EASTMAN KODAK CO
Form 10-K
February 27, 2009

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, 2008 or

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

For the transition period fromto

Commission File Number 1-87

EASTMAN KODAK COMPANY
(Exact name of registrant as specified in its charter)

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

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 [ ] 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 [   ]

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. [   ]

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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 [ ] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] 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, 2008, was approximately $4.2 billion. The registrant has no non-voting common stock.

The number of shares outstanding of the registrant's common stock as of February 20, 2009 was 268,196,483 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 2009 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, 2008

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PART I

ITEM 1. BUSINESS

Eastman Kodak Company (the “Company” or “Kodak”) is the world’s 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. The Company' products span:

- Digital cameras and accessories
- Consumer inkjet printers and media
- Digital picture frames
- Retail printing kiosks, APEX drylab systems and related media
- KODAK Gallery online imaging services
- Prepress equipment and consumables
- Workflow software for commercial printing
- Electrophotographic equipment and consumables
- Commercial 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.

Through mid-2008, Kodak had created significant momentum in its digital portfolio, following the completion of its four-year corporate restructuring program in 2007. Revenues from digital businesses grew by double-digits for four consecutive quarters from the third quarter of 2007 through the second quarter of 2008. The revenue decline in the traditional businesses was in line with the Company’s expectations. The Company had a successful showing of its stream technology at the drupa tradeshow in Düsseldorf, Germany in May, and received positive customer responses for its newly introduced Adaptive Picture Exchange (APEX) dry labs and next generation of consumer inkjet printers.

As the Company entered the second half of 2008, the global recession broadened dramatically and began to negatively impact all of its businesses. As a result, the Company formulated the actions necessary to align the business with the external realities. The Company has decided to focus its investments on businesses at the core of its strategy, which are Consumer Inkjet, Commercial Inkjet (including stream technology) and Enterprise workflow. The Company has to make pragmatic decisions, rationalize its product portfolio, and focus its resources on those core opportunities. The Company will continue to build upon the stable, cash generating businesses, and reposition other digital businesses, including Kodak Gallery, OLED, Imaging Sensors and Electrophotographic Printing to generate maximum value.

The Company’s key priorities for 2009 are:

- Align the Company’s cost structure with external economic realities
- Fund core investments
- Transform portions of its product portfolio
- Drive positive cash flow before dividends and restructuring

The Company expects the weak economic climate will continue well into the year, which will lead to reductions in revenue during 2009 as compared with 2008. However, the Company has maintained or improved its market position in key product categories. These improved product market positions, its people, and the strength of the Company's brand and financial position will allow the Company to emerge from this challenging period as a leaner, stronger competitor.

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REPORTABLE SEGMENTS

As of and for the year ended December 31, 2008, the Company reported financial information for three reportable segments: Consumer Digital Imaging Group (“CDG”), Film, Photofinishing and Entertainment Group (“FPEG”), 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, 2008. 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 23, “Segment Information.”

CONSUMER DIGITAL IMAGING GROUP (“CDG”) SEGMENT

Sales from continuing operations of the CDG segment for 2008, 2007 and 2006 were (in millions) $3,088, $3,247, and $3,013, respectively.

The Company is a global leader in providing digital photography and printing 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 systems solutions, online imaging, and digital picture frames.

CDG's mission is to enhance people’s lives and social interactions through the capabilities of digital imaging technology, combined with Kodak’s unique consumer knowledge, brand and intellectual property. This focus has led to a full range of product and service offerings to the consumer. CDG’s strategy is to extend picture taking, picture search/organizing, creativity, sharing and printing to bring innovative new experiences to consumers – in ways that extend Kodak’s legendary heritage in ease of use.

Digital Capture and Devices: Consumer digital capture and devices include digital still and video cameras, digital picture frames, imaging accessory products, and snapshot printers and printer media. These product lines fuel Kodak’s participation in the growing 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) and other online providers. Kodak’s full line of camera products and accessories enable the consumer to personalize their digital camera and their photographic experience. In the third quarter of 2008 Kodak introduced the KODAK Zi6 Pocket Video Camera – allowing stunning HD videos, which can be easily uploaded to YouTube via a built-in USB connector. The Company also introduced a variety of stylish and compact digital still cameras as well as high performance long zoom cameras with image stabilization like the Z1015 IS.

Kodak is a leader in the growing digital picture frame category. The Company’s wireless digital picture frames enable consumers to easily share and view images and videos with family and friends via photo-sharing sites including KODAK Gallery, and also enjoy Internet content including news, weather, and sports via FrameChannel. In the third quarter of 2008, Kodak introduced the world’s first OLED wireless picture frame, featuring a spectacularly vivid display based on organic light emitting diode technology that Kodak invented.

Retail Systems Solutions: In January 2008, the Retail Printing Group was redefined and renamed Retail Systems Solutions, in order to manage Kodak’s digital printing hardware, media and infrastructure offerings to retailers. The Retail Systems Solutions group’s product and service offerings to retailers include retail kiosks and consumables, consumer and retailer software workflows, remote business monitoring, retail store merchandising and identity programs, and after sale service and support. In the first quarter of 2008, the Company introduced its Adaptive Picture Exchange (“APEX”) drylab system that provides a lower total cost of ownership alternative to traditional

photofinishing processing at retailer locations. This system utilizes dry thermal technology that removes the need for chemical processing of photos and photo products, and as a result uses up to 90% less electricity with almost no labor required. This introduction, when combined with kiosks, increases Kodak's fleet to approximately 100,000 systems worldwide and represents the world's largest fleet of installed devices in retail locations.

Launched mid-year in 2008, the DL2100 printer, which retailers can connect directly to a kiosk or APEX, enables customers to make double-sided photobooks, calendars and greeting cards, almost instantly in-store. This high-quality printer enables consumers to personalize their products with sentiments and captions and then take home a finished, personalized product. Other popular Kodak premium products available quickly and easily in many of the world's largest retailers include the KODAK Picture-Movie DVD, which combines original artist music with the consumer's own pictures and creates a powerful multimedia show playable on any DVD player, posters, collages and more.

Online Imaging Services: KODAK Gallery, which has more than 70 million members, is a leading online merchandise and sharing service. The Kodakgallery.com site provides consumers with a secure and easy way to view, store and share their images 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. Personalized photo cards are also available with original designs by popular designers. Products are distributed directly to consumers' homes, or through major retailers. The site is a chosen partner for leading companies such as Adobe, Apple, Microsoft, and Amazon. In addition to Kodakgallery.com in the U.S., we operate seven sites across Europe.

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 relationships with key industry players.

All-in-One Inkjet Printers: In February 2007, Kodak introduced the KODAK All-in-One Inkjet printers as a major initiative to drive future revenue growth and earnings. Four key components enable this breakthrough market entry: 1) a proprietary high-speed inkjet printing system; 2) nanoparticle pigment-based inks; 3) instant-dry, porous papers; and 4) Kodak's unique Image Science technologies. Additionally, the system is designed with a permanent print head. This unique offering targets the high-volume document and photo printer market with a breakthrough value proposition delivering dramatically 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.

Today, the EASYSHARE All-in-One line of consumer inkjet printers has expanded into more markets. Sell-through of inkjet printers for the full year more than doubled compared with the prior year, resulting in an estimated installed base of more than 1 million printers as of December 31, 2008.

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 CDG's 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, advertising, including direct television advertising, and public relations. The Company's advertising programs actively promote the segment's 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.

FILM, PHOTOFINISHING AND ENTERTAINMENT GROUP ("FPEG") SEGMENT

Sales from continuing operations of the FPEG segment for 2008, 2007 and 2006 were (in millions) $2,987, $3,632, and $4,254, respectively.

This segment is composed of traditional photographic products and services including paper, film and chemistry used for consumer, professional and industrial imaging applications and those products and services used in the creation of motion pictures. The Company manufactures and markets films (motion picture, consumer, professional, industrial and aerial), and one-time-use cameras.

The market for consumer and professional films, traditional photofinishing 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. However, during 2008, the Company noted a decline in the rate of digital adoption primarily due to instability in the financial markets.

Marketing and Competition: The fundamental elements of the Company’s strategy with respect to the photographic products in this segment are to maintain a profitable business model, serving customers for traditional products while aggressively managing our cost structure for those businesses that are in decline.

The Company’s strategy for the Entertainment Imaging business is to sustain motion picture film’s position as the pre-eminent capture medium for the creation of feature films, television dramas, and commercials. Selective investments to improve film’s 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 positively received VISION3 series of motion picture films initially launched in late 2007.

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 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.

Film products and services for the consumer and professional markets and traditional photofinishing are sold throughout the world, both directly to retailers and, increasingly, through distributors. Price competition continues to exist in all marketplaces. To be more cost competitive with its traditional photofinishing and film offerings and to shift towards a variable cost model, the Company has rationalized capacity and restructured its go-to-market model. The Company will continue to manage this business to focus on cash flow and earnings performance in this period of continuing revenue decline.

GRAPHIC COMMUNICATIONS GROUP (“GCG”) SEGMENT

Sales from continuing operations of the Graphic Communications Group segment for 2008, 2007 and 2006 were (in millions) $3,334, $3,413, and $3,287, 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 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 commercial 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.

On January 13, 2009, the Company announced its agreement to acquire the scanner division of BOWE BELL + HOWELL, which markets a portfolio of production document scanners that complements the products currently offered within the GCG segment. Through this acquisition, Kodak expects to expand customer value by providing a wider choice of production scanners. Since Kodak has provided field service to BOWE BELL + HOWELL Scanners since 2001, this acquisition is also expected to enhance global access to service and support for channel partners and end-user customers worldwide.

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 - that combine to create a value-added complete solution to customers. 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.

ALL OTHER

Sales from continuing operations comprising All Other for 2008, 2007 and 2006 were (in millions) $7, $9, and $14, 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.

HPA

On October 17, 2007, the shareholders of Hermes Precisa Pty. Ltd. (“HPA”), a majority owned subsidiary of Kodak (Australasia) Pty. Ltd., a wholly owned subsidiary of the Company, approved an agreement to sell all of the shares of HPA to Salmat Limited. The sale was approved by the Federal Court of Australia on October 18, 2007, and closed on November 2, 2007. HPA, a publicly traded Australian company, is a provider of outsourced services in business communication and data processes and was formerly reported within the Company’s Graphic Communications Group segment.

The results of the sales and operations for the Health Group and HPA are presented as discontinued operations in the Consolidated Statement of Operations. All prior periods have been revised for comparison purposes. See Note 22, “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 23, “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

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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 a contract to acquire paper base from a certified photographic paper supplier 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. Sales of digital products are typically 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. However, the economic downturn experienced in the fourth quarter of 2008 resulted in a significant decline in consumer discretionary spending that negatively impacted the Company's digital camera and digital picture frame businesses in the CDG segment. CDG net sales in the fourth quarter declined from 42% of CDG's full-year revenue for 2007 to only 31% of full-year revenue for 2008. Sales are normally lowest in the first quarter due to the absence of holidays and fewer picture-taking opportunities during that time.

Sales and earnings of the FPEG segment are linked to the timing of holidays, vacations and other leisure activities. Sales and earnings of traditional film and photofinishing products are normally strongest in the second and third quarters as demand is high due to heavy vacation activity and events such as weddings and graduations. Sales of entertainment imaging film are typically strongest in the second quarter reflecting demand due to the summer motion picture season.

Sales and earnings of the GCG segment generally exhibit modestly higher levels in the fourth quarter. This is driven primarily by the sales of commercial inkjet, electrophotographic printing, and document scanner products due to seasonal customer demand linked to commercial year-end advertising processes. However, in the second half of 2008, tightening credit availability, combined with the weak economy, resulted in a reduction of capital spending, negatively impacting equipment sales within GCG. The reduction of global print demand during that timeframe had a negative impact on GCG consumables sales.

