	$ 161	$ 1,300

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(1) Represents maturities of the Company's long-term debt obligations as shown on the Consolidated Statement of Financial Position. See Note 9, "Short-Term Borrowings and Long-Term Debt" in the Notes to Financial Statements.

(2) Purchase obligations include agreements related to supplies, production and administrative services, as well as marketing and advertising, that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty. The terms of these agreements cover the next two to sixteen years. See Note 11, "Commitments and Contingencies," in the Notes to Financial Statements.

(3) Due to uncertainty regarding the completion of tax audits and possible outcomes, the remaining estimate of the timing of payments related to uncertain tax positions and interest cannot be made. See Note 16, Income Taxes, in the Notes to Financial Statements for

additional information regarding the Companys uncertain tax positions.

(4) Funding requirements for the Company's major defined benefit retirement plans and other postretirement benefit plans have not been determined, therefore, they have not been included. In 2007, the Company made contributions to its major defined benefit retirement plans and benefit payments for its other postretirement benefit plans of $111 million ($38 million relating to its U.S. defined benefit plans) and $218 million ($212 million relating to its U.S. other postretirement benefits plan), respectively. The Company expects to contribute approximately $51 million ($23 million relating to its U.S. defined benefit plans) and $209 million ($204 million relating to its U.S. other postretirement benefits plan), respectively, to its defined benefit plans and other postretirement benefit plans in 2008.

(5) Because their future cash outflows are uncertain, the other long-term liabilities presented in Note 10, Other Long-Term Liabilities are excluded from this table.

Off-Balance Sheet Arrangements

The Company guarantees debt and other obligations of certain customers. The debt and other obligations are primarily due to banks and leasing companies in connection with financing of customers' purchases of equipment and product from the Company. At December 31, 2007, the following customer guarantees were in place:

	As of December 31, 2007	
(in millions)	**Maximum Amount**	**Amount Outstanding**
Customer amounts due to banks and leasing companies	$ 150	$ 117
Other third-parties	2	-
Total guarantees of customer debt and other obligations	$ 152	$ 117

The guarantees for the third party debt mature between 2008 and 2011. The customer financing agreements and related guarantees typically have a term of 90 days for product and short-term equipment financing arrangements, and up to five years for long-term equipment financing arrangements. These guarantees would require payment from the Company only in the event of default on payment by the respective debtor. In some cases, particularly for guarantees related to equipment financing, the Company has collateral or recourse provisions to recover and sell the equipment to reduce any losses that might be incurred in connection with the guarantees.

The Company also guarantees debt and other obligations owed to banks and other third parties for some of its consolidated subsidiaries. The maximum amount guaranteed is $637 million, and the outstanding debt under those guarantees, which is recorded within the short-term borrowings and long-term debt, net of current portion components in the accompanying Consolidated Statement of Financial Position, is $229 million. These guarantees expire between 2008 and 2013. Pursuant to the terms of the Company's $2.7 billion Senior Secured Credit Agreement dated October 18, 2005, obligations under the $2.7 billion Secured Credit Facilities and other obligations of the Company and its subsidiaries to the $2.7 billion Secured Credit Facilities lenders are guaranteed.

During the fourth quarter of 2007, Eastman Kodak Company (the Parent) issued a guarantee to Kodak Limited (the Subsidiary) and the Trustees of the Kodak Pension Plan of the United Kingdom (the Trustees). Under this arrangement, the Parent guarantees to the Subsidiary and the Trustees the ability of the Subsidiary, only to the extent it becomes necessary to do so, to (1) make contributions to the Plan to ensure sufficient assets exist to make benefit payments, and (2) make contributions to the Plan such that it will achieve full funded status by the

funding valuation for the period ending December 31, 2015. The guarantee expires upon the conclusion of the funding valuation for the period ending December 31, 2015 whereby the Plan achieves full funded status or earlier, in the event that the Plan achieves full funded status for two consecutive funding valuation cycles which are performed at least every three years.

The limit of potential future payments is dependent on the funding status of the Plan as it fluctuates over the term of the guarantee. However, as of December 31, 2007 management believes that performance under this guarantee by Eastman Kodak Company is unlikely. The funding status of the Plan is included in Pension and other postretirement liabilities presented in the Consolidated Statement of Financial Position.

The Company issues indemnifications in certain instances when it sells businesses and real estate, and in the ordinary course of business with its customers, suppliers, service providers and business partners. Further, the Company indemnifies its directors and officers who are, or were, serving at the Company's request in such capacities. Historically, costs incurred to settle claims related to these indemnifications have not been material to the Company's financial position, results of operations or cash flows. Additionally, the fair value of the indemnifications that the Company issued during the year ended December 31, 2007 was not material to the Company's financial position, results of operations or cash flows.

2006

Cash Flow Activity

The Company's primary sources and uses of cash for the year ended December 31, 2006 included earnings from continuing operations, adjusted for non-cash items of income and expense, debt payments, restructuring payments, capital additions, working capital needs, dividend payments and employee and retiree benefit plan payments/contributions.

Net cash provided by continuing operations from operating activities was $685 million for the year ended December 31, 2006. The Company's primary sources of cash from operating activities for the year are earnings from continuing operations, as adjusted for non-cash items of income and expense, which provided $327 million of operating cash. Included in cash flow from operating activities was approximately $315 million provided by non-recurring licensing arrangements during 2006. The Company's other primary sources and uses of cash in operating activities include:

- Decrease in inventories due to planned inventory reductions driven by corporate initiatives and a decline in demand for traditional products;
- Decrease in receivables driven by the continued industry decline in sales of traditional products and services;
- Net increase in liabilities resulting from non-cash adjustments to tax liabilities, partially offset by a decrease in accounts payable and other liabilities; and
- Recognition of deferred income on intellectual property arrangements.

Included in the uses of cash in operating activities discussed above were:

- Cash expenditures of $548 million against restructuring reserves and pension and other postretirement liabilities, primarily for the payment of severance benefits;
- Contributions (funded plans) or benefit payments (unfunded plans) totaling approximately $187 million relating to major U.S. and non-U.S. defined benefit pension plans; and
- Benefit payments totaling approximately $224 million relating to U.S., United Kingdom and Canada postretirement benefit plans.

Net cash used in continuing operations in investing activities for the year ended December 31, 2006 of $181 million included capital additions of $335 million. The majority of the spending supported new products, manufacturing productivity and quality improvements, infrastructure improvements, equipment placements with

customers, and ongoing environmental and safety initiatives. Proceeds from sales of businesses and assets for the year provided cash of $178 million. Net cash used in discontinued operations from investing activities was $44 million for the year ended December 31, 2006 for additions to capital assets.

Net cash used in financing activities was $947 million, including the repayment of debt of $803 million, and dividend payments of $144 million.

On May 10, and October 17, 2006, the Board of Directors declared semi-annual cash dividends of $.25 per share payable to shareholders of record at the close of business on June 1, and November 1, 2006. These dividends were paid on July 18, and December 14, 2006. Total dividends paid for the year ended December 31, 2006 were $144 million.

