EASTMAN KODAK CO
Form 10-K
February 27, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the year ended December 31, 2007 or

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

For the transition period from _________ to _________

Commission File Number 1-87

EASTMAN KODAK COMPANY

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Yes o No x

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

PART III OF FORM 10-K

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

Item 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Item 11 - EXECUTIVE COMPENSATION

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

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

Item 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES

Eastman Kodak Company
Form 10-K
December 31, 2007

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PART I

ITEM 1. BUSINESS

Eastman Kodak Company (the Company or Kodak) is the 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. Th Company's products span:

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

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

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

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

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

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

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

In addition, the 2008 Strategic Imperatives include:

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

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REPORTABLE SEGMENTS

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

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

CONSUMER DIGITAL IMAGING GROUP (CDG) SEGMENT

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

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

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

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

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

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

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

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

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

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

The key elements of 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, and advertising. 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.

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

FILM PRODUCTS GROUP (FPG) SEGMENT

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

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

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

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

The 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 motion pictures, 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 positive reception of our recently introduced VISION3 motion picture film.

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

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

In the consumer and professional film markets, Kodak continues to maintain the leading worldwide share position despite continuing strong competition as the market declines, through ongoing product innovation and customer relations and service. In 2007, product innovations included upgrades to select consumer films, one-time-use cameras, and professional films. These products were introduced worldwide and won significant acclaim and industry awards, especially among professional photographers. The continuing industry consolidation, along with the retailers move towards carrying fewer brands on their shelves, has enabled the Company to secure a number of preferred contract renewals with leading retailers in Europe and North America, strengthening our position.

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

GRAPHIC COMMUNICATIONS GROUP (GCG) SEGMENT

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

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

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

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

ALL OTHER

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

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

DISCONTINUED OPERATIONS HEALTH GROUP

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

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

FINANCIAL INFORMATION BY GEOGRAPHIC AREA

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

RAW MATERIALS

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

SEASONALITY OF BUSINESS

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

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

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

RESEARCH AND DEVELOPMENT

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

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

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

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

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

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

ENVIRONMENTAL PROTECTION

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

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

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

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

EMPLOYMENT

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

AVAILABLE INFORMATION

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

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

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

System integration issues could adversely affect our revenue and earnings.

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

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

As part of our business strategy, we frequently engage in discussions with third parties regarding possible investments, acquisitions, strategic alliances, joint ventures, divestitures and outsourcing transactions ("transactions") and enter into agreements relating to such transactions in order to further our business objectives. In order to pursue this strategy successfully, we must identify suitable candidates for and successfully complete transactions, some of which may be large and complex, and manage post-closing issues such as the integration of acquired companies or employees. Integration and other risks of transactions can be more pronounced for larger and more complicated transactions, or if multiple transactions are pursued simultaneously. If we fail to identify and complete successfully transactions that further our strategic objectives, we may be required to expend resources to develop products and technology internally, we may be at a competitive disadvantage or we may be adversely affected by negative market perceptions, any of which may have a material adverse effect on our revenue, gross margin and profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The competitive environment in which we operate may require us to provide financing to our customers in order to win a contract. Customer financing arrangements may include all or a portion of the purchase price for our products and services. We may also assist customers in obtaining financing from banks and other sources and may provide financial guarantees on behalf of our customers. Our success may be dependent, in part, upon our ability to provide customer financing on competitive terms and on our customers creditworthiness. If we are unable to provide competitive financing arrangements to our customers or if we extend credit to customers that are not creditworthy, this could adversely impact our revenues, profitability and financial position.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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

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

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

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

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

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

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

Executive officers are elected annually in February.

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

The executive officers' biographies follow:

Robert L. Berman

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

Philip J. Faraci

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

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

Joyce P. Haag

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

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

Mary Jane Hellyar

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

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

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

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

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

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

James T. Langley

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

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

William J. Lloyd

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

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

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

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

Laboratories.