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 Company's three reportable segments and All Other were as follows:

(in millions)	For the Year Ended December 31,		
	2008	2007	2006
Consumer Digital Imaging Group	$ 215	$ 250	$ 290
Film, Photofinishing and Entertainment Group	52	60	76
Graphic Communications Group	231	214	209
All Other	3	25	21
Total	$ 501	$ 549	$ 596

Research and development is headquartered in Rochester, New York. Other U.S. groups are located in Boston, Massachusetts; New Haven, Connecticut; Dayton, Ohio; and San Jose, Emeryville, and San Diego, California. Outside the U.S., groups are located in Canada, England, 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

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printing workflow and color management proofing systems; color and black-and-white electrophotographic printing systems; wide-format, commercial, 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 expiration or group of patents expirations which are 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, results of operations 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 10, "Commitments and Contingencies," in the Notes to Financial Statements.

EMPLOYMENT

At the end of 2008, the Company employed the full time equivalent of approximately 24,400 people, of whom approximately 12,800 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, 2007 filed on February 27, 2008. Additionally, we filed with the New York Stock Exchange (“NYSE”) the CEO

certification, dated June 12, 2008, 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.

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ITEM 1A. RISK FACTORS

Recent economic trends could continue to adversely affect our financial performance.

The global economic recession and declines in consumption in the Company's end markets have adversely affected sales of both commercial and consumer products and profitability for such products. Further, the global financial markets have been experiencing extreme disruption in recent months. Slower sales of consumer digital products due to the deteriorating economic environment could lead to reduced sales and earnings while increasing inventory. Economic conditions could also accelerate the continuing decline in demand for traditional products, which could also place pressure on Kodak's results of operations and liquidity. The recent tightening of credit in the global financial markets could adversely affect the ability of our commercial customers to obtain financing for significant equipment purchases, which could result in a decrease in, or cancellation of, orders for our products and services. In addition, accounts receivable and past due accounts could increase due to a decline in our customers' ability to pay as a result of the recent economic downturn. In response to these circumstances, the Company may have to take other actions to conserve or generate cash, which may impact our ability to return cash to shareholders.

Our future pension and other postretirement plan costs and required level of contributions could be unfavorably impacted by changes in actuarial assumptions and future market performance of plan assets which could adversely affect our financial position, results of operations, and cash flow.

We have significant defined benefit pension and other postretirement benefit obligations. The funded status of the Company's U.S. and non-U.S. defined benefit pension plans and other postretirement benefit plans, and the related cost reflected in our financial statements, are affected by various factors that are subject to an inherent degree of uncertainty, particularly in the current economic environment. Key assumptions used to value these benefit obligations, funded status and expense recognition include the discount rate for future payment obligations, the long-term expected rate of return on plan assets, salary growth, healthcare cost trend rate, and other economic and demographic factors. Significant differences in actual experience or significant changes in future assumptions could lead to a potential future need to contribute cash or assets to our plans in excess of currently estimated contributions and benefit payments and could have an adverse effect on the Company's consolidated results of operations, financial position or liquidity.

If we are unsuccessful with the strategic investment decisions we have made, our financial performance could be adversely affected.

The Company has selected certain of its businesses as "core investments" because of their large, sustainable growth potential. Introduction of successful innovative products and the achievement of scale in those businesses are necessary for the Company to achieve its future financial success. In addition, the Company has identified certain of its businesses that require business model transformations to improve margins or maximize cash. Such business model changes could include repositioning through strategic partnerships. If the Company is unsuccessful in growing the core investment businesses as planned or in executing the transformations that are necessary in certain of its businesses, the Company's financial performance could be adversely affected.

If we fail to comply with the financial covenants contained in our Secured Credit Agreement, our ability to meet our financial obligations or access external financing could be impaired under certain circumstances.

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 the financial covenants would result in a default under the Secured Credit Agreement. If an event of default were to occur and not be waived by the lenders, then all outstanding debt, interest and other payments under the Secured Credit Agreement

could become immediately due and payable, any unused borrowing availability under the revolving credit facility of the Secured Credit Agreement could be terminated by the lenders, and cash collateralization or a similar remedy could be required for all letters of credit. The failure of the Company to repay any accelerated debt for borrowed money under the Secured Credit Agreement could result in acceleration of the majority of the Company's unsecured outstanding debt obligations under certain circumstances. The Company was in full compliance with the financial covenants as of December 31, 2008. Based on the Company's current financial forecast, it is reasonably likely that the Company could breach its financial

covenants in the first quarter of 2009 unless an appropriate amendment or waiver is obtained. The Company is currently negotiating with its lenders to ensure continued access to a Secured Credit Agreement, with the goal to have an amended credit facility in place by the end of the first quarter. At December 31, 2008, there was no debt outstanding and there were $131 million of letters of credit issued, which are not considered debt for borrowed money under the agreement, but do reduce the Company's borrowing capacity under the Secured Credit Agreement. Notwithstanding the Company's view that it can operate for the foreseeable future without additional external financing, the Company's liquidity could be impaired if it is not able to access a credit facility.

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, Photofinishing and Entertainment 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) and consumables 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. 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 digital markets Kodak is entering. Given the Company's compensation plans are highly performance-based and given the impact of the global economy on the Company's performance, it may become more challenging to retain key employees. The risk may be mitigated by the fact that many companies recently are taking actions to limit or reduce compensation and benefits in light of the difficult economy. 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 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.

Delays in our plans to reduce the cost structure of the Company through execution of restructuring and other actions could affect the consolidated results of operations, financial position and liquidity.

If the Company were to fail to successfully execute the plans within or the timing of its current restructuring program to align the cost structure to the current economic realities, the Company's financial performance could be adversely affected.

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 credit and collections, 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 (1) develop manufacturing methods appropriate for our products, (2) maintain an adequate control environment, (3) quickly respond to changes in customer demand for our products, (4) obtain supplies and materials necessary for the manufacturing process, or (5) mitigate the impact of labor shortages and/or disruptions. As a result of such risks, Kodak's manufacturing costs could be higher than planned and the reliability of our products could decline. 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. 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.

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, 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. As noted previously, the recent tightening of credit in the global financial markets could adversely affect

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the ability of our customers to obtain financing for significant purchases, which could result in a decrease in, or cancellation of, orders for our products and services. If we are unable to provide competitive financing arrangements to our customers or if we extend credit to customers whose creditworthiness deteriorates, this could adversely impact our revenues, profitability and financial position.

Due to the nature of the products we sell and our worldwide distribution, we are subject to changes in currency exchange rates, interest rates and commodities costs 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 volatile. In addition, Kodak's products contain silver, aluminum, petroleum-based or other commodity-based raw materials, the costs of which can be volatile. There can be no guarantees that the global economic situation will not worsen creating further volatility in currency exchange rates, interest rates and commodity prices, which could have future negative effects on revenue and earnings.

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 Kodak's 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 and west coasts 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.

The implementation of new legislation or regulations or changes in existing laws or regulations could increase the Company's cost to comply and consequently reduce our profitability.

New business legislation or regulations or changes to existing laws or regulation, including interpretations of existing regulations by courts or regulators, could adversely affect Kodak's results of operations by increasing the Company's cost to comply. For example, tax, labor, environmental and securities laws and regulations may be enacted in the future that require the Company to adopt new policies, internal controls and other compliance practices or modify existing production facilities and operations. Each of these compliance initiatives could lead to internal and external cost increases.

The Company may be required to recognize additional impairments in the value of its goodwill, which would increase expenses and reduce profitability.

Goodwill represents the excess of the amount we paid to acquire businesses over the fair value of their net assets at the date of the acquisition. The Company tests goodwill for impairment annually or whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This may occur for various reasons including changes in actual or expected income or cash flows of a reporting unit. In the fourth quarter 2008, we recorded a pre-tax non-cash charge of $785 million to write-off

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a significant portion of the goodwill balance within the GCG segment. We will continue to evaluate current market conditions that may affect the fair value of our reporting units to assess whether any further goodwill impairment exists in the future. Continued adverse or worsening market conditions for certain businesses may have a significant impact on the fair value of the reporting units and could result in additional future impairments of goodwill.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

The CDG segment of Kodak's business in the United States is headquartered in Rochester, New York. Kodak Gallery operations are managed from Emeryville, California. Kodak Consumer Inkjet Systems operations are located in San Diego, California; Xiamen, China; and Rochester, New York. Many of CDG's 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.

The FPEG segment of Kodak's business is centered in Rochester, New York, where film and photographic chemicals and related materials are manufactured. A manufacturing facility in Harrow, England produces photographic paper. 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, and Canada.

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.

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.

On July 9, 2008, the Company received a proposed Consent Order from the New York State Department of Environmental Conservation ("DEC") resolving alleged violations of the environmental quality programs at the Company's primary manufacturing facility in Rochester, New York ("Kodak Park") which have occurred between February 28, 2005 and June 30, 2008. These alleged violations include violations of the solid and hazardous waste management regulations, the facility-wide air permit and the waste water discharge permit; most were discovered by

Kodak and self-reported to the DEC. An agreement was reached on September 23, 2008, concluding this matter, with Kodak paying $125,000 to the DEC.

The Company has been named as third-party defendant (along with approximately 200 other entities) in an action initially brought by the New Jersey Department of Environmental Protection (NJDEP) against Occidental Chemical Corporation and several other companies that are successors in interest to Diamond Shamrock Corporation. The NJDEP seeks recovery of all costs associated with the investigation, removal, cleanup and damage to natural resources occasioned by Diamond Shamrock's disposal of various forms of chemicals in the Passaic River. The damages are alleged to potentially range "from hundreds of millions to several billions of dollars". Pursuant to New Jersey's Court Rules, the defendants were required to identify all other parties which could be subject to permissive joinder in the litigation based on common questions

of law or fact. Third-party complaints seeking contribution from more than 200 entities, who have been identified as potentially contributing to the contamination in the Passaic, were filed on February 5, 2009. The potential monetary exposure is likely to be in excess of $100,000 but is not expected to be material.

On November 17, 2008, the Company filed a complaint with the U.S. International Trade Commission ("ITC") against Samsung Electronics Company Ltd., Samsung Electronics America Inc., Samsung Telecommunications America, LLC, LG Electronics Inc., LG Electronics USA Inc., and LG Electronics MobileComm USA, Inc. for infringement of patents related to digital camera technology. Discovery has commenced before the ITC. The Company is seeking a limited exclusion order preventing importation of infringing devices, including certain mobile telephones and wireless communication devices featuring digital cameras.

On February 17, 2009 Samsung Electronics Company Ltd. and Samsung Electronics America Inc. filed a complaint with the ITC against the Company for infringement of certain of their patents alleged to be related to digital camera technology. Samsung is seeking a limited exclusion order preventing importation of devices found to infringe the asserted patents. The Company intends to vigorously defend itself in this matter.

On February 20, 2009 LG Electronics Inc. (Seoul, Korea) filed a complaint with the ITC against the Company for infringement of certain of their patents alleged to be related to digital camera technology. LGE is seeking a limited exclusion order preventing importation of devices found to infringe the asserted patents. The Company intends to vigorously defend itself in this matter.

On November 17, 2008, the Company filed a complaint against Samsung Electronics Company Ltd., Samsung Electronics America Inc., and Samsung Telecommunications America, LLC in Federal District Court in Rochester, New York, for infringement of patents related to digital camera technology. The Company is seeking unspecified damages and other relief.

On November 17, 2008 the Company filed a complaint against LG Electronics Inc., LG Electronics USA Inc., and LG Electronics MobileComm USA, Inc. in Federal District Court in Rochester, New York, for infringement of patents related to digital camera technology. The Company is seeking unspecified damages and other relief.

On February 20, 2009 LG Electronics Inc. (Seoul, Korea) commenced two actions against the Company in Federal District court in the Southern District of California for infringement of certain of their patents alleged to be related to digital camera technology. LGE is seeking unspecified damages and other relief. The Company intends to vigorously defend itself in this matter.

On November 17, 2008, the Company commenced a lawsuit in Landgericht Düsseldorf, Germany against Samsung Electronics GmbH for infringement of a patent related to digital camera technology. The Company is seeking unspecified damages and other relief.