2005

Cash Flow Activity

The Company's primary sources and uses of cash for the year ended December 31, 2005 included earnings from continuing operations, adjusted for non-cash items of income and expense, acquisitions, debt payments, restructuring payments, capital additions, working capital needs, dividend payments and employee and retiree benefit plan payments/contributions.

Net cash provided by continuing operations from operating activities was $722 million for the year ended December 31, 2005. The Company's earnings from continuing operations, as adjusted for non-cash items of income and expense, provided $29 million of operating cash. Included in cash flow from operating activities was approximately $345 million provided by non-recurring licensing arrangements during 2005.

The Company's other primary sources of cash in operating activities include:

- Decrease in inventories, excluding the impacts of acquisitions, due to a combination of (1) planned inventory reductions driven by corporate initiatives, (2) an increasingly seasonal demand for digital products in anticipation of the holiday season, and (3) a decline in demand for traditional products; and

- Decrease in receivables, excluding the impacts of acquisitions, driven by lower customer rebate accruals, lower miscellaneous non-trade receivables and increased collection efforts.

The Company's primary uses of cash in operating activities discussed above include:

- Cash expenditures of $508 million against restructuring reserves and pension and other postretirement liabilities, primarily for the payment of severance benefits;

- Contributions (funded plans) or benefit payments (unfunded plans) totaling approximately $185 million relating to major U.S. and non-U.S. defined benefit pension plans; and

- Benefit payments totaling approximately $240 million relating to U.S., United Kingdom and Canada postretirement benefit plans.

Net cash used in continuing operations in investing activities for the year ended December 31, 2005 of $1,264 million was utilized primarily for business acquisitions of $984 million and capital additions of $432 million. Approximately $927 million and $11 million related to the acquisitions of Creo and KPG, respectively. These uses of cash were partially offset by $130 million from the sale of businesses and assets. Net cash used in discontinued operations from investing activities was $40 million for the year ended December 31, 2005 for additions to capital assets.

Net cash provided by financing activities of $533 million for the year ended December 31, 2005 resulted from the net increase in borrowing of $722 due to the funding of the acquisition of Creo during the second quarter of 2005, partially offset by dividend payments of $144 million and repayments of debt.

On May 11, and October 18, 2005, the Board of Directors declared semi-annual cash dividends of $.25 per share payable to shareholders of record at the close of business on June 1, and November 1, 2005. These dividends were paid on July 15, and December 14, 2005. Total dividends paid for the year ended December 31, 2005 were $144 million.

OTHER

Refer to Note 11, "Commitments and Contingencies" in the Notes to Financial Statements for discussion regarding the Company's undiscounted liabilities for environmental remediation costs, asset retirement obligations, and other commitments and contingencies including legal matters.

CAUTIONARY STATEMENT PURSUANT TO SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements in this report 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 for growth, cash flow, taxes, portfolio expansion, seasonality of CDG sales, cost of environmental compliance, results of litigation, cost of retirement related benefits, depreciation, asset impairments and savings from restructuring are forward-looking statements.

Actual results may differ from those expressed or implied in forward-looking statements. In addition, any forward-looking statements represent the Company's estimates only as of the date they are made, and should not be relied upon as representing the Company's estimates as of any subsequent date. While the Company may elect to update forward-looking statements at some point in the future, the Company specifically disclaims any obligation to do so, even if its estimates change. The forward-looking statements contained in this report are subject to a number of factors and uncertainties, including the successful:

- execution of the digital growth and profitability strategies, business model and cash plan;
- implementation of the cost reduction programs;
- transition of certain financial processes and administrative functions to a global shared services model and the outsourcing of certain functions to third parties;
- implementation of, and performance under, the debt management program, including compliance with the Company's debt covenants;
- development and implementation of product go-to-market and e-commerce strategies;
- protection, enforcement and defense of the Company's intellectual property, including defense of its products against the intellectual property challenges of others;
- execution of intellectual property licensing programs and other strategies;
- integration of the Company's businesses to SAP, the Company's enterprise system software;
- completion of various portfolio actions;
- reduction of inventories;
- integration of acquired businesses and consolidation of the Company's subsidiary structure;
- improvement in manufacturing productivity and techniques;
- improvement in working capital management and cash conversion cycle;
- continued availability of essential components and services from concentrated sources of supply;
- improvement in supply chain efficiency and dependability; and
- implementation of the strategies designed to address the decline in the Company's traditional businesses.

The forward-looking statements contained in this report are subject to the following additional risk factors:

- inherent unpredictability of currency fluctuations, commodity prices and raw material costs;
- competitive actions, including pricing;
- the Company's ability to access capital markets;
- the nature and pace of technology evolution;
- changes to accounting rules and tax laws, as well as other factors which could impact the Company's reported financial position or effective tax rate;
- pension and other postretirement benefit cost factors such as actuarial assumptions, market performance, and employee retirement decisions;
- general economic, business, geo-political and regulatory conditions or unanticipated environmental liabilities or costs;
- changes in market growth;
- continued effectiveness of internal controls; and
- other factors and uncertainties disclosed from time to time in the Company's filings with the Securities and Exchange Commission.

Any forward-looking statements in this report should be evaluated in light of these important factors and uncertainties.

SUMMARY OF OPERATING DATA

A summary of operating data for 2007 and for the four years prior is shown on page 110.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates, commodity prices, and interest rates, which may adversely affect its results of operations and financial position. In seeking to minimize the risks associated with such activities, the Company may enter into derivative contracts. The Company does not utilize financial instruments for trading or other speculative purposes.

Foreign currency forward contracts are used to hedge existing foreign currency denominated assets and liabilities, especially those of the Company's International Treasury Center, as well as forecasted foreign currency denominated intercompany sales. Silver forward contracts are used to mitigate the Company's risk to fluctuating silver prices.

The Company's exposure to changes in interest rates results from its investing and borrowing activities used to meet its liquidity needs. Long-term debt is generally used to finance long-term investments, while short-term debt is used to meet working capital requirements.

Using a sensitivity analysis based on estimated fair value of open foreign currency forward contracts using available forward rates, if the U.S. dollar had been 10% stronger at December 31, 2007 and 2006, the fair value of open forward contracts would have decreased $66 million and increased $16 million, respectively. Such gains or losses would be substantially offset by losses or gains from the revaluation or settlement of the underlying

positions hedged.

Using a sensitivity analysis based on estimated fair value of open silver forward contracts using available forward prices, if available forward silver prices had been 10% lower at December 31, 2007, the fair value of open forward contracts would have decreased $2 million. Such losses in fair value, if realized, would be offset by lower costs of manufacturing silver-containing products. There were no open forward contracts hedging silver at December 31, 2006.

The Company is exposed to interest rate risk primarily through its borrowing activities and, to a lesser extent, through investments in marketable securities. The Company may utilize borrowings to fund its working capital and investment needs. The majority of short-term and long-term borrowings are in fixed-rate instruments. There is inherent roll-over risk for borrowings and marketable securities as they mature and are renewed at current market rates. The extent of this risk is not predictable because of the variability of future interest rates and business financing requirements.