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

Antonio M. Perez

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

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

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

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

Frank S. Sklarsky

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

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

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

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

Diane E. Wilfong

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

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

PART II

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

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

MARKET PRICE DATA

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

DIVIDEND INFORMATION

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

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

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

PERFORMANCE GRAPH - SHAREHOLDER RETURN

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

Performance Graph - Shareholder Return

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

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

ITEM 6. SELECTED FINANCIAL DATA

Refer to Summary of Operating Data on page 110.

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

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

OVERVIEW

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

REVENUE RECOGNITION

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

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

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

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

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

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

INCOME TAXES

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

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

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

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

PENSION AND OTHER POSTRETIREMENT BENEFITS

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

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

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

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

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

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

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

ENVIRONMENTAL COMMITMENTS

Environmental liabilities are accrued based on estimates of known environmental remediation responsibilities. The liabilities include accruals for sites owned or leased by Kodak, sites formerly owned or leased by Kodak, and other third party sites where Kodak was designated as a potentially responsible party (PRP). The amounts accrued for such sites are based on these estimates, which are determined using the ASTM Standard E 2137-01, Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters. The overall method includes the use of a probabilistic model that forecasts a range of cost estimates for the remediation required at individual sites. The Company's estimate includes equipment and operating costs for investigations, remediation and long-term monitoring of the sites. Such estimates may be affected by changing determinations of what constitutes an environmental liability or an acceptable level of remediation. Kodak's estimate of its environmental liabilities may also change if the proposals to regulatory agencies for desired methods and outcomes of remediation are viewed as not acceptable, or additional exposures are identified. The Company has an ongoing monitoring and identification process to assess how activities, with respect to the known exposures, are progressing against the accrued cost estimates, as well as to identify other potential remediation issues that are presently unknown.

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

RECENTLY ISSUED ACCOUNTING STANDARDS

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

KODAK OPERATING MODEL AND REPORTING STRUCTURE

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

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

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

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

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

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

CHANGE IN REPORTING STRUCTURE

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

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

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

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

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

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

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

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

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

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

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

2007 COMPARED WITH 2006

RESULTS OF OPERATIONS - CONTINUING OPERATIONS

CONSOLIDATED

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

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

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

Gross Profit
Gross profit improved in the year ended December 31, 2007 in both dollars and as a percentage of sales, due largely to reduced manufacturing and other costs as a result of a number of factors, as well as increased intellectual property royalties within CDG. In addition, foreign exchange was a positive contributor to gross profit as a result of the weak U.S. 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 FPG.

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

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

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

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

Other Operating (Income) Expenses, Net

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

Interest Expense

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

Other Income (Charges), Net

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

Income Tax (Benefit) Provision

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

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

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

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

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

CONSUMER DIGITAL IMAGING GROUP

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

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

Worldwide Revenues

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

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

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

Gross Profit

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

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

Selling, General and Administrative Expenses

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

Research and Development Costs

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

FILM PRODUCTS GROUP

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

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

Worldwide Revenues

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

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

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

Gross Profit

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

Selling, General and Administrative Expenses

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

GRAPHIC COMMUNICATIONS GROUP

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

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

Worldwide Revenues

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

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

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

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

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

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

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

ALL OTHER

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

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

RESULTS OF OPERATIONS DISCONTINUED OPERATIONS

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

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

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

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

NET EARNINGS

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

2006 COMPARED WITH 2005

RESULTS OF OPERATIONS - CONTINUING OPERATIONS

CONSOLIDATED

	For the Year Ended December 31,

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

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

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Worldwide Revenues

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

Gross Profit

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

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

Selling, General and Administrative Expenses

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

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

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

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

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

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

Income Tax Provision

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

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

CONSUMER DIGITAL IMAGING GROUP

	For the Year Ended December 31,					
(dollars in millions)	**2006**	**% of Sales**	**2005**	**% of Sales**	**Increase / (Decrease)**	**% Change**
Digital net sales						