On November 20, 2008, Research in Motion Ltd. and Research in Motion Corp. (collectively "RIM") filed a declaratory judgment action against the Company in Federal District Court in Dallas, Texas. The suit seeks to invalidate certain Company patents related to digital camera technology and software object linking, and seeks a determination that RIM handheld devices do not infringe such patents. On February 17, 2009, the Company filed its answer and counterclaims for infringement of each of these same patents.

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. The Company routinely assesses all of its litigation and threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable.

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.

Name	Age	Positions Held	Date First Elected an Executive Officer	to Present Office
Robert L. Berman	51	Senior Vice President	2002	2005
Philip J. Faraci	53	President and Chief Operating Officer	2005	2007
Joyce P. Haag	58	General Counsel and Senior Vice President	2005	2005
Mary Jane Hellyar	55	Executive Vice President	2005	2007
James T. Langley	57	Senior Vice President	2003	2003
William J. Lloyd	69	Senior Vice President	2005	2005
Antonio M. Perez	63	Chairman of the Board, Chief Executive Officer	2003	2005
Frank S. Sklarsky	52	Chief Financial Officer and Executive Vice President	2006	2006
Terry R. Taber	54	Vice President	2008	2008
Diane E. Wilfong	47	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. Langley, who joined the Company on August 18, 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 and Litigation, Legal Staff and in March 2004, she became General Counsel, Europe, Africa and Middle East Region ("EAMER"). In July 2005, she was promoted to Senior Vice President and General Counsel.

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. In October 2007, the Board of Directors elected Ms. Hellyar an Executive Vice President. In January 2008, the business was renamed Film, Photofinishing and Entertainment Group.

James T. Langley

Mr. Langley, who retired from the Company effective March 15, 2008, was a Senior Vice President of the 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 remained a Senior Vice President while completing several special projects until his retirement.

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.

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William J. Lloyd

Mr. Lloyd, who retired from the Company effective December 31, 2008, 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 most recent 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 four years, Kodak introduced an array of disruptive new digital technologies and products for consumer and commercial applications that generated $6.4B in revenues in 2008. Those include consumer inkjet printers, CMOS sensors for digital cameras and mobile phones, dry labs and kiosks for printing at retail, as well as high-volume digital production presses and digital plates for commercial printing. The result is a new Kodak -- a company with 70 percent of revenue coming from digital products, higher gross margin commercial businesses accounting for 60 percent of sales, and a sustainable traditional business model.

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 in October 2006 as Executive Vice President, and became the Chief Financial Officer in November 2006.

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Mr. Sklarsky is responsible for worldwide financial operations, including Financial Planning and Analysis, Treasury, Audit, Controllership, Tax, Investor Relations, Aviation, Corporate Mergers and Acquisitions, Worldwide Information Systems and Corporate Purchasing.

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.

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, Finance, 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 led the finance functions serving 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 at Ernst & Young International from 1978 to 1981.

Terry R. Taber

Terry R. Taber joined Kodak in 1980. In January 2009, he became Chief Technical Officer reporting to Kodak Chairman and CEO Antonio M. Perez. The Board of Directors elected him a Corporate Vice President in December 2008.

Mr. Taber was previously the Chief Operating Officer of Kodak’s Image Sensor Solutions (“ISS”) business, a leading developer of advanced CCD and CMOS sensors serving imaging and industrial markets. Prior to joining ISS in 2007, Mr. Taber held a series of senior positions in Kodak’s research and development and product organizations. During his 28 years at Kodak, Mr. Taber has been involved in new materials research, product development and commercialization, manufacturing, and executive positions in R&D and business management.

Mr. Taber’s early responsibilities included research on new synthetic materials, an area in which he holds several patents. He then became a program manager for several film products before completing the Sloan Fellows program at the Massachusetts Institute of Technology. He returned from MIT to become the worldwide consumer film business product manager from 1999 to 2002, and then became an Associate Director of R&D from 2002 to 2005, followed by a position as the director of Materials & Media R&D from 2005 to 2007.

Diane E. Wilfong

Ms. Wilfong was elected 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 is a certified public accountant and began her career at

PricewaterhouseCoopers, 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 55,759 shareholders of record of common stock as of January 31, 2009.

MARKET PRICE DATA

	2008		2007	
Price per share:	High	Low	High	Low
1st Quarter	$ 22.03	$ 16.31	$ 27.08	$ 22.41
2nd Quarter	$ 19.60	$ 12.20	$ 30.20	$ 22.54
3rd Quarter	$ 17.71	$ 12.80	$ 29.29	$ 24.71
4th Quarter	$ 15.68	$ 5.83	$ 29.60	$ 21.42

DIVIDEND INFORMATION

It is the Company's practice to make semi-annual dividend payments which, when declared by its Board of Directors, will be paid 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 14, and October 14, 2008, 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 3, 2008, respectively. These dividends were paid on July 16 and December 12, 2008. Total dividends paid for the year ended December 31, 2008 were $139 million.

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. These dividends were paid on July 16, and December 14, 2007. Total dividends paid for the year ended December 31, 2007 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, 2003, plus reinvested dividends.

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	12/03	12/04	12/05	12/06	12/07	12/08
Eastman Kodak Company	100.00	127.90	94.77	106.69	92.13	28.86
S&P 500	100.00	110.88	116.33	134.70	142.10	89.53
Dow Jones US Industrial Average	100.00	105.31	107.13	127.53	138.86	94.52

Share Repurchase Program

On June 24, 2008, the Company announced that its Board of Directors authorized a share repurchase program allowing the Company, at management’s discretion, to purchase up to $1.0 billion of its common stock. The program will expire at the earlier of December 31, 2009 or when the Company has used all authorized funds for repurchase. For the three months ended December 31, 2008, the Company purchased 5,933,396 shares in open market purchases. Through December 31, 2008, the Company repurchased approximately 20 million shares at an average price of $15.01 per share, for a total cost of $301 million under this program. While the share repurchase authorization remains in effect through the end of 2009, Kodak is not currently repurchasing any of its shares.

The following table shows the share repurchase activity for each of the three months in the quarter ended December 31, 2008:

(in millions, except average price paid per share)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares That May Yet Be Purchased under the Program
October 1, 2008 to October 31, 2008	5.6	$ 14.00	5.6	$ 702
November 1, 2008 to November 30, 2008	0.3	$ 9.61	0.3	$ 699
December 1, 2008 to December 31, 2008	-		-	$ 699
Total	5.9	$ 13.77	5.9	

ITEM 6. SELECTED FINANCIAL DATA

Refer to Summary of Operating Data on page 114.

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, 2008. 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, Photofinishing and Entertainment Group ("FPEG") and Graphic Communications Group ("GCG").

During 2008, the Company established the following strategic objectives for the year:

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

All of the Company's key operating metrics noted above were negatively impacted in 2008 by a dramatic decline in demand as a result of the global economic slowdown, which accelerated late in the year. The demand for the Company's consumer products is largely discretionary in nature, and sales and earnings of the Company's consumer businesses are linked to the timing of holidays, vacations, and other leisure or gifting seasons. The fourth quarter of 2008 was marked by weak consumer holiday spending, the impacts of which were significant in the Company's digital camera and devices businesses in the CDG segment. In the GCG segment, tightening credit availability, combined with the weak economy, resulted in a reduction of capital spending, negatively impacting equipment sales as well. In addition, the reduction of global print demand had a negative impact on GCG consumables sales, and increased costs for aluminum impacted gross margins. FPEG was also impacted by the weak economy, which accelerated the decline of Film Capture and Traditional Photofinishing in the fourth quarter, and increased silver and petroleum-based raw material costs impacted gross margins.

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.

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 tests goodwill for impairment annually (on September 30), or whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, by initially

comparing the fair value of each of the Company's reporting units to their related carrying values (step one). If the fair value of the reporting unit is less than its carrying value, the Company must determine the implied fair value of goodwill associated with that reporting unit (step two). The implied fair value of

goodwill is determined by first allocating the fair value of the reporting unit to all of its assets and liabilities and then computing the excess of the reporting unit's fair value over the amounts assigned to the assets and liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill, such excess represents the amount of goodwill impairment charge that must be recognized. The Company's goodwill impairment analysis also includes a comparison of the aggregate estimated fair value of all reporting units to its total market capitalization.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. 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. Key assumptions used to determine the fair value of each reporting unit as of the Company's fiscal annual testing date (September 30, 2008) were: (a) expected cash flow for the period from 2009 to 2013; and (b) discount rates of 14% to 17.5%, which were based on the Company's best estimates of the after-tax weighted-average cost of capital of each reporting unit. Based upon the results of its September 30, 2008 analysis, no impairment of goodwill was indicated.

As of December 31, 2008, due to the continuing challenging business conditions and the significant decline in its market capitalization during the fourth quarter of 2008, the Company concluded there was an indication of possible impairment. Certain key assumptions used to determine the fair value of each reporting unit as of December 31, 2008 were revised to reflect: (a) significant reductions in future expected cash flows for the period from 2009 to 2013 due to the actual results for the fourth quarter of 2008 and revised forecasts for 2009 and later years; and (b) discount rates of 18.5% to 23.0%, which were based on the Company's best estimates of the after-tax weighted-average cost of capital of each reporting unit, adjusted from September 30, 2008 for our latest assessment of financial risk and the increased risk associated with the Company's future operations. Based on its updated analysis, the Company concluded that there was an impairment of goodwill related to the Graphic Communications Group segment and, thus, recognized a pre-tax non-cash charge of $785 million in the fourth quarter of 2008.

The fair values of reporting units within the Company's CDG and FPEG segments, and one of the two GCG reporting units were greater than their respective carrying values as of December 31, 2008, so no goodwill impairment was recorded for these reporting units. Reasonable changes in the assumptions used to determine these fair values would not have resulted in goodwill impairments in any of these reporting units.

The Company's long-lived assets, other than goodwill and indefinite-lived intangible assets, are evaluated for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. When evaluating long-lived assets for impairment, the Company compares the carrying value of an asset group to its estimated undiscounted future cash flows. An impairment is indicated if the estimated future cash flows are less than the carrying value of the asset group. The impairment is the excess of the carrying value over the fair value of the long-lived asset group.

Due to continued operating losses and increased uncertainty of future cash flows because of the economic environment in the fourth quarter of 2008, the Company evaluated the long-lived assets of FPEG's Paper and Output Systems business and GCG's Electrophotographic Solutions business for impairment. No impairment loss was recorded related to either business as a result of this evaluation.

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 Company's 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

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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 Company's 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 Company's 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 Company's 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 Company's 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 provisions have 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

Kodak's defined benefit pension and other postretirement benefit costs and obligations are dependent on the Company's key assumptions. These assumptions, which are reviewed at least 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 active participants in the plan or, if almost all of a plan's participants are inactive, the average remaining lifetime expectancy of inactive 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 calculated value of plan assets. Significant differences in actual experience or significant changes in future assumptions would affect the Company's pension and other postretirement benefit costs and obligations.

The EROA assumption is based on a combination of formal asset and liability studies that include forward-looking return expectations, given the current asset allocation. The EROA, once set, is applied to the calculated value of plan assets in the determination of the expected return component of the Company's pension income or expense.

SFAS No. 87, "Employers' Accounting for Pensions" ("FAS 87") requires that expected return be calculated using either fair value of plan assets or a calculated value of plan assets. Kodak uses a calculated value that recognizes changes in the fair value of assets over a four-year period. At December 31, 2008, the calculated value of the assets of the major U.S. defined benefit pension plan (the Kodak Retirement Income Plan "KRIP") was approximately $6 billion and the fair value was approximately $5 billion. Asset gains and losses that are not yet reflected in the calculated value of plan assets are not included in amortization of unrecognized gains and losses until they are recognized as a part of the calculated value of plan assets.