Using a sensitivity analysis based on estimated fair value of short-term and long-term borrowings, if available market interest rates had been 10% (about 57 basis points) higher at December 31, 2007, the fair value of short-term and long-term borrowings would have decreased $1 million and $53 million, respectively. Using a sensitivity analysis based on estimated fair value of short-term and long-term borrowings, if available market interest rates had been 10% (about 63 basis points) higher at December 31, 2006, the fair value of short-term and long-term borrowings would have decreased less than one million and $59 million, respectively.

The Company's financial instrument counterparties are high-quality investment or commercial banks with significant experience with such instruments. The Company manages exposure to counterparty credit risk by requiring specific minimum credit standards and diversification of counterparties. The Company has procedures to monitor the credit exposure amounts. The maximum credit exposure at December 31, 2007 was not significant to the Company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Eastman Kodak Company:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Eastman Kodak Company and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over

financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for uncertain tax positions on January 1, 2007. As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for pension and postretirement benefit plans as of December 31, 2006. As discussed in Note 11 to the consolidated financial statements, the Company changed its method of accounting for asset retirement obligations as of December 31, 2005.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
Rochester, New York
February 27, 2008

Eastman Kodak Company
CONSOLIDATED STATEMENT OF OPERATIONS

	For the Year Ended December 31,		
(in millions, except per share data)	**2007**	**2006**	**2005**
Net sales	$ 10,301	$ 10,568	$ 11,395
Cost of goods sold	7,785	8,159	8,864
Gross profit	2,516	2,409	2,531
Selling, general and administrative expenses	1,764	1,950	2,240
Research and development costs	535	578	739
Restructuring costs and other	543	416	665
Other operating (income) expenses, net	(96)	(59)	(40)
Loss from continuing operations before interest, other income (charges), net and income taxes	(230)	(476)	(1,073)
Interest expense	113	172	139
Other income (charges), net	87	65	4
Loss from continuing operations before income taxes	(256)	(583)	(1,208)
(Benefit) provision for income taxes	(51)	221	449
Loss from continuing operations	(205)	(804)	(1,657)

Earnings from discontinued operations, net of income taxes	881	203	451
Loss from cumulative effect of accounting change, net of income taxes			(55)
NET EARNINGS (LOSS)	$ 676	$ (601)	$ (1,261)
Basic and diluted net (loss) earnings per share:			
Continuing operations	$ (0.71)	$ (2.80)	$ (5.76)
Discontinued operations	3.06	0.71	1.57
Cumulative effect of accounting change			(0.19)
Total	$ 2.35	$ (2.09)	$ (4.38)
Cash dividends per share	0.50	0.50	0.50

The accompanying notes are an integral part of these consolidated financial statements.

Eastman Kodak Company
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,	
(in millions, except per share data)	**2007**	**2006**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,947	$ 1,469
Receivables, net	1,939	2,072
Inventories, net	943	1,001
Deferred income taxes	120	108
Other current assets	104	96
Assets of discontinued operations		811
Total current assets	6,053	5,557
Property, plant and equipment, net	1,811	2,602
Goodwill	1,657	1,584
Other long-term assets	4,138	3,509
Assets of discontinued operations		1,068
TOTAL ASSETS	$ 13,659	$ 14,320
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable and other current liabilities	$ 3,794	$ 3,712
Short-term borrowings	308	64
Accrued income and other taxes	344	347
Liabilities of discontinued operations		431
Total current liabilities	4,446	4,554

Long-term debt, net of current portion	1,289	2,714
Pension and other postretirement liabilities	3,444	3,934
Other long-term liabilities	1,451	1,690
Liabilities of discontinued operations		40
Total liabilities	10,630	12,932
Commitments and Contingencies (Note 11)		
SHAREHOLDERS EQUITY		
Common stock, $2.50 par value, 950,000,000 shares authorized; 391,292,760 shares issued as of December 31, 2007 and 2006; 287,999,830 and 287,333,123 shares outstanding as of December 31, 2007 and 2006	978	978
Additional paid in capital	889	881
Retained earnings	6,474	5,967
Accumulated other comprehensive income (loss)	452	(635)
	8,793	7,191
Treasury stock, at cost 103,292,930 shares as of December 31, 2007 and 103,959,637 shares as of December 31, 2006	5,764	5,803
Total shareholders equity	3,029	1,388
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 13,659	$ 14,320

The accompanying notes are an integral part of these consolidated financial statements.

Eastman Kodak Company
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

ions, except share and per share data)	**Common Stock (1)**	**Additional Paid In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive (Loss) Income**	**Treasury Stock**	**Tota**
olders Equity as of December 31, 2004	$ 978	$ 854	$ 8,136	$ (90)	$ (5,844)	$
s			(1,261)			(
omprehensive income (loss):						
ealized losses on available-for-sale ecurities ($9 million pre-tax)				(8)		
ealized gains arising from edging activity ($21 million pre-tax)				21		
assification adjustment for hedging elated gains included in net earnings $15 million pre-tax)				(15)		
rency translation adjustments				(219)		
sion liability adjustment ($223 million)				(156)		
er comprehensive loss				(377)		
ehensive loss						(
vidends declared ($.50 per common share)			(144)			
ition of equity-based compensation expense		17				
y stock issued, net (357,345 shares) (2)			(10)		22	

ed stock issuances (169,040 shares)	—	(4)	(4)	—	9	
olders’ Equity as of December 31, 2005	$ 978	$ 867	$ 6,717	$ (467)	$ (5,813)	$

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Eastman Kodak Company
CONSOLIDATED STATEMENT OF SHAREHOLDERS’ EQUITY Cont’d.

ons, except share and per share data)	**Common Stock (1)**	**Additional Paid In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive (Loss) Income**	**Treasury Stock**	**To**
olders’ Equity as of December 31, 2005	$ 978	$ 867	$ 6,717	$ (467)	$ (5,813)	$
s	—	—	(601)	—	—	
omprehensive income (loss):						
ealized losses on available-for-sale ecurities ($2 million pre-tax)	—	—	—	(2)	—	
ealized gains arising from edging activity ($8 million pre-tax)	—	—	—	8	—	
assification adjustment for hedging elated gains included in net earnings 2 million pre-tax)	—	—	—	(12)	—	
ency translation adjustments	—	—	—	88	—	
ion liability adjustment ($185 million pre-tax)	—	—	—	136	—	
r comprehensive income	—	—	—	218	—	
hensive loss						
ent to initially apply SFAS No. 158 for pension other postretirement benefits ($466 million pre-tax)	—	—	—	(386)	—	
vidends declared ($.50 per common share)	—	—	(144)	—	—	
tion of equity-based compensation expense	—	17	—	—	—	
y stock issued, net (135 shares) (2)	—	—	(3)	—	4	
ed stock issuances (109,935 shares)	—	(3)	(2)	—	6	
olders’ Equity as of December 31, 2006	$ 978	$ 881	$ 5,967	$ (635)	$ (5,803)	$

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Eastman Kodak Company
CONSOLIDATED STATEMENT OF SHAREHOLDERS’ EQUITY Cont'd.