The Company reviews its EROA assumption annually. To facilitate this review, every three years, or when market conditions change materially, the Company's larger plans will undertake asset allocation or asset and liability modeling studies. In early 2008, an asset and liability modeling study for the KRIP was completed and resulted in a 9.0% EROA assumption, which is the same rate outcome as concluded by the prior study in 2005. During the fourth quarter of 2008, the Kodak Retirement Income Plan Committee ("KRIPCO," the committee that oversees KRIP) reevaluated certain portfolio positions relative to current market conditions and accordingly approved a change to the portfolio to reduce risk associated with the volatility in the financial markets. The Company has assumed an 8.0% EROA for 2009 for the KRIP based on these changes and the resulting asset allocation at December 31, 2008. It is KRIPCO's intention to

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reassess the current asset allocation and complete a new asset and liability study in early 2009. Certain of the Company's other pension plans also adjusted asset positions during the fourth quarter of 2008. EROA assumptions for 2009 for those plans were similarly based on these changes and the resulting asset allocations as of the end of the year.

Generally, the Company bases the discount rate assumption for its significant plans on high quality corporate 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 corporate bond yield curve. For the Company's U.S. plans, the Citigroup Above Median Pension Discount Curve is used. For the Company's other non-U.S. plans, the discount rates are determined by comparison to published local high quality bond yields or indices considering estimated plan duration and removing any outlying bonds, as warranted.

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 following table illustrates the sensitivity to a change to certain key assumptions used in the calculation of expense for the year ending December 31, 2009 and the projected benefit obligation ("PBO") at December 31, 2008 for the Company's major U.S. and non-U.S. defined benefit pension plans:

(in millions)	Impact on 2009 Pre-Tax Pension Expense Increase (Decrease)		Impact on PBO December 31, 2008 Increase (Decrease)	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Change in assumption:				
25 basis point decrease in discount rate	$ (2)	$ 4	$ 102	$ 96
25 basis point increase in discount rate	2	(4)	(97)	(91)
25 basis point decrease in EROA	15	7	N/A	N/A
25 basis point increase in EROA	(15)	(7)	N/A	N/A

Total pension income from continuing operations before special termination benefits, curtailments, and settlements for the major funded and unfunded defined benefit pension plans in the U.S. is expected to decrease from $179 million in 2008 to $108 million in 2009, due primarily to lower expected returns on plan assets for 2009. Pension expense from continuing operations before special termination benefits, curtailments and settlements for the major funded and unfunded non-U.S. defined benefit pension plans is projected to decrease from $27 million in 2008 to $5 million in 2009, which is primarily attributable to lower amortization of actuarial losses.

Additionally, due to changes in plan design, the Company expects the expense, before curtailment and settlement gains and losses of its major other postretirement benefit plans to approximate $48 million in 2009 as compared with $104 million for 2008.

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 2137-06, "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 2008, the Company had three reportable segments: Consumer Digital Imaging Group (“CDG”), Film, Photofinishing and Entertainment Group (“FPEG”), 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 still and video cameras, digital devices such as picture frames, snapshot printers and related media, kiosks and related media, APEX drylab systems which were introduced in the first quarter of 2008, consumer inkjet printing, Kodak Gallery, and imaging sensors. The APEX drylab system provides an alternative to traditional photofinishing processing at retail locations. CDG also includes the licensing activities related to the Company's intellectual property in digital imaging products.

Film, Photofinishing and Entertainment Group Segment (“FPEG”): FPEG encompasses consumer and professional film, one-time-use cameras, graphic arts film, aerial and industrial film, and entertainment imaging products and services. In addition, this segment also includes paper and output systems, and photofinishing services. This segment provides consumers, professionals, cinematographers, and other entertainment imaging customers with film-related products and services and also provides graphic arts film to the graphics industry.

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, analog and digital printing, and document scanning. Products and related services include workflow software and digital controllers; digital printing, which includes commercial inkjet and electrophotographic products, including equipment, consumables and service; prepress consumables; output devices; and document scanners.

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 COST ALLOCATION METHODOLOGY

Effective January 1, 2008, the Company changed its cost allocation methodologies related to employee benefits and corporate expenses. For the year ended December 31, 2007, this change decreased cost of goods sold by $28 million, increased selling, general, and administrative costs by $14 million, and increased research and development costs by $14 million. For the year ended December 31, 2006,

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this change decreased cost of goods sold by $37 million, increased selling, general, and administrative costs by $19 million, and increased research and development costs by $18 million.

Prior period segment results have been revised to reflect the changes in cost allocation methodologies outlined above.

The changes in cost allocation methodologies referred to above increased (decreased) segment operating results for the years ended December 31, 2007 and 2006 as follows:

(in millions)	For the Year Ended December 31, 2007	2006
Consumer Digital Imaging Group	$ (32)	$ (54)
Film, Photofinishing and Entertainment Group	28	75
Graphic Communications Group	(23)	(57)
All Other	27	36
Consolidated impact	$ -	$ -

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DETAILED RESULTS OF OPERATIONS

Net Sales from Continuing Operations by Reportable Segment and All Other (1)

	For the Year Ended December 31,						
(in millions)	2008	Change	Foreign Currency Impact	2007	Change	Foreign Currency Impact	2006
Consumer Digital Imaging Group							
Inside the U.S.	$ 1,811	-10%	0%	$ 2,012	+5%	0%	$ 1,910
Outside the U.S.	1,277	+3	+3	1,235	+12	+7	1,103
Total Consumer Digital Imaging Group	3,088	-5	+1	3,247	+8	+3	3,013
Film, Photofinishing and Entertainment Group							
Inside the U.S.	835	-21	0	1,054	-23	0	1,366
Outside the U.S.	2,152	-17	+3	2,578	-11	+4	2,888
Total Film, Photofinishing and Entertainment Group	2,987	-18	+2	3,632	-15	+3	4,254
Graphic Communications Group							
Inside the U.S.	1,036	-12	0	1,178	-4	0	1,231
Outside the U.S.	2,298	+3	+5	2,235	+9	+7	2,056
Total Graphic Communications Group	3,334	-2	+3	3,413	+4	+4	3,287
All Other							
Inside the U.S.	7			10			12
Outside the U.S.	-			(1)			2
Total All Other	7			9			14
Consolidated							
Inside the U.S.	3,689	-13	0	4,254	-6	0	4,519
Outside the U.S.	5,727	-5	+4	6,047	0	+5	6,049

Consolidated Total	$	9,416	-9%	+2%	$	10,301	-3%	+3%	$	10,568

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

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

(in millions)	For the Year Ended December 31, 2008	Change	2007	Change	2006
Consumer Digital Imaging Group	$ (177)	-941%	$ (17)	+92%	$ (206)
Film, Photofinishing and Entertainment Group	196	-30	281	-12	319
Graphic Communications Group	31	-70	104	+49	70
All Other	(17)	+32	(25)	-14	(22)
Total of segments	33	-90	343	+113	161
Restructuring costs, rationalization and other	(149)		(662)		(698)
Postemployment benefit changes	94		-		-
Other operating (expenses) income, net	(766)		96		59
Adjustments to contingencies and legal reserves/settlements	(33)		(7)		2
Interest expense	(108)		(113)		(172)
Other income (charges), net	55		87		65
Loss from continuing operations before income taxes	$ (874)	-241%	$ (256)	+56%	$ (583)

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2008 COMPARED WITH 2007

RESULTS OF OPERATIONS - CONTINUING OPERATIONS

CONSOLIDATED

(in millions, except per share data)	For the Year Ended December 31,					
	2008	% of Sales	2007	% of Sales	Increase / (Decrease)	% Change
Net sales	$ 9,416		$ 10,301		$ (885)	-9%
Cost of goods sold	7,247		7,757		(510)	-7%
Gross profit	2,169	23.0%	2,544	24.7%	(375)	-15%
Selling, general and administrative expenses	1,583	17%	1,778	17%	(195)	-11%
Research and development costs	501	5%	549	5%	(48)	-9%
Restructuring costs, rationalization and other	140		543		(403)	-74%
Other operating expenses (income), net	766		(96)		862	-898%
Loss from continuing operations before interest expense, other income (charges), net and income taxes	(821)	-9%	(230)	-2%	(591)	-257%
Interest expense	108		113		(5)	-4%
Other income (charges), net	55		87		(32)	-37%
Loss from continuing operations before income taxes	(874)		(256)		(618)	-241%
Benefit for income taxes	(147)		(51)		(96)	188%
Loss from continuing operations	(727)	-8%	(205)	-2%	(522)	-255%
Earnings from discontinued operations, net of income taxes	285		881		(596)	-68%
NET (LOSS) EARNINGS	$ (442)		$ 676		$ (1,118)	-165%

	For the Year Ended December 31,		Change vs. 2007			
	2008 Amount	Change vs. 2007	Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Total net sales	$ 9,416	-8.6%	-4.4%	-6.4%	2.2%	n/a
Gross profit margin	23.0%	-1.7pp	n/a	-5.5pp	0.2pp	3.6pp

As noted earlier in this MD&A, the Company's results of operations were severely affected by the economic downturn that accelerated in late 2008. The normal seasonality of the Company, which is heavily skewed to the second half of the year, further magnified the effects of the economic downturn on its results. The last four months of 2008 saw the global retail markets collapse, which affected the Company’s various consumer businesses, combined with a rapid decline in global print demand which affected its GCG businesses. In response, the Company has outlined actions to focus business investments in certain areas that are core to the Company's strategy, while also maintaining an intense focus on cash generation and conservation in 2009.

Worldwide Revenues

For the year ended December 31, 2008, net sales decreased by 9% compared with 2007 due primarily to the significant economic deterioration in the fourth quarter in which the Company's revenues were 24% lower than in the prior year quarter. The impact of the downturn was particularly severe to the Company because of the normal seasonality of its sales, which are typically highest in the last four months of the year. For the full year, the downturn led to unfavorable price/mix across all segments and accelerated volume declines in Film Capture and Traditional Photofinishing within FPEG. These declines were partially offset by volume increases in CDG, and Document Imaging within GCG, and favorable foreign exchange across all segments. Within CDG, Digital Capture and Devices and Consumer Inkjet Systems experienced significant increases in volume in 2008, primarily related to new product introductions in 2007 and throughout 2008.

Gross Profit

Gross profit declined in 2008 in both dollars and as a percentage of sales, due largely to the broad deterioration late in the year in sales volume, as well as unfavorable price/mix across all segments, partially offset by reductions in manufacturing and other costs within CDG, and favorable foreign exchange. The improvements in manufacturing and other costs were driven by manufacturing efficiencies within CDG, the benefit of lower depreciation expense as a result of the change in useful lives executed during the first quarter of 2008 that benefited FPEG, lower benefit costs (including other postemployment benefits), and lower restructuring-related charges, partially offset by increased silver, aluminum, paper, and petroleum-based raw material and other costs.

Included in gross profit was a non-recurring amendment of an intellectual property licensing agreement and a new non-recurring intellectual property licensing agreement within Digital Capture and Devices. These licensing agreements contributed approximately 2.4% of consolidated revenue to consolidated gross profit dollars in 2008, as compared with 2.3% of consolidated revenue to consolidated gross profit dollars for non-recurring agreements in the prior year.

In the first quarter of 2008, the Company performed an updated analysis of expected industry-wide declines in the traditional film and paper businesses and its useful lives on related assets. This analysis indicated that the assets will continue to be used in these businesses for a longer period than previously anticipated. As a result, the Company revised the useful lives of certain existing production machinery and equipment, and manufacturing-related buildings effective January 1, 2008. These assets, which were previously set to fully depreciate by mid-2010, are now being depreciated with estimated useful lives ending from 2011 to 2015. The change in useful lives reflects the Company's estimate of future periods to be benefited from the use of the property, plant, and equipment. As a result of these changes, for full year 2008 the Company reduced depreciation expense by approximately $107 million, of which approximately $95 million benefited loss from continuing operations before income taxes. The net impact of the change in estimate to loss from continuing operations for the year ended December 31, 2008 was a reduced loss of $93 million, or $.33 on a fully-diluted loss per share basis.

Selling, General and Administrative Expenses

The year-over-year decrease in consolidated selling, general and administrative expenses ("SG&A") was primarily attributable to company-wide cost reduction actions, and lower benefit costs (including other postemployment benefits – see below), partially offset by unfavorable foreign exchange, a contingency accrual related to employment litigation matters of approximately $20 million, and costs associated with the Company's participation in the drupa tradeshow in the second quarter of 2008.

Research and Development Costs

The decrease in consolidated research and development costs (“R&D”) compared with prior year was primarily attributable to company-wide cost reduction actions and significantly reduced spending in 2008 within CDG due to the introduction of consumer inkjet printers in 2007. These decreases in R&D spending were partially offset by investments in new workflow products in Enterprise Solutions and stream technology within Digital Printing Solutions, and R&D related acquisitions made in the second quarter of 2008, both within GCG.

Postemployment Benefit Plan Changes

In the third quarter of 2008, the Company amended certain of its U.S. postemployment benefits effective as of January 1, 2009. As a result of these plan changes, curtailment and other gains of $94 million were recognized in the third quarter of 2008. The gains are reflected in the Consolidated Statement of Operations as follows: $48 million in cost of goods sold, $27 million in SG&A, and $19 million in R&D. The impact of these gains is not reflected in segment results. Refer to Note 18, “Other Postretirement Benefits” and Note 23, “Segment Information.”

Restructuring Costs, Rationalization and Other

These costs, as well as the restructuring and rationalization-related costs reported in cost of goods sold, are discussed under the "RESTRUCTURING COSTS, RATIONALIZATION AND OTHER" section.

Other Operating Expenses (Income), Net

The Other operating expenses (income), net category includes gains and losses on sales of capital assets and businesses, and goodwill and other long-lived asset impairment charges. The year-over-year change in Other operating expenses (income), net was largely driven by the goodwill impairment charge of $785 million in 2008, as compared with significant one-time gains on sales of capital assets and businesses recognized in 2007. Refer to Note 5, “Goodwill and Other Intangible Assets,” for more information on the 2008 charge.

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 decrease in Other income (charges), net was primarily attributable to a decrease in interest income due to lower interest rates and lower cash balances in 2008 as compared with 2007.

Income Tax Benefit

(dollars in millions)	For the Year Ended December 31,			
		2008		2007
Loss from continuing operations before income taxes	$	(874)	$	(256)
Benefit for income taxes	$	(147)	$	(51)
Effective tax rate		16.8%		19.9%

The change in the Company’s effective tax rate from continuing operations is primarily attributable to: (1) a $270 million benefit recognized during the second quarter of 2008 for interest earned on a refund received from the U.S. Internal Revenue Service, (2) losses generated within the U.S. and in certain jurisdictions outside the U.S. in 2008 that were not benefited due to the impact of valuation allowances, (3) a tax benefit recorded in continuing operations in 2007 for losses in certain jurisdictions due to the recognition of an offsetting tax expense on the pre-tax gain in discontinued operations, (4) the release or establishment of valuation allowances in certain jurisdictions outside the U.S., which are evaluated separately by jurisdiction and dependent on its specific circumstances, (5) the mix of earnings from operations in certain lower-taxed jurisdictions outside the U.S., (6) adjustments for uncertain tax positions and tax audits, and (7) a pre-tax goodwill impairment charge of $785 million that resulted in a tax benefit of only $4 million due to a full valuation allowance in the U.S. and the limited amount of tax deductible goodwill that existed as of December 31, 2008.

CONSUMER DIGITAL IMAGING GROUP

(dollars in millions)	For the Year Ended December 31,					
	2008	% of Sales	2007	% of Sales	Increase / (Decrease)	% Change
Total net sales	$ 3,088		$ 3,247		$ (159)	-5%
Cost of goods sold	2,495		2,419		76	-3%
Gross profit	593	19.2%	828	25.5%	(235)	-28%
Selling, general and administrative expenses	555	18%	595	18%	(40)	-7%
Research and development costs	215	7%	250	8%	(35)	-14%
Loss from continuing operations before interest expense, other income (charges), net and income taxes	$ (177)	-6%	$ (17)	-1%	$ (160)	941%

	For the Year Ended December 31,		Change vs. 2007			
	2008 Amount	Change vs. 2007	Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Total net sales	$ 3,088	-4.9%	8.6%	-14.6%	1.1%	n/a
Gross profit margin	19.2%	-6.3pp	n/a	-13.4pp	0.7pp	6.4pp

Worldwide Revenues

Net sales for CDG decreased 5% in 2008 primarily as a result of the sharp decline in global consumer demand experienced in the fourth quarter of 2008. The economic downturn negatively impacted all industries that rely on consumer discretionary spending. CDG net sales in the fourth quarter declined from 42% of CDG’s full-year revenue for 2007 to only 31% of full-year revenue for 2008. Volume increases in 2008 attributable to products introduced in 2007 and throughout 2008 were more than offset by unfavorable price/mix, as reduced demand resulted in downward price pressure and a shift in consumer demand to lower-priced products. However, Kodak continued to maintain or increase its market share position in key product categories in which it participates.

Net sales for CDG decreased primarily due to unfavorable price/mix in Digital Capture and Devices, partially offset by volume growth in Consumer Inkjet and Digital Capture and Devices, and favorable foreign exchange across all SPGs.

Net worldwide sales of Digital Capture and Devices, which includes consumer digital still and video cameras, digital picture frames, accessories, memory products, snapshot printers and related media, and intellectual property royalties, decreased 7% in the year ended December 31, 2008 as compared with the prior year. This decrease primarily reflects unfavorable price/mix for digital cameras and digital picture frames, volume declines in snapshot printing, and lower

intellectual property royalties (see gross profit discussion below), partially offset by increased volumes for digital cameras and digital picture frames as well as favorable foreign exchange. Digital picture frames were introduced at the end of the first quarter of 2007.

Net worldwide sales of Consumer Inkjet Systems, which includes inkjet printers and related consumables, increased in the year ended December 31, 2008, primarily reflecting volume improvements due to the launch of the product line at the end of the first quarter of 2007 and the introduction of the second generation of printers in the first quarter of 2008, partially offset by unfavorable price/mix. Sell-through of inkjet printers for the full year more than doubled compared with the prior year, resulting in an estimated

installed base of more than 1 million printers as of December 31, 2008.

Net worldwide sales of Retail Systems Solutions, which includes kiosks and related media and APEX drylab systems, increased 1% in the year ended December 31, 2008 as compared with the prior year, reflecting higher equipment and media volumes as well as favorable foreign exchange, partially offset by unfavorable price/mix.

Gross Profit

The decrease in gross profit dollars and margin for CDG was primarily attributable to unfavorable price/mix within Digital Capture and Devices and lower intellectual property royalties, partially offset by reduced manufacturing and other costs primarily in consumer inkjet printers, digital cameras and digital frames, as well as favorable foreign exchange.

Included in gross profit was a non-recurring amendment of an intellectual property licensing agreement with an existing licensee and a new non-recurring intellectual licensing agreement. The impact of these agreements contributed approximately 7.4% of segment revenue to segment gross profit dollars in the current year, as compared with 7.3% of segment revenue to segment gross profit dollars for non-recurring agreements in the prior year. The new agreement also provides the Company with an opportunity for continued collaboration with the licensee.

The results also included approximately $126 million related to intellectual property licensing arrangements under which the Company's continuing obligations were fulfilled as of December 31, 2008. The Company expects to secure other new licensing agreements, the timing and amounts of which are difficult to predict. These types of arrangements provide the Company with a return on portions of historical R&D investments, and new licensing 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 was primarily driven by ongoing efforts to achieve target cost models and lower benefit costs (including other postemployment benefits), partially offset by unfavorable foreign exchange.

Research and Development Costs

The decrease in R&D costs for CDG was primarily attributable to reduced spending in 2008 as compared with the prior year due to the introduction of consumer inkjet printers in 2007, as well as cost reduction actions taken throughout the segment in 2008.

FILM, PHOTOFINISHING AND ENTERTAINMENT GROUP

(dollars in millions)	For the Year Ended December 31,					
	2008	% of Sales	2007	% of Sales	Increase / (Decrease)	% Change
Total net sales	$ 2,987		$ 3,632		$ (645)	-18%
Cost of goods sold	2,335		2,771		(436)	-16%
Gross profit	652	21.8%	861	23.7%	(209)	-24%
Selling, general and administrative expenses	404	14%	520	14%	(116)	-22%
	52	2%	60	2%	(8)	-13%

Research and development costs								
Earnings from continuing operations before interest expense, other income (charges), net and income taxes	$	196	7%	$	281	8%	$	(85)	-30%

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	For the Year Ended December 31,		Change vs. 2007			
	2008 Amount	Change vs. 2007	Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Total net sales	$ 2,987	-17.8%	-18.6%	-1.3%	2.1%	n/a
Gross profit margin	21.8%	-1.9pp	n/a	-2.1pp	0.3pp	-0.1pp

Worldwide Revenues

Net sales for FPEG decreased 18% primarily due to Film Capture and Traditional Photofinishing, reflecting continuing volume declines in the consumer film industry and reduced demand due to the global economic slowdown that began in the latter part of 2008, partially offset by favorable foreign exchange. Net worldwide sales of Film Capture and Traditional Photofinishing decreased 40% and 19%, respectively, in 2008 as compared with 2007.

Net worldwide sales for Entertainment Imaging decreased 5% compared with the prior year, driven by volume declines primarily reflecting the effects of the writers' strike in the first quarter of 2008, and reduced demand in the second half of 2008 from the delay in creation of feature films resulting from uncertainty surrounding industry labor contract issues, as well as the weak economy. This decrease was partially offset by favorable foreign exchange.

Gross Profit

The decrease in FPEG gross profit dollars is primarily a result of declines in sales volume within Film Capture as described above, unfavorable price/mix across all SPGs, partially offset by favorable foreign exchange.

The decrease in FPEG gross profit margin was primarily driven by unfavorable price/mix across all SPGs. In addition, increased manufacturing and other costs in Film Capture were driven by higher costs of silver, paper, and petroleum-based raw material and other costs. These cost increases were largely offset by lower benefit costs (including other postemployment benefits) and the benefit of lower depreciation expense as a result of the change in useful lives executed during the first quarter of this year.

Selling, General and Administrative Expenses

The decline in SG&A expenses for FPEG was attributable to lower benefit costs (including other postemployment benefits) and ongoing efforts to achieve target cost models, partially offset by unfavorable foreign exchange.

GRAPHIC COMMUNICATIONS GROUP

(dollars in millions)	For the Year Ended December 31,					
	2008	% of Sales	2007	% of Sales	Increase / (Decrease)	% Change
Total net sales	$ 3,334		$ 3,413		$ (79)	-2%
Cost of goods sold	2,445		2,438		7	0%
Gross profit	889	26.7%	975	28.6%	(86)	-9%
Selling, general and administrative expenses	627	19%	657	19%	(30)	-5%
Research and development costs	231	7%	214	6%	17	8%
Earnings from continuing operations before interest expense, other income (charges), net and income taxes	$ 31	1%	$ 104	3%	$ (73)	-70%

	For the Year Ended December 31,		Change vs. 2007			
	2008 Amount	Change vs. 2007	Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs
Total net sales	$ 3,334	-2.3%	-1.6%	-4.1%	3.4%	n/a
Gross profit margin	26.7%	-1.9pp	n/a	-1.1pp	-0.6pp	-0.2pp

Worldwide Revenues

GCG net sales decreased 2% as compared with the prior year, driven by unfavorable price/mix and volume declines, partially offset by favorable foreign exchange. Recent global financial market disruptions affected equipment placements across most product lines, and tightening credit availability resulted in deferrals of some orders taken earlier this year at the drupa tradeshow. In addition, the decline in global print demand translated into decreased sales of consumables, especially in the second half of 2008.