llions, except share and per share data)	**Common Stock (1)**	**Additional Paid In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive (Loss) Income**	**Treasury Stock**	**Tota**
eholders’ Equity as of December 31, 2006	$ 978	$ 881	$ 5,967	$ (635)	$ (5,803)	$ 1,
arnings	—	—	676	—	—	
comprehensive income (loss):						
arealized gains on available-for-sale						

securities ($16 million pre-tax)	—	—	—	10	—	
realized gains arising from						
hedging activity ($11 million pre-tax)	—	—	—	11	—	
classification adjustment for hedging related gains included in net earnings ($1 million pre-tax)	—	—	—	(1)	—	
rrency translation adjustments	—	—	—	114	—	
nsion liability adjustment ($986 million pre-tax)	—	—	—	953	—	
her comprehensive income	—	—	—	1,087	—	1,
rehensive income						1,
dividends declared ($.50 per common share)	—	—	(144)	—	—	(
gnition of equity-based compensation expense	—	20	—	—	—	
ury stock issued, net (413,923 shares) (2)	—	(6)	(18)	—	25	
sted stock issuances (252,784 shares)	—	(6)	(7)	—	14	
eholders' Equity as of December 31, 2007	$ 978	$ 889	$ 6,474	$ 452	$ (5,764)	$ 3,

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(1) There are 100 million shares of $10 par value preferred stock authorized, none of which have been issued.

(2) Includes Stock Options exercised and other stock awards issued, offset by shares surrendered for taxes.

The accompanying notes are an integral part of these consolidated financial statements.

Eastman Kodak Company
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Year Ended December 31,		
(in millions)	**2007**	**2006**	**2005**
Cash flows from operating activities:			
Net earnings (loss)	$ 676	$ (601)	$ (1,261
Adjustments to reconcile to net cash provided by operating activities:			
Earnings from discontinued operations, net of income taxes	(881)	(203)	(451
Loss from cumulative effect of accounting change, net of income taxes	—	—	55
Equity in earnings from unconsolidated affiliates	—	—	(12
Depreciation and amortization	785	1,195	1,291
Gain on sales of businesses/assets	(157)	(65)	(78
Purchased research and development	—	—	54
Non-cash restructuring costs, asset impairments and other charges	336	138	194
(Benefit) provision for deferred income taxes	(107)	(137)	237
Decrease in receivables	161	163	195
Decrease in inventories	108	292	273
(Decrease) increase in liabilities excluding borrowings	(463)	122	(107
Other items, net	(107)	(219)	332
Total adjustments	(325)	1,286	1,983
Net cash provided by continuing operations	351	685	722
Net cash (used in) provided by discontinued operations	(37)	271	486
Net cash provided by operating activities	314	956	1,208
Cash flows from investing activities:			

Additions to properties		(259)		(335)	(432
Net proceeds from sales of businesses/assets		227		178	130
Acquisitions, net of cash acquired		(2)		(3)	(984
(Investments in) distributions from unconsolidated affiliates		—		(19)	34
Marketable securities - sales		166		133	182
Marketable securities - purchases		(173)		(135)	(194
Net cash used in continuing operations		(41)		(181)	(1,264
Net cash provided by (used in) discontinued operations		2,449		(44)	(40
Net cash provided by (used in) investing activities		2,408		(225)	(1,304
Cash flows from financing activities:					
Proceeds from borrowings		177		765	2,520
Debt issuance costs		—		—	(57
Repayment of borrowings		(1,363)		(1,568)	(1,798
Dividends to shareholders		(144)		(144)	(144
Exercise of employee stock options		6		—	12
Net cash (used in) provided by continuing operations		(1,324)		(947)	533
Net cash provided by discontinued operations		44		—	
Net cash (used in) provided by financing activities		(1,280)		(947)	533
Effect of exchange rate changes on cash		36		20	(27
Net increase (decrease) in cash and cash equivalents		1,478		(196)	410
Cash and cash equivalents, beginning of year		1,469		1,665	1,255
Cash and cash equivalents, end of year	$	2,947	$	1,469	$ 1,665

Eastman Kodak Company
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

SUPPLEMENTAL CASH FLOW INFORMATION

	For the Year Ended December 31,		
(in millions)	**2007**	**2006**	**2005**
Cash paid for interest and income taxes was:			
Interest, net of portion capitalized of $2, $3 and $3 (1)	$ 138	$ 255	$ 172
Income taxes (1)	150	96	110
The following non-cash items are not reflected in the Consolidated Statement of Cash Flows:			
Pension and other postretirement benefits liability adjustments	$ 953	$ 136	$ 156
Adjustment to initially apply SFAS No. 158	—	386	—
Liabilities assumed in acquisitions	—	—	681
Issuance of unvested stock, net of forfeitures	6	1	5
Debt assumed for acquisition	—	—	395
Increase in other non-current receivables through increase in deferred royalty revenue from licensee	—	—	311

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(1) Includes payments included in expense of discontinued operations.

During the year ended December 31, 2005, the Company completed several acquisitions. Information regarding the fair value of assets acquired and liabilities assumed is presented in Note 22, "Acquisitions" in the Notes to

Financial Statements.

The accompanying notes are an integral part of these consolidated financial statements.

Eastman Kodak Company
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING PRINCIPLES

The financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. The following is a description of the significant accounting policies of Eastman Kodak Company.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Kodak and its majority owned subsidiary companies. Intercompany transactions are eliminated and net earnings are reduced by the portion of the net earnings of subsidiaries applicable to minority interests. The equity method of accounting is used for joint ventures and investments in associated companies over which Kodak has significant influence, but does not have effective control. Significant influence is generally deemed to exist when the Company has an ownership interest in the voting stock of the investee of between 20% and 50%, although other factors, such as representation on the investee's Board of Directors, voting rights and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate. Income and losses of investments accounted for using the equity method are reported in other income (charges), net, in the accompanying Consolidated Statement of Operations. See Note 7, "Investments," and Note 15 "Other Income (Charges), Net."

Certain amounts for prior years have been reclassified to conform to the current year classification. Prior year reclassifications include the following:

- The reclassification of gains and losses on sales of capital assets and certain asset impairment charges from other income (charges), net to other operating (income) expenses, net.
- The presentation of discontinued operations and related assets and liabilities held for sale, as a result of the divestiture of the Health Group segment.
- The presentation of discontinued operations as a result of the divestiture of Hermes Precisa Pty. Ltd. ("HPA").
- The adoption of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," which required recognition and reclassification of net liabilities related to uncertain tax positions from Accrued income and other taxes to Other long-term liabilities.
- The revision of prior year segment results to conform to the new segment reporting structure, which was effective January 1, 2007.

During the year ended December 31, 2007, the Company recorded net adjustments of $23 million of expense, for items that should have been recorded in prior periods. The largest of these items of expense is a $20 million tax provision recorded in the second quarter of 2007 for a valuation allowance that should have been recorded in 2006. This item is discussed further in Note 5, "Goodwill and Other Intangible Assets" and Note 16, "Income Taxes." Each correction recorded in the year ended December 31, 2007 is individually no greater than $6 million, other than the item noted above. The Company has determined that these corrections, individually and in the aggregate, are not material to the current period financial statements or to any prior year financial statements.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at year end, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FOREIGN CURRENCY

For most subsidiaries and branches outside the U.S., the local currency is the functional currency. In accordance with the Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation," the financial statements of these subsidiaries and branches are translated into U.S. dollars as follows: assets and liabilities at year-end exchange rates; income, expenses and cash flows at average exchange rates; and shareholders equity at historical exchange rates. For those subsidiaries for which the local currency is the functional currency, the resulting translation adjustment is recorded as a component of accumulated other comprehensive (loss) income in the accompanying Consolidated Statement of Financial Position. Translation adjustments are not tax-effected since they relate to investments, which are permanent in nature.

For certain other subsidiaries and branches, operations are conducted primarily in U.S. dollars, which is therefore the functional currency. Monetary assets and liabilities of these foreign subsidiaries and branches, which are recorded in local currency, are remeasured at year-end exchange rates, while the related revenue, expense, and gain and loss accounts, which are recorded in local currency, are remeasured at average exchange rates. Non-monetary assets and liabilities, and the related revenue, expense, and gain and loss accounts, are remeasured at historical rates. Adjustments that result from the remeasurement of the assets and liabilities of these subsidiaries are included in net earnings (loss) in the accompanying Consolidated Statement of Operations.

Foreign exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved are included in net earnings (loss) in the accompanying Consolidated Statement of Operations. The effects of foreign currency transactions, including related hedging activities, are included in other income (charges), net, in the accompanying Consolidated Statement of Operations.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, receivables, and derivative instruments. The Company places its cash and cash equivalents with high-quality financial institutions and limits the amount of credit exposure to any one institution. With respect to receivables, such receivables arise from sales to numerous customers in a variety of industries, markets, and geographies around the world. Receivables arising from these sales are generally not collateralized. The Company performs ongoing credit evaluations of its customers financial conditions and no single customer accounts for greater than 10% of the sales of the Company. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded managements expectations. With respect to the derivative instruments, the counterparties to these contracts are major financial institutions. The Company has not experienced non-performance by any of its derivative instruments counterparties.

CASH EQUIVALENTS

All highly liquid investments with a remaining maturity of three months or less at date of purchase are considered to be cash equivalents.

INVENTORIES

Inventories are stated at the lower of cost or market. The cost of all of the Companys inventories is determined by either the first in, first out (FIFO) or average cost method, which approximates current cost. The Company provides inventory reserves for excess, obsolete or slow-moving inventory based on changes in customer demand, technology developments or other economic factors.

PROPERTIES

Properties are recorded at cost, net of accumulated depreciation. The Company principally calculates depreciation expense using the straight-line method over the assets estimated useful lives, which are as follows:

	Years
Buildings and building improvements	5-40
Land improvements	10-20
Leasehold improvements	3-10
Equipment	3-10
Tooling	1-3
Furniture and fixtures	3-15

Maintenance and repairs are charged to expense as incurred. Upon sale or other disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to net earnings (loss).

GOODWILL

Goodwill represents the excess of purchase price of an acquisition over the fair value of net assets acquired. The Company applies the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. In accordance with SFAS No. 142, goodwill is not amortized, but is required to be assessed for impairment at least annually. The Company has elected to make September 30 the annual impairment assessment date for all of its reporting units, and will perform additional impairment tests when events or changes in circumstances occur that would more likely than not reduce the fair value of the reporting unit below its carrying amount. SFAS No. 142 defines a reporting unit as an operating segment or one level below an operating segment. The Company estimates the fair value of its reporting units utilizing income and market approaches through the application of discounted cash flow and market comparable methods. The assessment is required to be performed in two steps, step one to test for a potential impairment of goodwill and, if potential losses are identified, step two to measure the impairment loss. The Company completed step one in its fourth quarter and determined that there were no such impairments. Accordingly, the performance of step two was not required.

REVENUE

The Companys revenue transactions include sales of the following: products; equipment; software; services; equipment bundled with products and/or services and/or software; integrated solutions; and intellectual property licensing. The Company recognizes revenue when realized or realizable and earned, which is when the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the sales price is fixed or determinable; and collectibility is reasonably assured. At the time revenue is recognized, the Company provides for the estimated costs of customer incentive programs, warranties and estimated returns and reduces revenue accordingly.

For product sales, the recognition criteria are generally met when title and risk of loss have transferred from the Company to the buyer, which may be upon shipment or upon delivery to the customer site, based on contract terms or legal requirements in certain jurisdictions. Service revenues are recognized as such services are rendered.

For equipment sales, the recognition criteria are generally met when the equipment is delivered and installed at the customer site. Revenue is recognized for equipment upon delivery as opposed to upon installation when there is objective and reliable evidence of fair value for the installation, and the amount of revenue allocable to the equipment is not legally contingent upon the completion of the installation. In instances in which the agreement with the customer contains a customer acceptance clause, revenue is deferred until customer acceptance is obtained, provided the customer acceptance clause is considered to be substantive. For certain agreements, the Company does not consider these customer acceptance clauses to be substantive because the Company can and does replicate the customer acceptance test environment and performs the agreed upon product testing prior to shipment. In these instances, revenue is recognized upon installation of the equipment.

Revenue for the sale of software licenses is recognized when: (1) the Company enters into a legally binding arrangement with a customer for the license of software; (2) the Company delivers the software; (3) customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and (4) collection from the customer is reasonably assured. If the Company determines that collection of a fee is not reasonably assured, the fee is deferred and revenue is recognized at the time collection becomes reasonably assured, which is generally upon receipt of payment. Software maintenance and support revenue is recognized ratably over the term of the related maintenance period.

The Company's transactions may involve the sale of equipment, software, and related services under multiple element arrangements. The Company allocates revenue to the various elements based on their fair value. Revenue allocated to an individual element is recognized when all other revenue recognition criteria are met for that element.

The timing and the amount of revenue recognized from the licensing of intellectual property depend upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. When the Company has continuing obligations related to a licensing arrangement, revenue related to the ongoing arrangement is recognized over the period of the obligation. Revenue is only recognized after all of the following criteria are met: (1) the Company enters into a legally binding arrangement with a licensee of Kodak's intellectual property, (2) the Company delivers the technology or intellectual property rights, (3) licensee payment is deemed fixed or determinable and free of contingencies or significant uncertainties, and (4) collection from the licensee is reasonably assured.

At the time revenue is recognized, the Company also records reductions to revenue for customer incentive programs in accordance with the provisions of Emerging Issues Task Force (EITF) Issue No. 01-09, "Accounting for Consideration Given from a Vendor to a Customer (Including a Reseller of the Vendor's Products)." Such incentive programs include cash and volume discounts, price protection, promotional, cooperative and other advertising allowances, and coupons. For those incentives that require the estimation of sales volumes or redemption rates, such as for volume rebates or coupons, the Company uses historical experience and internal and customer data to estimate the sales incentive at the time revenue is recognized.