Net worldwide sales of Prepress Solutions decreased 2% compared with 2007, driven primarily by volume declines in analog plates and output devices, partially offset by volume growth in digital plates and favorable foreign exchange. The decline in global print demand accelerated the volume decline for analog plates and negatively impacted the volume growth rate for digital plates. Despite the effects of the economic downturn, digital plates experienced volume growth in the high single digits during 2008.

Net worldwide sales of Digital Printing Solutions decreased 6% compared with the prior year. Unfavorable price/mix and declines in volume were partially offset by favorable foreign exchange for all products. Volume declines were largely attributable to black-and-white electrophotographic equipment and consumables due to overall market declines, as certain customers convert to solutions that offer color options. Color electrophotographic equipment and consumables volumes increased, driven by new product line introductions and enhancements. Page volume growth of 12% in the color electrophotographic space was a key contributor to the growth of color consumable sales volumes. Unfavorable inkjet equipment volume and price/mix were partially offset by favorable volume and price/mix in inkjet consumables. General price erosion, declines in legacy product sales, and a mix shift toward units requiring lower levels of capital investment were contributors to this performance.

Net worldwide sales of Document Imaging decreased 2% compared with the prior year. Unfavorable price/mix was partially offset by volume growth and favorable foreign exchange. While volume grew in both the Production Scanner and Distributed Scanner categories, a shift toward low-page volume units in both categories drove unfavorable price/mix.

Net worldwide sales of Enterprise Solutions decreased 1% as compared with the prior year. Unfavorable price/mix and volume declines were partially offset by favorable foreign exchange and acquisitions made during the second quarter of 2008.

Gross Profit

The decline in gross profit dollars and margin was primarily driven by Prepress Solutions and Digital Printing Solutions. Increased manufacturing costs related to aluminum and petroleum-based raw materials, as well as higher distribution expense and volume declines, drove the decrease in the Prepress Solutions gross profit dollars and margin. For Digital Printing Solutions, higher costs of newly introduced digital printers, price erosion and adverse mix were partially offset by manufacturing cost productivity.

Selling, General and Administrative Expenses

The decrease in SG&A expenses for GCG primarily reflects lower benefit costs (including other postemployment benefits) and ongoing efforts to achieve target cost models, partially offset by increased costs associated with the Company's participation in the drupa tradeshow in the second quarter of 2008, go-to-market investments, and unfavorable foreign exchange.

Research and Development Costs

The increase in R&D costs for GCG was primarily driven by investments in new workflow products in Enterprise Solutions, R&D related to acquisitions made in the second quarter of 2008, increased investments for stream technology within Digital Printing Solutions, and unfavorable foreign exchange. These increases were partially offset by ongoing efforts to achieve target cost models.

RESULTS OF OPERATIONS – DISCONTINUED OPERATIONS

Total Company earnings from discontinued operations for the year ended December 31, 2008 and 2007 of $285 million and $881 million, respectively, include a benefit for income taxes of $288 million and a provision for income taxes of $262 million, respectively.

Earnings from discontinued operations in 2008 were primarily driven by a tax refund that the Company received from the U.S. Internal Revenue Service. The refund was related to the audit of certain claims filed for tax years 1993-1998. A portion of the refund related to past federal income taxes paid in relation to the 1994 sale of a subsidiary, Sterling Winthrop Inc., which was reported in discontinued operations. Refer to Note 15, "Income Taxes," for further discussion of the tax refund.

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.

For a detailed discussion of the components of discontinued operations, refer to Note 22, “Discontinued Operations,” in the Notes to Financial Statements.

NET (LOSS) EARNINGS

The Company’s consolidated net loss for 2008 was $442 million, or a loss of $1.57 per basic and diluted share, as compared with net earnings for 2007 of $676 million, or earnings of $2.35 per basic and diluted share, representing a decrease of $1,118 million or 165%. This decrease is attributable to the reasons outlined above.

2007 COMPARED WITH 2006

RESULTS OF OPERATIONS - CONTINUING OPERATIONS

CONSOLIDATED

(in millions, except per share data)	For the Year Ended December 31,					
	2007	% of Sales	2006	% of Sales	Increase / (Decrease)	% Change
Net sales	$ 10,301		$ 10,568		$ (267)	-3%
Cost of goods sold	7,757		8,122		(365)	-4%
Gross profit	2,544	24.7%	2,446	23.1%	98	4%
Selling, general and administrative expenses	1,778	17%	1,969	19%	(191)	-10%
Research and development costs	549	5%	596	6%	(47)	-8%
Restructuring costs and other	543		416		127	31%
Other operating expenses (income), net	(96)		(59)		(37)	63%
Loss from continuing operations before interest expense, 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		203		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%	n/a
Gross profit margin	24.7%	1.6pp	n/a	-4.2pp	1.4pp	4.4pp

Worldwide Revenues

For the year ended December 31, 2007, net sales decreased by 3% compared with 2006, primarily as a result of unfavorable price/mix across all segments and significant industry-related volume declines, driven largely by Film Capture and Traditional Photofinishing within FPEG. These declines were partially offset by significant volume growth in Digital Capture within CDG, volume growth within GCG, favorable foreign exchange across all segments, and 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. dollar’s 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 FPEG.

Included in gross profit for 2007 were 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 2007, as compared with 1.7% of revenue to consolidated 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 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, Rationalization 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 the "RESTRUCTURING COSTS, RATIONALIZATION AND OTHER" section.

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 and businesses in 2007 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 2007 as compared with 2006.

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 in 2007 as compared with 2006 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 22, "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

(dollars in millions)	For the Year Ended December 31, 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 was 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. This was 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.

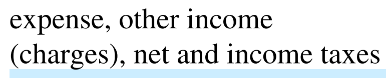
During the fourth quarter of 2007, based on the Company's assessment of positive and negative evidence regarding the realization of the net deferred tax assets, the Company recorded a benefit associated with the release of valuation allowances in certain jurisdictions outside the U.S.

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 2007 or to any prior period financial statement amounts.

CONSUMER DIGITAL IMAGING GROUP

(dollars in millions)	For the Year Ended December 31,					
	2007	% of Sales	2006	% of Sales	Increase / (Decrease)	% Change
Total net sales	$ 3,247		$ 3,013		$ 234	8%
Cost of goods sold	2,419		2,373		46	2%
Gross profit	828	25.5%	640	21.2%	188	29%
Selling, general and administrative expenses	595	18%	556	18%	39	7%
Research and development costs	250	8%	290	10%	(40)	-14%
Loss from continuing operations before interest	$ (17)	-1%	$ (206)	-7%	$ 189	92%



expense, other income
(charges), net and income taxes

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	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	$ 3,247	7.8%	12.2%	-7.0%	2.6%	n/a
Gross profit margin	25.5%	4.3pp	n/a	-6.8pp	1.7pp	9.4pp

Worldwide Revenues

Net sales for CDG increased 8% due to increases in intellectual property royalties, new digital picture frames, and the introductory launch of inkjet printers, partially offset by snapshot printing within Digital Capture and Devices. The unfavorable price/mix was primarily driven by digital camera product portfolio shifts within Digital Capture and Devices and by price declines in Retail Systems Solutions.

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 unfavorable price/mix and lower snapshot printing volumes.

Net worldwide sales of Retail Systems Solutions, which includes kiosks and related media, increased modestly in the year ended December 31, 2007 as compared with the prior year, reflecting volume growth and favorable foreign exchange, partially offset by unfavorable price/mix.

The first quarter 2007 launch of Consumer Inkjet Systems contributed to volume improvements in CDG.

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 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 was 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 7.3% of revenue to segment gross profit dollars in 2007, as compared with 6.0% 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 increase in SG&A expenses for CDG was primarily driven by increased advertising expenses associated with Consumer Inkjet Systems, partially offset by ongoing efforts to achieve target cost models and improved go-to-market structure.

Research and Development Costs

The decrease in R&D costs for CDG was 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, PHOTOFINISHING AND ENTERTAINMENT GROUP

(dollars in millions)	For the Year Ended December 31,					
	2007	% of Sales	2006	% of Sales	Increase / (Decrease)	% Change
Total net sales	$ 3,632		$ 4,254		$ (622)	-15%
Cost of goods sold	2,771		3,203		(432)	-13%
Gross profit	861	23.7%	1,051	24.7%	(190)	-18%
Selling, general and administrative expenses	520	14%	656	15%	(136)	-21%
Research and development costs	60	2%	76	2%	(16)	-21%
Earnings from continuing operations before interest expense, other income (charges), net and income taxes	$ 281	8%	$ 319	7%	$ (38)	-12%

	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	$ 3,632	-14.6%	-15.1%	-2.1%	2.6%	n/a
Gross profit margin	23.7%	-1.0pp	n/a	-3.0pp	1.6pp	0.4pp

Worldwide Revenues

Net sales for FPEG decreased 15% primarily due to Film Capture and Traditional Photofinishing, primarily reflecting continuing declines in the consumer film industry, partially offset by favorable foreign exchange. Net worldwide sales of Film Capture and Traditional Photofinishing decreased 30% and 19%, respectively, in the year ended December 31, 2007 as compared with 2006. Net worldwide sales for Entertainment Imaging were flat as compared with 2006.

Gross Profit

The decrease in FPEG gross profit dollars was primarily a result of lower volumes in Film Capture, unfavorable price/mix associated with new and renewed film agreements, partially offset by favorable 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. FPEG gross profit margin decreased only 1%.

Selling, General and Administrative Expenses

The decline in SG&A expenses for FPEG in dollars and as a percent of sales was attributable to ongoing efforts to achieve target cost models and shifting to a distributor model in regions with lower sales volumes.

GRAPHIC COMMUNICATIONS GROUP

(dollars in millions)	For the Year Ended December 31,					
	2007	% of Sales	2006	% of Sales	Increase / (Decrease)	% Change
Total net sales	$ 3,413		$ 3,287		$ 126	4%
Cost of goods sold	2,438		2,261		177	8%
Gross profit	975	28.6%	1,026	31.2%	(51)	-5%
Selling, general and administrative expenses	657	19%	747	23%	(90)	-12%
Research and development costs	214	6%	209	6%	5	2%
Earnings from continuing operations before interest expense, other income (charges), net and income taxes	$ 104	3%	$ 70	2%	$ 34	49%

	For the Year Ended December 31,		Change vs. 2006				
	2007 Amount	Change vs. 2006	Volume	Price/Mix	Foreign Exchange	Manufacturing and Other Costs	Acquisition
Total net sales	$ 3,413	3.8%	1.5%	-1.8%	4.1%	n/a	22.6%
Gross profit margin	28.6%	-2.6pp	n/a	-1.7pp	0.7pp	-1.6pp	0.5pp

Worldwide Revenues

Total revenue growth of 4% for GCG was 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.

Net worldwide sales of Prepress Solutions increased 3%, primarily driven by increased sales of digital plates and favorable foreign exchange, partially offset by declines in sales of analog plates and output devices. Unfavorable price/mix also negatively impacted net worldwide sales.

Net worldwide sales of Digital Printing Solutions 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 Document Imaging were flat in 2007 compared with the prior year. Unfavorable volume and price/mix were offset by favorable foreign exchange.

Net worldwide sales of Enterprise Solutions increased 10%, primarily driven by the introduction of web-enabled solutions software, volume growth in the workflow software and favorable foreign exchange, partially offset by unfavorable price/mix.

Gross Profit

The decrease in gross profit margin in 2007 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 ongoing efforts to achieve target cost models.

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 22, "Discontinued Operations," in the Notes to Financial Statements.

NET EARNINGS (LOSS)

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.

RESTRUCTURING COSTS, RATIONALIZATION AND OTHER

The Company recognizes the need to continually rationalize its workforce and streamline its operations to remain competitive in the face of an ever-changing business and economic climate. For 2008, these initiatives were referred to as ongoing rationalization activities.