In instances where the Company provides slotting fees or similar arrangements, this incentive is recognized as a reduction in revenue when payment is made to the customer (or at the time the Company has incurred the obligation, if earlier) unless the Company receives a benefit over a period of time, in which case the incentive is recorded as an asset and is amortized as a reduction of revenue over the term of the arrangement. Arrangements in which the Company receives an identifiable benefit include arrangements that have enforceable exclusivity provisions and those that provide a clawback provision entitling the Company to a pro rata reimbursement if the customer does not fulfill its obligations under the contract.

The Company may offer customer financing to assist customers in their acquisition of Kodak's products. At the time a financing transaction is consummated, which qualifies as a sales-type lease, the Company records equipment revenue equal to the total lease receivable net of unearned income. Unearned income is recognized as finance income using the effective interest method over the term of the lease. Leases not qualifying as sales-type leases are accounted for as operating leases. The Company recognizes revenue from operating leases on an accrual basis as the rental payments become due.

The Company's sales of tangible products are the only class of revenues that exceeds 10% of total consolidated net sales. All other sales classes are individually less than 10%, and therefore, have been combined with the sales of tangible products on the same line in accordance with Regulation S-X.

Incremental direct costs (i.e. costs that vary with and are directly related to the acquisition of a contract which would not have been incurred but for the acquisition of the contract) of a customer contract in a transaction that results in the deferral of revenue are deferred and netted against revenue in proportion to the related revenue recognized in each period if: (1) an enforceable contract for the remaining deliverable items exists; and (2) delivery of the remaining items in the arrangement is expected to generate positive margins allowing realization of the deferred costs. Otherwise, these costs are expensed as incurred and included in cost of goods sold in the accompanying Consolidated Statement of Operations.

RESEARCH AND DEVELOPMENT COSTS

Research and development (R&D) costs, which include costs in connection with new product development, fundamental and exploratory research, process improvement, product use technology and product accreditation, are charged to operations in the period in which they are incurred. In connection with a business combination, the purchase price allocated to research and development projects that have not yet reached technological feasibility and for which no alternative future use exists is charged to operations in the period of acquisition.

ADVERTISING

Advertising costs are expensed as incurred and included in selling, general and administrative expenses in the accompanying Consolidated Statement of Operations. Advertising expenses amounted to $394 million, $366 million, and $460 million in 2007, 2006 and 2005, respectively.

SHIPPING AND HANDLING COSTS

Amounts charged to customers and costs incurred by the Company related to shipping and handling are included in net sales and cost of goods sold, respectively, in accordance with EITF Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs."

IMPAIRMENT OF LONG-LIVED ASSETS

The Company applies the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Under the guidance of SFAS No. 144, the Company reviews the carrying values of its long-lived assets, other than goodwill and purchased intangible assets with indefinite useful lives, for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable. The Company assesses the recoverability of the carrying values of long-lived assets by first grouping its long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (the asset group) and, secondly, by estimating the undiscounted future cash flows that are directly associated with and that are expected to arise from the use of and eventual disposition of such asset group. The Company estimates the undiscounted cash flows over the remaining useful life of the primary asset within the asset group. If the carrying value of the asset group exceeds the estimated undiscounted cash flows, the Company records an impairment charge to the extent the carrying value of the long-lived asset exceeds its fair value. The Company determines fair value through quoted market prices in active markets or, if quoted market prices are unavailable, through the performance of internal analyses of discounted cash flows.

In connection with its assessment of recoverability of its long-lived assets and its ongoing strategic review of the business and its operations, the Company continually reviews the remaining useful lives of its long-lived assets. If this review indicates that the remaining useful life of the long-lived asset has changed significantly, the Company adjusts the depreciation on that asset to facilitate full cost recovery over its revised estimated remaining useful life.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company accounts for derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." All derivative instruments are recognized as either assets or liabilities and are measured at fair value. Certain derivatives are designated and accounted for as hedges. The Company does not use derivatives for trading or other speculative purposes.

INCOME TAXES

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainty in income taxes recognized in accordance with SFAS No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on various related matters such as derecognition, interest and penalties, and disclosure. The adoption of FIN 48 in the first quarter of 2007 did not have a material impact on the Companys Consolidated Financial Statements.

The Company accounts for income taxes in accordance with SFAS No. 109. The asset and liability approach underlying SFAS No. 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of the Company's assets and liabilities. Management provides valuation allowances against the net deferred tax asset for amounts that are not considered more likely than not to be realized. For discussion of the amounts and components of the valuation allowances as of December 31, 2007 and 2006, see Note 16, "Income Taxes."

EARNINGS PER SHARE

Basic earnings-per-share computations are based on the weighted-average number of shares of common stock outstanding during the year. As a result of the net loss from continuing operations presented for the years ended December 31, 2007, 2006 and 2005, the Company calculates diluted earnings-per-share using weighted-average basic shares outstanding for each period, as utilizing diluted shares would be anti-dilutive to loss per share. The reconciliation between the numerator and denominator of the basic and diluted earnings-per-share computations is presented as follows:

	For the Year Ended December 31,		
(dollars in millions)	**2007**	**2006**	**2005**
Numerator:			
Loss from continuing operations used in basic net earnings (loss) per share	$ (205)	$ (804)	$ (1,657)
Denominator:			
Number of common shares used in basic net earnings (loss) per share	287.7	287.3	287.9
Effect of dilutive securities:			
Employee stock options	—	—	—
Convertible securities	—	—	—
Number of common shares used in diluted net earnings (loss) per share	287.7	287.3	287.9

Outstanding options, to purchase shares of the Company's common stock, of 30.9 million, 34.6 million and 36.0 million, as of December 31, 2007, 2006 and 2005, respectively, were not included in the computation of diluted earnings per share because the Company reported a net loss from continuing operations; therefore, the effect would be anti-dilutive.

The Company currently has approximately $575 million in contingent convertible notes (the Convertible Securities) outstanding that were issued in October 2003. Interest on the Convertible Securities accrues at a rate of 3.375% per annum and is payable semi-annually. The Convertible Securities are convertible at an initial conversion rate of 32.2373 shares of the Company's common stock for each $1,000 principal amount of the Convertible Securities. The Company's diluted net earnings per share exclude the effect of the Convertible Securities, as they were anti-dilutive for all periods presented.

RECENTLY ISSUED ACCOUNTING STANDARDS

FASB Statement No. 158

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132(R))", which is effective in fiscal years ending after December 15, 2006. This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position, and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 does not change the amount of actuarially determined expense that is recorded in the Consolidated Statement of Operations. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, which is consistent with the Company's present measurement date. The adoption of SFAS No. 158 did not have any impact on the Company's Consolidated Statement of Operations, Statement of Cash Flows, or compliance with its debt covenants.

The table below discloses the impact of adoption on the Consolidated Statement of Financial Position as of December 31, 2006.

(in millions)	Before Application of SFAS No. 158	Adjustments Increase/(Decrease)	After Application of SFAS No. 158
Other long-term assets	$ 3,205	$ 304	$ 3,509
Total assets	14,016	304	14,320
Accounts payable and other current liabilities	3,669	43	3,712
Total current liabilities	4,511	43	4,554
Pension and other postretirement liabilities	3,288	646	3,934
Other long-term liabilities	1,689	1	1,690
Total liabilities	12,242	690	12,932
Accumulated other comprehensive loss	(249)	386	(635)
Total shareholders' equity	1,774	(386)	1,388
Total liabilities and shareholders' equity	$ 14,016	$ 304	$ 14,320

FASB Statement No. 155

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments (an amendment of FASB Statements No. 133 and 140)." This Statement permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006 (year ending December 31, 2007 for the Company). Additionally, the fair value option may also be applied upon adoption of this Statement for hybrid financial instruments that had been bifurcated under previous accounting guidance prior to the adoption of this Statement. The adoption of SFAS No. 155 in the first quarter of 2007 did not have a material impact on the Companys Consolidated Financial Statements.

FASB Interpretation No. 48

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainty in income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes." This Interpretation prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on various related matters such as derecognition, interest and penalties, and disclosure. The adoption of FIN 48 in the first quarter of 2007 did not have a material impact on the Companys Consolidated Financial Statements. Further information regarding the adoption of FIN 48 is disclosed in Note 16, Income Taxes.

FASB Statement No. 157

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which establishes a comprehensive framework for measuring fair value and expands disclosures about fair value measurements. Specifically, this Statement sets forth a definition of fair value, and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. This Statement, as modified by FASB Staff Position (FSP) 157-2, is effective for fiscal years beginning after November 15, 2007 (January 1, 2008 for the Company) for financial assets and liabilities, and fiscal years beginning after November 15, 2008 (January 1, 2009 for the Company) for nonfinancial assets and liabilities. The provisions of SFAS No. 157 are generally required to be applied on a prospective basis, except to certain financial instruments accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," for which the provisions of SFAS No. 157 should be applied retrospectively. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 157 on its Consolidated Financial Statements.

FASB Statement No. 159

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which permits entities to choose to measure, on an item-by-item basis, specified financial instruments

and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 (January 1, 2008 for the Company). The provisions of this statement are required to be applied prospectively. The Company will adopt SFAS No. 159 in the first quarter of 2008, and the adoption will not have a material impact on its Consolidated Financial Statements.

FASB Statement No. 141R

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations," a revision to SFAS No. 141, "Business Combinations." SFAS No. 141R provides revised guidance for recognition and measurement of identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value. The Statement also establishes disclosure requirements to enable the evaluation of the nature and financial effects of a business combination. SFAS No. 141R is required to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (January 1, 2009 for the Company). The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 141R on its Consolidated Financial Statements.

FASB Statement No. 160

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." This Statement establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent. Specifically, SFAS No. 160 requires the presentation of noncontrolling interests as equity in the Consolidated Statement of Financial Position, and separate identification and presentation in the Consolidated Statement of Operations of net income attributable to the entity and the noncontrolling interest. It also establishes accounting and reporting standards regarding deconsolidation and changes in a parent's ownership interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (January 1, 2009 for the Company). The provisions of SFAS No. 160 are generally required to be applied prospectively, except for the presentation and disclosure requirements, which must be applied retrospectively. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 160 on its Consolidated Financial Statements.

NOTE 2: RECEIVABLES, NET

	As of December 31,	
(in millions)	**2007**	**2006**
Trade receivables	$ 1,697	$ 1,737
Miscellaneous receivables	242	335
Total (net of allowances of $114 and $134 as of December 31, 2007 and 2006, respectively)	$ 1,939	$ 2,072

Of the total trade receivable amounts of $1,697 million and $1,737 million as of December 31, 2007 and 2006, respectively, approximately $266 million and $272 million, respectively, are expected to be settled through customer deductions in lieu of cash payments. Such deductions represent rebates owed to the customer and are included in accounts payable and other current liabilities in the accompanying Consolidated Statement of Financial Position at each respective balance sheet date.

NOTE 3: INVENTORIES, NET

	As of December 31,	
(in millions)	**2007**	**2006**
Finished goods	$ 537	$ 606
Work in process	235	192
Raw materials	171	203
Total	$ 943	$ 1,001

NOTE 4: PROPERTY, PLANT AND EQUIPMENT, NET

	As of December 31,	
(in millions)	**2007**	**2006**
Land	$ 85	$ 91
Buildings and building improvements	1,748	2,319
Machinery and equipment	5,387	7,153
Construction in progress	107	86
	7,327	9,649
Accumulated depreciation	(5,516)	(7,047)
Net properties	$ 1,811	$ 2,602

Depreciation expense was $679 million, $1,075 million and $1,191 million for the years 2007, 2006 and 2005, respectively, of which approximately $107 million, $273 million and $391 million, respectively, represented accelerated depreciation in connection with restructuring actions.

In April 2007, the Company entered into an agreement to sell its manufacturing site in Xiamen, China. This sale closed in the second quarter of 2007 and resulted in a reduction to net properties of approximately $278 million. This action was part of the 2004-2007 Restructuring Program.

NOTE 5: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was $1,657 million and $1,584 million as of December 31, 2007 and 2006, respectively. The changes in the carrying amount of goodwill by reportable segment for 2006 and 2007 were as follows:

(in millions)	**Consumer Digital Imaging Group**	**Film Products Group**	**Graphic Communications Group**	**Consolidated Total**
Balance as of December 31, 2005	$ 208	$ 523	$ 822	$ 1,553
Finalization of purchase accounting			2	2
Currency translation adjustments	9	21	(1)	29
Balance as of December 31, 2006	$ 217	$ 544	$ 823	$ 1,584
Additions	—	—	2	2
Purchase accounting adjustment	—	—	38	38
Divestiture	—	—	(19)	(19)
Currency translation adjustments	9	25	18	52
Balance as of December 31, 2007	$ 226	$ 569	$ 862	$ 1,657

During the second quarter of 2007, the Company identified a deferred tax asset in a recently acquired non-U.S. subsidiary that was overstated at the date of acquisition. Therefore, the Company recorded an increase in the value of goodwill of $24 million in the second quarter of 2007 to appropriately reflect the proper goodwill balance. This $24 million is presented as a purchase accounting adjustment in the table above. The Company also recorded a valuation allowance of $20 million, which should have been recorded in 2006, in order to properly reflect the value of the net deferred tax asset. The Company has determined that this correction is not material to the current period or to any prior period financial statement amounts.

In addition, in the fourth quarter of 2007, the Company recorded a $14 million increase in the value of goodwill to correct the purchase price allocations to property, plant and equipment and deferred tax assets in a recently acquired non-U.S. subsidiary that was overstated at the date of acquisition. This correction is presented as a purchase accounting adjustment in the table above.

The divestiture in 2007 of $19 million relates to the sale of the Company's interest in Hermes Precisa Pty. Ltd. ("HPA"). See Note 23, "Discontinued Operations," for further details.

The purchase accounting adjustment of $2 million for the year ended December 31, 2006 was attributable to the finalization of purchase accounting for the 2005 acquisition of KPG in the amount of $19 million, and finalization of purchase accounting for the 2005 acquisition of Creo in the amount of $(17) million.