The Company recorded $149 million of charges, net of reversals, including $6 million of charges for accelerated depreciation and $3 million of charges for inventory write-downs, which were reported in Cost of goods sold in the accompanying Consolidated Statement of Operations for the year ended December 31, 2008. The remaining costs incurred, net of reversals, of $140 million were reported as Restructuring costs, rationalization and other in the accompanying Consolidated Statement of Operations for the year ended December 31, 2008. The severance and exit costs reserves require the outlay of cash, while long-lived asset impairments, accelerated depreciation and inventory write-downs represent non-cash items.

During the year ended December 31, 2008, the Company made cash payments of approximately $143 million, related to restructuring and rationalization. Of this amount, $133 million was paid out of restructuring liabilities, while $10

million was paid out of pension and other postretirement liabilities.

The charges, net of reversals, of $149 million recorded in 2008 included $36 million applicable to FPEG, $42 million applicable to CDG, $49 million applicable to GCG, and $22 million that was applicable to manufacturing, research and development, and administrative functions, which are shared across all segments.

The ongoing rationalization actions implemented in 2008 are expected to generate future annual cash savings of approximately $196 million. These savings are expected to reduce future cost of goods sold, SG&A, and R&D expenses by $97 million, $79 million, and $20 million, respectively. The Company began realizing these savings in the first quarter of 2008, and expects the savings to be fully realized by the end of the second quarter of 2009 as most of the actions and severance payouts are completed.

On December 17, 2008, the Company committed to a plan to implement a targeted cost reduction program (the 2009 Program) to more appropriately size the organization as a result of the current economic environment. The program involves rationalizing selling, administrative, research and development, supply chain and other business resources in certain areas and consolidating certain facilities.

In connection with the 2009 Program, the Company expects to incur total restructuring charges in the range of $250 million to $300 million, including $225 million to $265 million of cash related charges for termination benefits and other exit costs, and $25 million to $35 million of non-cash related accelerated depreciation and asset write-offs. The 2009 Program will require expenditures from corporate cash in the range of $125 million to $175 million, as most of the termination benefits for U.S. employees will be provided in the form of special retirement benefits (Special Termination Program (STP) benefits) payable from the Company's over-funded U.S. pension plan. The majority of the actions contemplated by the 2009 Program will be completed in the first half of 2009, with all actions under the program expected to be completed by the end of 2009. The 2009 Program is expected to result in employment reductions in the range of 2,000 to 3,000 positions when complete and yield annualized cash savings of $200 million to $250 million in 2009 and beyond.

When combined with rationalization actions taken in late 2008, the Company expects to reduce its worldwide employment by between 3,500 and 4,500 positions during 2009, approximately 14% to 18% of its total workforce, which are expected to generate annual cash savings in the range of $300 million to $350 million.

For the year ended December 31, 2007, the Company incurred restructuring charges, net of reversals, of $685 million, $686 million of which was under the 2004-2007 Restructuring Program. The $685 million of restructuring charges, net of reversals, included $23 million of costs related to discontinued operations ($20 million of severance costs and $3 million of exit costs), and $662 million related to continuing operations ($107 million of accelerated depreciation, $12 million of inventory write-downs, $270 million of asset impairments, $144 million of severance costs, and $129 million of exit costs). For the year ended December 31, 2006, the Company incurred restructuring charges, net of reversals, of $768 million, all under the 2004-2007 Restructuring Program, including $70 million related to discontinued operations ($12 million of accelerated depreciation, $3 million of inventory write-downs, $52 million of severance costs, and $3 million of exit costs), and $698 million related to continuing operations ($273 million of accelerated depreciation, $9 million of inventory write-downs, $88 million of asset impairments, $263 million of severance costs, and $65 million of exit costs). The Company substantially completed its 2004-2007 Restructuring Program as of December 31, 2007.

LIQUIDITY AND CAPITAL RESOURCES

2008

Cash Flow Activity

(in millions)	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	Change
Cash flows from operating activities:			
Net cash (used in) provided by continuing operations	$ (143)	$ 351	$ (494)
Net cash provided by (used in) discontinued operations	296	(37)	333
Net cash provided by operating activities	153	314	(161)
Cash flows from investing activities:			
Net cash used in continuing operations	(188)	(41)	(147)
Net cash provided by discontinued operations	-	2,449	(2,449)
Net cash (used in) provided by investing activities	(188)	2,408	(2,596)
Cash flows from financing activities:			
Net cash used in continuing operations	(731)	(1,324)	593
Net cash provided by discontinued operations	-	44	(44)
Net cash used in financing activities	(731)	(1,280)	549
Effect of exchange rate changes on cash	(36)	36	(72)
Net (decrease) increase in cash and cash equivalents	$ (802)	$ 1,478	$ (2,280)

Operating Activities

Net cash used in continuing operations from operating activities increased $494 million. The key factor driving this change was the overall decline in earnings for 2008 as compared with 2007, notably in the fourth quarter of 2008 as a consequence of the global economic downturn. The Company's cash from operating activities benefited from lower restructuring payments in 2008 and receipt of a tax refund from the U.S. Internal Revenue Service of $581 million, of which $270 million was reflected in loss from continuing operations during the year. However, the Company also recognized non-cash curtailment gains during the year, and revenue for which cash was received in prior years or will be received in 2009. In addition, net cash received in 2008 for current and prior year non-recurring licensing arrangements of $150 million was $156 million lower than net cash received in 2007 of $306 million. The Company also utilized $128 million more cash in 2008 as compared with 2007, due to an increase in inventories during 2008, as compared with a decrease in inventories in 2007. Furthermore, the Company expended cash in 2008 to reduce liabilities recorded as of the prior year end, which exceeded cash utilized in 2007 to liquidate liabilities as of year end 2006. The combination of these and other factors led to the use of cash in continuing operations from operating activities of $143 million in 2008, as compared with cash provided on the same basis of $351 million in 2007. Net cash provided by (used in) discontinued operations increased $333 million as compared with the prior year due primarily to the receipt, in the second quarter of 2008, of the refund of past federal income taxes referred to above, and more fully described in Note 15, “Income Taxes.”

Investing Activities

Net cash used in continuing operations from investing activities increased $147 million for the year ended December 31, 2008 as compared with 2007 due primarily to lower cash proceeds received from sales of assets and businesses of $92 million in 2008 as compared with $227 million in 2007. Spending for capital additions was $254 million in 2008 as compared with $259 million in 2007. 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. Net cash provided by discontinued operations

for the year ended December 31, 2007 of $2,449 million represents the proceeds received from the sale of the Health Group in the second quarter of 2007 and the sale of the Company's shares of Hermes Precisa Pty. Limited ("HPA") in the fourth quarter of 2007.

Financing Activities

Net cash used in financing activities decreased $549 million for the year ended December 31, 2008 as compared with 2007 due to lower repayments of borrowings, mainly due to the repayment of the Company's Secured Term Debt in the second quarter of 2007 that was required as a result of the sale of the Health Group. These reductions in cash usage were partially offset by repurchases of the Company's common stock of $301 million in 2008.

On June 24, 2008, the Company announced that its Board of Directors authorized a share repurchase program allowing the Company, at management's discretion, to purchase up to $1.0 billion of its common stock. The program will expire at the earlier of December 31, 2009 or when the Company has used all authorized funds for the repurchase of shares. Through December 31, 2008, the Company repurchased approximately 20 million shares at an average price of $15.01 per share, for a total cost of $301 million under this program. While the share repurchase authorization remains in effect through the end of 2009, the Company is not currently repurchasing any of its shares.

It is the Company's practice to make semi-annual dividend payments which, when declared by its Board of Directors, will be paid 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 14, and October 14, 2008, 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 3, 2008, respectively. These dividends were paid on July 16, and December 12, 2008. Total dividends paid for the year ended December 31, 2008 were $139 million.

The Company's long-term debt, net of current portion, of $1,252 million as of December 31, 2008, includes $575 million aggregate principal amount of Convertible Senior Notes due 2033 (the "Convertible Securities"). The security holders have the right to require the Company to purchase their Convertible Securities for cash at a price equal to 100% of the principal amount of the Convertible Securities, plus any accrued and unpaid interest on October 15, 2010, October 15, 2013, October 15, 2018, October 15, 2023 and October 15, 2028, or upon a fundamental change as described in the offering memorandum filed under Rule 144A in conjunction with the private placement of the Convertible Securities. Because of current market conditions, the Company believes it is probable that all, or nearly all, of the Convertible Securities will be redeemed by the security holders on October 15, 2010.

Sources of Liquidity

The Company believes that its current cash balance, combined with cash flows from operating activities and proceeds from sales of assets, will be sufficient to meet its anticipated needs, including working capital, capital investments, scheduled debt repayments, restructuring and dividend payments and employee benefit plan payments or contributions required. If the global economic weakness trends continue for a greater period of time than anticipated or worsen, it could impact the Company's profitability and related cash generation capability. Refer to Item 1A. of Part I, "Risk Factors." In addition to its existing cash balance, the Company has maintained financing arrangements, as described in more detail below under "Credit Quality," to facilitate unplanned timing differences between required expenditures and cash generated from operations or for unforeseen shortfalls in cash flows from operating activities. The Company has not found it necessary to borrow against these financing arrangements over the past three years.

Refer to Note 8, "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, 2008 and 2007.

Credit Quality

Moody's and Standard & Poor's ("S&P") ratings for the Company, including their outlooks, as of the filing date of this Form 10-K are as follows:

	Corporate Rating	Secured Rating	Senior Unsecured Rating	Outlook	Most Recent Update
Moody's	B3	Ba3	Caa1	Negative	February 10, 2009
S&P	B	BB-	B-	Negative	January 30, 2009

On December 11, 2008, S&P lowered the Company's Corporate, Secured, and Senior Unsecured credit ratings from B+ to B, BB to BB-, and B to B-, respectively. The ratings remain on CreditWatch with negative implications, where they were placed on November 3, 2008 following the Company's revision of its earnings guidance. S&P reconfirmed its ratings and CreditWatch with negative implications on January 30, 2009. S&P's practice is to complete their review and resolve ratings under CreditWatch in approximately 90 days from when ratings are placed on CreditWatch. The Company expects S&P to complete their CreditWatch review within the first quarter of 2009.

On December 12, 2008, Moody's placed Kodak's credit ratings on review for possible downgrade. On February 10, 2009, Moody's lowered the Company's Corporate rating from B1 to B3, its Secured rating from Ba1 to Ba3 and its Senior Unsecured rating from B2 to Caa1, and maintained its negative outlook.

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 $64 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. Additional downgrades in the Company's credit rating or disruptions in the capital markets could impact borrowing costs and the nature of its funding alternatives.

The Company's Secured Credit Agreement ("Secured Credit Agreement") contains various affirmative and negative covenants customary in a facility of this type, including two quarterly financial covenants: (1) a consolidated debt for borrowed money to a rolling four-quarter sum of consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) (subject to adjustments to exclude any extraordinary income or losses, as defined by the Secured Credit Agreement, interest income and certain non-cash items of income and expense) ratio of not greater than: 3.5 to 1 as of December 31, 2006 and thereafter, and (2) a consolidated EBITDA to consolidated interest expense (subject to adjustments to exclude interest expense not related to borrowed money) ratio, on a rolling four-quarter basis, of no less than 3.0 to 1. As of December 31, 2008, the Company maintained a substantial cash balance and was in full compliance with all covenants, including the two financial covenants, associated with its Secured Credit Agreement. The Company maintains this credit arrangement in order to provide additional financial flexibility. As of December 31, 2008, there was no debt outstanding and $131 million of letters of credit issued, which are not considered debt for borrowed money under the agreement, but do reduce the Company's borrowing capacity under the Secured Credit Agreement by this amount.

Based on the Company's current financial forecasts, it is reasonably likely that the Company could breach its financial covenants in the first quarter of 2009 unless an appropriate amendment or waiver is obtained. The Company is currently negotiating with its lenders to ensure it has continued access to a Secured Credit Agreement, with the goal to

have an amended credit facility in place by the end of the first quarter.