Due to the realignment of the Company's operating model and change in reporting structure, as described in Note 24, "Segment Information," effective January 1, 2007, the Company reassessed its goodwill for impairment during the first quarter of 2007, and determined that no reporting units' carrying values exceeded their respective estimated fair values based on the realigned reporting structure and, therefore, there was no impairment.

The gross carrying amount and accumulated amortization by major intangible asset category for 2007 and 2006 were as follows:

	As of December 31, 2007			
(in millions)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Weighted-Average Amortization Period**
Technology-based	$ 326	$ 166	$ 160	7 years
Customer-related	281	125	156	10 years
Other	82	36	46	8 years
Total	$ 689	$ 327	$ 362	8 years

	As of December 31, 2006			
(in millions)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Weighted-Average Amortization Period**
Technology-based	$ 324	$ 119	$ 205	7 years
Customer-related	274	95	179	10 years
Other	214	88	126	8 years
Total	$ 812	$ 302	$ 510	8 years

During the fourth quarter of 2007, the Company announced its intention to dispose of its stake in Lucky Film Co., Ltd., and to terminate its manufacturing exclusivity agreement. In connection with this plan, the Company recorded an asset impairment charge against earnings of $46 million, which is included in other operating (income) expenses, net on the Consolidated Statement of Operations. In addition, other intangible assets and accumulated amortization were written down by $132 million and $86 million, respectively. See Note 7, "Investments."

Amortization expense related to intangible assets was $106 million, $120 million, and $100 million for the year ended December 31, 2007, 2006 and 2005, respectively.

Estimated future amortization expense related to purchased intangible assets as of December 31, 2007 is as follows (in millions):

2008	$ 79
2009	74
2010	63
2011	40
2012	25
2013+	56
Total	$ 337

The difference between the net intangible balance at December 31, 2007 and the total estimated future amortization expense of approximately $25 million is related to assets held for sale at December 31, 2007.

NOTE 6: OTHER LONG-TERM ASSETS

	As of December 31,	
(in millions)	**2007**	**2006**
Overfunded pension plans	$ 2,454	$ 1,597
Deferred income taxes, net of valuation allowance	636	642
Intangible assets	362	510
Non-current receivables	405	394
Miscellaneous other long-term assets	281	366
Total	$ 4,138	$ 3,509

The miscellaneous component above consists of other miscellaneous long-term assets that, individually, are less than 5% of the Companys total assets, and therefore, have been aggregated in accordance with Regulation S-X.

NOTE 7: INVESTMENTS

Equity Method -

The Companys significant equity method investees and the Companys approximate ownership interest in each investee were as follows:

	As of December 31,	
	2007	**2006**
Matsushita-Ultra Technologies Battery Corporation	30%	30%
Lucky Film Co. Ltd (Lucky Film)	13%	13%

As of December 31, 2007 and 2006, the carrying value of the Companys equity investment in these significant unconsolidated affiliates was $33 million and $36 million, respectively, and is reported within other long-term assets in the accompanying Consolidated Statement of Financial Position. The Company records its equity in the income or losses of these investees and reports such amounts in other income (charges), net in the accompanying Consolidated Statement of Operations. See Note 15, "Other Income (Charges), Net."

In the fourth quarter of 2007, the shareholders of Matsushita-Ultra Tech Battery Corporation (MUTEC), a joint venture between the Company and Matsushita Electric Corporation of America, voted to dissolve the joint venture agreement, which was to expire on December 17, 2007, but was extended to March 31, 2008. Kodak expects that MUTEC will cease operations by March 31, 2008 and that the entity will be liquidated by December 31, 2008. As a result of this decision, Kodak recorded an impairment charge of approximately $5 million in the fourth quarter of 2007. This charge is reflected in other income (charges), net on the Consolidated Statement of Operations.

On November 8, 2007, the Company entered into an agreement with Lucky Film Co. Ltd., China Lucky Film Corp. (together, Lucky), and Guangzhou Chengzin Venture Capital Co. Ltd. (Investment Co.) to sell Kodaks equity interest in Lucky Film Co. Ltd. to Investment Co. In addition, Kodak and Lucky terminated or amended certain other existing agreements and entered into other new agreements. The transaction closed in January 2008. In conjunction with the transaction, Kodak received proceeds of $46 million, and recorded an asset impairment charge in the fourth quarter of 2007 related to certain manufacturing exclusivity and distribution right intangible assets approximating $46 million. This charge is reflected in other operating expenses (income), net on the Consolidated Statement of Operations.

In January 2006, Kodak terminated the SK Display joint venture arrangement with Sanyo Electric Company pursuant to terms of the original agreement. The Company recognized a $7 million gain in other income (charges), net on this transaction. This termination did not have a material impact on the Companys financial position, results of operations or cash flows. Kodak will continue as exclusive licensing agent on behalf of Kodak and Sanyo for certain OLED intellectual property.

NOTE 8: ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

(in millions)	As of December 31, 2007	2006
Accounts payable, trade	$ 1,233	$ 906
Accrued employment-related liabilities	727	794
Accrued advertising and promotional expenses	541	524
Deferred revenue	414	378
Accrued restructuring liabilities	164	263
Other	715	847
Total	$ 3,794	$ 3,712

The other component above consists of other miscellaneous current liabilities that, individually, are less than 5% of the total current liabilities component within the Consolidated Statement of Financial Position, and therefore, have been aggregated in accordance with Regulation S-X.

NOTE 9: SHORT-TERM BORROWINGS AND LONG-TERM DEBT

SHORT-TERM BORROWINGS

The Company’s short-term borrowings were as follows:

(in millions)	As of December 31, 2007	2006
Current portion of long-term debt	$ 300	$ 17
Short-term bank borrowings	8	47
Total	$ 308	$ 64

The weighted-average interest rates for short-term bank borrowings outstanding at December 31, 2007 and 2006 were 7.50% and 9.84%, respectively.

As of December 31, 2007, the Company and its subsidiaries, on a consolidated basis, maintained $1,062 million in committed bank lines of credit and $499 million in uncommitted bank lines of credit to ensure continued access to short-term borrowing capacity, as described further below.

LONG-TERM DEBT, INCLUDING LINES OF CREDIT

Long-term debt and related maturities and interest rates were as follows:

(in millions)			As of December 31, 2007		2006	
Country	Type	Maturity	Weighted-Average Interest Rate	Amount Outstanding	Weighted-Average Interest Rate	Amount Outstanding
U.S.	Medium-term	2008	3.63%	$ 250	3.63%	$ 250
U.S.	Term note	2007		—	7.60%*	10
U.S.	Term note	2012		—	7.60%*	861
Canada	Term note	2012		—	7.60%*	277
U.S.	Term note	2006-2013	6.16%	50	6.16%	47
Germany	Term note	2006-2013	6.16%	201	6.16%	188

U.S.	Term note	2013	7.25%	500	7.25%	500
U.S.	Term note	2018	9.95%	3	9.95%	3
U.S.	Term note	2021	9.20%	10	9.20%	10
U.S.	Convertible	2033	3.38%	575	3.38%	575
U.S.	Notes	2006-2010		—	5.90%*	8
Other				—		