In the event that the Company is unable to successfully re-negotiate the terms of the Secured Credit Agreement, and the Company breaches the financial covenants, the Company may be required to cash collateralize approximately $131 million of outstanding letters of credit. A breach of the financial covenants would not accelerate the maturity of any of the Company's existing outstanding debt. However, should the Company lose access to its revolving credit facility under the Secured Credit Agreement, it would lose the additional financial flexibility provided by the facility. Based on its current financial position and expected economic performace, the Company does not believe that its

liquidity will be materially affected by an inability to access external sources of financing. However, the Company's goal is to complete its negotiation and amendment prior to covenant compliance testing for the first quarter of 2009.

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, 2008						
(in millions)	Total	2009	2010	2011	2012	2013	2014+
Long-term debt (1)	$ 1,302	$ 50	$ 620	$ 43	$ 40	$ 536	$ 13
Interest on debt	300	72	69	52	53	44	10
Operating lease obligations	387	96	81	65	49	28	68
Purchase obligations (2)	921	479	207	122	49	33	31
Total (3) (4) (5)	$ 2,910	$ 697	$ 977	$ 282	$ 191	$ 641	$ 122

(1) Represents maturities of the Company's long-term debt obligations as shown on the Consolidated Statement of Financial Position. See Note 8, "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 one to thirteen years. See Note 10, "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 15, "Income Taxes," in the Notes to Financial Statements for additional information regarding the Company's 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 2008, the Company made contributions to its major defined benefit retirement plans and benefit payments for its other postretirement benefit plans of $101 million ($29 million relating to its U.S. defined benefit plans) and $204 million ($199 million relating to its U.S. other postretirement benefits plan), respectively. The Company expects to contribute approximately $130 million ($29 million relating to its U.S. defined benefit plans) and $175 million ($170 million relating to its U.S. other postretirement benefits plan), respectively, to its defined benefit plans and other postretirement benefit plans in 2009.

(5) Because their future cash outflows are uncertain, the other long-term liabilities presented in Note 9, "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, 2008, the maximum potential amount of future payments (undiscounted) that the Company could be required to make under these customer-related guarantees was $75 million. At December 31, 2008, the carrying amount of any liability related to these customer guarantees was not material.

The customer financing agreements and related guarantees, which mature between 2009 and 2013, 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. However, any proceeds received from the liquidation of these assets are not expected to be material and would not cover the maximum potential amount of future payments under these guarantees.

Despite the current economic environment, the Company believes that the guarantees disclosed above will not have a material impact on the results of operations or financial position of the Company. With respect to the guarantees that the Company issued in the year ended December 31, 2008, the Company assessed the fair value of its obligation to stand ready to perform under these guarantees by considering the likelihood of occurrence of the specified triggering events or conditions requiring performance as well as other assumptions and factors.

Eastman Kodak Company (“EKC”) also guarantees amounts owed to banks and other third parties for some of its consolidated subsidiaries. The maximum amount guaranteed is $509 million, and the outstanding debt under those guarantees, which is recorded within the Short-term borrowings and current portion of long-term debt, and Long-term debt, net of current portion components in the accompanying Consolidated Statement of Financial Position, is $189 million. These guarantees expire in 2009 through 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 (the “Credit Facilities”) and other obligations of the Company and its subsidiaries to the Credit Facilities’ lenders are guaranteed.

During the fourth quarter of 2007, EKC issued a guarantee to Kodak Limited (the “Subsidiary”) and the Trustees (the “Trustees”) of the Kodak Pension Plan of the United Kingdom (the “Plan”). Under this arrangement, EKC 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 plan 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 typically 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. Currently, the Plan’s local funding valuation is in process and expected to be completed in March 2009. In conjunction with that funding valuation process, EKC and the Subsidiary are in discussions with the Trustees regarding the amount of future annual contributions and the date by which the Plan will achieve full funded status. These negotiations may require changes to the existing guarantee described above. 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, 2008 was not material to the Company’s financial position, results of operations or cash flows.

2007

Cash Flow Activity

(in millions)	For the Year Ended December 31, 2007	2006	Change
Cash flows from operating activities:			
Net cash provided by continuing operations	$ 351	$ 685	$ (334)
Net cash (used in) provided by discontinued operations	(37)	271	(308)
Net cash provided by operating activities	314	956	(642)
Cash flows from investing activities:			
Net cash used in continuing operations	(41)	(181)	140
Net cash provided by (used in) discontinued operations	2,449	(44)	2,493
Net cash provided by (used in) investing activities	2,408	(225)	2,633
Cash flows from financing activities:			
Net cash used in continuing operations	(1,324)	(947)	(377)
Net cash provided by discontinued operations	44	-	44
Net cash used in financing activities	(1,280)	(947)	(333)
Effect of exchange rate changes on cash	36	20	16
Net increase (decrease) in cash and cash equivalents	$ 1,478	$ (196)	$ 1,674

Operating Activities

Net cash provided by continuing operations from operating activities decreased $334 million for the year ended December 31, 2007 as compared with 2006, due primarily to cash expended in 2007 to reduce liabilities recorded as of the prior year end, which exceeded cash utilized in 2006 to liquidate liabilities as of year-end 2005, and a decrease in net cash received for non-recurring license arrangements of $9 million. These decreases were partially offset by the decrease in loss from continuing operations for the year ended December 31, 2007 as compared with 2006. Net cash used in discontinued operations increased $308 million in 2007 as compared with the prior year due primarily to the impact of the sale of the Health Group segment and HPA in 2007.

Investing Activities

Net cash used in continuing operations from investing activities decreased $140 million for the year ended December 31, 2007 as compared with 2006, due primarily to capital expenditures of $259 million, a reduction of $76 million as compared with 2006, proceeds from the sales of businesses/assets of $227 million, an increase of $49 million as compared with the prior year, and decreased investments in unconsolidated affiliates of $19 million. The majority of capital spending supports new products, manufacturing capacity, productivity and quality improvements, infrastructure improvement, equipment placements with customers, and ongoing environmental and safety initiatives. Net cash provided by discontinued operations for the twelve months ended December 31, 2007 of $2,449 million represents the net proceeds received from the sale of the Health Group in the second quarter of 2007 of $2,335 million, and the proceeds received from the sale of HPA in the fourth quarter of 2007 of $114 million. Refer to Note 22, “Discontinued Operations.”

Financing Activities

Net cash used in financing activities increased $333 million for the year ended December 31, 2007 as compared with 2006, due to higher net repayments of borrowings, mainly due to the repayment of the Company's Secured Term Debt in the second quarter of 2007 that was required as a result of the sale of the Health Group.

2006

Cash Flow Activity

(in millions)	For the Year Ended December 31, 2006	2005	Change
Cash flows from operating activities:			
Net cash provided by continuing operations	$ 685	$ 722	$ (37)
Net cash provided by discontinued operations	271	486	(215)
Net cash provided by operating activities	956	1,208	(252)
Cash flows from investing activities:			
Net cash used in continuing operations	(181)	(1,264)	1,083
Net cash used in discontinued operations	(44)	(40)	(4)
Net cash used in investing activities	(225)	(1,304)	1,079
Cash flows from financing activities:			
Net cash (used in) provided by financing operations	(947)	533	(1,480)
Effect of exchange rate changes on cash	20	(27)	47
Net (decrease) increase in cash and cash equivalents	$ (196)	$ 410	$ (606)

Operating Activities

Net cash provided by continuing operations from operating activities decreased $37 million for the year ended December 31, 2006 as compared with 2005, due primarily to the recognition of deferred income on intellectual property arrangements in 2006, for which cash was received in 2007, partially offset by the year-over-year decline in inventories due to planned inventory reductions driven by corporate initiatives and the decline in demand for traditional products. Net cash provided by discontinued operations decreased $215 million as compared with the prior year due primarily to the results of the operations of the Health Group segment, and the reversal of certain tax accruals in 2005 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 tax 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.

Investing Activities

Net cash used in continuing operations from investing activities decreased $1,083 million for the year ended December 31, 2006 as compared with 2005, due primarily to the acquisitions of Creo, Inc. and Kodak Polychrome Graphics in 2005.

Financing Activities

Net cash used in financing activities increased $1,480 million for the year ended December 31, 2006 as compared with 2005, due to the net repayment of $803 million of debt in 2006.

OTHER

Refer to Note 10, "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 regarding the following are forward-looking statements: its ability to address the impact of the economic downturn including the transformation of certain of its businesses; its employment reductions and savings under its restructuring program and other rationalization activities; revenue; cash needs; liquidity; and benefits costs.

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;
- alignment of the Company’s cost structure to the new economic realities and the decline in the Company’s traditional businesses;
- implementation of the Company’s plans to tighten its focus on its portfolio of investments;
- implementation of, and performance under, the debt management program, including compliance with the Company's debt covenants and the ability to obtain amendments to, or waivers of, these covenants, if necessary;
- 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;
- commercialization of the Company’s breakthrough technologies;
- ability to accurately predict product, customer and geographic sales mix and seasonal sales trends;
- management of inventories, capital expenditures, working capital and cash conversion cycle;
- integration of acquired businesses and consolidation of the Company's subsidiary structure; and
- improvements in productivity and supply chain efficiency and continued availability of essential components and services from concentrated sources of supply.

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;
- volatility in the financial markets and the availability of credit;
- 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;
- the severity of the economic downturn and its effect upon customer spending;
- possible impairment of goodwill and other assets;
- 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 2008 and for the four years prior is shown on page 114.

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. 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 may be 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, 2008 and 2007, the fair value of open forward contracts would have decreased $10 million and $66 million, respectively. Such losses would be substantially offset by 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, 2008 and 2007, the fair value of open forward contracts would have decreased $5 million and $2 million, respectively. Such losses in fair value, if realized, would be offset by lower costs of manufacturing silver-containing products.

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 178 basis points) lower at December 31, 2008, the fair value of short-term and long-term borrowings would have increased $1 million and $40 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 57 basis points) lower at December 31, 2007, the fair value of short-term and long-term borrowings would have increased $1 million and $57 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, 2008 was not significant to the Company.

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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, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 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, 2008, 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.

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.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Rochester, New York
February 26, 2009

Eastman Kodak Company
CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share data)	For the Year Ended December 31, 2008	2007	2006
Net sales	$ 9,416	$ 10,301	$ 10,568
Cost of goods sold	7,247	7,757	8,122
Gross profit	2,169	2,544	2,446
Selling, general and administrative expenses	1,583	1,778	1,969
Research and development costs	501	549	596
Restructuring costs, rationalization and other	140	543	416
Other operating expenses (income), net	766	(96)	(59)
Loss from continuing operations before interest expense, other income (charges), net and income taxes	(821)	(230)	(476)
Interest expense	108	113	172
Other income (charges), net	55	87	65
Loss from continuing operations before income taxes	(874)	(256)	(583)
(Benefit) provision for income taxes	(147)	(51)	221
Loss from continuing operations	(727)	(205)	(804)
Earnings from discontinued operations, net of income taxes	285	881	203
NET (LOSS) EARNINGS	$ (442)	$ 676	$ (601)
Basic and diluted net (loss) earnings per share:			
Continuing operations	$ (2.58)	$ (0.71)	$ (2.80)
Discontinued operations	1.01	3.06	0.71
Total	$ (1.57)	$ 2.35	$ (2.09)
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

(in millions, except share and per share data)	As of December 31, 2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,145	$ 2,947
Receivables, net	1,716	1,939
Inventories, net	948	943
Other current assets	195	224
Total current assets	5,004	6,053
Property, plant and equipment, net	1,551	1,811
Goodwill	896	1,657
Other long-term assets	1,728	4,138
TOTAL ASSETS	$ 9,179	$ 13,659
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and other current liabilities	$ 3,267	$ 3,794
Short-term borrowings and current portion of long-term debt	51	308
Accrued income and other taxes	144	344
Total current liabilities	3,462	4,446
Long-term debt, net of current portion	1,252	1,289
Pension and other postretirement liabilities	2,382	3,444
Other long-term liabilities	1,122	1,451
Total liabilities	8,218	10,630