

# EASTMAN KODAK CO

## **FORM 10-K** (Annual Report)

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Address	343 STATE ST ROCHESTER, NY 14650-0910
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Industry	Printing Services
Sector	Services
Fiscal Year	12/31

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

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

For the year ended December 31, 2006 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

(State of incorporation)

16-0417150

(IRS Employer Identification No.)

343 STATE STREET, ROCHESTER, NEW YORK

(Address of principal executive offices)

14650

(Zip Code)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

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

Yes ☐ No ☒

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 ☒ No ☐

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

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 ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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, 2006, was approximately \$6.8 billion. The registrant has no non-voting common stock.

The number of shares outstanding of the registrant's common stock as of February 21, 2007 was 287,513,753 shares of common stock.

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PAGE 2

## 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 2007 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
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PAGE 3

### Eastman Kodak Company Form 10-K December 31, 2006

#### Table of Contents

	<u>Page</u>
 <b>Part I</b>	
Item 1. Business	4
Item 1A. Risk Factors	12
Item 1B. Unresolved Staff Comments	18
Item 2. Properties	18
Item 3. Legal Proceedings	19
Item 4. Submission of Matters to a Vote of Security Holders Executive Officers of the Registrant	20

#### Part II

- Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of

	Equity Securities	24
Item 6.	Selected Financial Data	25
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
	Liquidity and Capital Resources	59
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	73
Item 8.	Financial Statements and Supplementary Data	74
	Consolidated Statement of Operations	76
	Consolidated Statement of Financial Position	77
	Consolidated Statement of Shareholders' Equity	78
	Consolidated Statement of Cash Flows	81
	Notes to Financial Statements	83
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	152
Item 9A.	Controls and Procedures	152
Item 9B.	Other Information	153

### Part III

Item 10.	Directors, Executive Officers and Corporate Governance	154
Item 11.	Executive Compensation	154
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	154
Item 13.	Certain Relationships and Related Transactions, and Director Independence	156
Item 14.	Principal Accounting Fees and Services	156

### Part IV

Item 15.	Exhibits, Financial Statement Schedules	156
	Signatures	157
	Schedule II - Valuation and Qualifying Accounts	158
	Index to Exhibits	159

PAGE 4

## PART I

### ITEM 1. BUSINESS

Eastman Kodak Company (the Company or Kodak) is the world's foremost imaging innovator, providing leading products and services to the photographic, graphic communications and healthcare markets. With sales of \$13.3 billion in 2006, the Company is committed to a digitally oriented growth strategy focused on helping people better use meaningful images and information in their life and work. Consumers use Kodak's system of digital and traditional image capture products and services to take, print, store and share their pictures anytime, anywhere; businesses effectively communicate with customers worldwide using Kodak solutions for prepress, conventional and digital printing and document imaging; creative professionals rely on Kodak technology to uniquely tell their story through moving or still images; and leading healthcare organizations rely on Kodak's innovative products, services and customized workflow solutions to help improve patient care and maximize efficiency and information sharing within and across their enterprises.

In 2003, the Company announced a comprehensive strategy to be implemented through 2007 to complete its transformation as the leader of the traditional photographic industry to a leadership position in digital imaging markets. Solid progress was achieved during 2006 in each area of this strategy. The Company holds a leading position in key digital product categories where it participates. For the year ended December 31, 2006, the Company achieved a level of digital revenues that exceeded traditional revenues. Additionally, through the 2005 acquisitions of KPG and Creo, the Company has essentially completed its \$3 billion investment and acquisition plan included in the 2003 strategy.

For 2007, the Company's strategy is to continue to focus on the following metrics:

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

In addition the Company's priorities for 2007 also include:

- Achieve market success with new products, including consumer inkjet and CMOS, and Graphic Communications Group (GCG) product line extensions and new market opportunities within GCG
- Continue progress toward the installation of our target cost model, including the focus on selling, general, and administrative (SG&A) expenses, and completion of the traditional restructuring

## REPORTABLE SEGMENTS

As of and for the year ended December 31, 2006, the Company reported financial information for four reportable segments: Consumer Digital Imaging Group (CDG), Film and Photofinishing Systems Group (FPG), Graphic Communications Group (GCG) and Health Group (KHG). 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 four reportable segments and All Other as they were structured as of and for the year ended December 31, 2006. The Company's sales, earnings and assets by reportable segment for these four reportable segments and All Other for the past three years are shown in Note 23, "Segment Information."

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PAGE 5

## CONSUMER DIGITAL IMAGING GROUP (CDG) SEGMENT

Sales from continuing operations of the CDG segment for 2006, 2005 and 2004 were (in millions) \$2,920, \$3,215 and \$2,366, respectively.

The Company is a global leader in providing digital photography products and services for consumer markets. Kodak holds top three market shares in the major markets it participates in such as digital still cameras, snapshot printers, retail photo kiosks, and online imaging services.

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

Digital Products : Consumer digital products include digital cameras, home imaging accessory products, and self-contained home printers and printer media. This product line fuels Kodak's participation in the high revenue growth personal device and home accessory digital 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](http://www.kodak.com)). Kodak's 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 Kodak's complete set of digital printing hardware, media and infrastructure offerings to retailers. This consolidation will enable a complete set of resources to be applied to bringing innovative service products to retailers, and as such will add scale and stability to CDG's ongoing revenue, cash flows and earnings. Kodak's 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 85,000 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.

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

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

Imaging Sensors : Kodak's line of CMOS sensors provides an attractive market opportunity, including mobile, automotive and industrial 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 Ink Jet 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) Kodak's 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 that saves consumers 50% on everything they print. 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.

Kodak aims for superior customer satisfaction in all of its products and services. In 2006, for the third year in a row, Kodak ranked as the highest brand in customer satisfaction among digital cameras in the \$200-\$399 price segment (nearly half of the U.S. market), according to *J.D. Power and Associates* . Kodak EasyShare Photo Printers earned highest levels of customer satisfaction in *J.D. Power and Associates Snapshot Printer survey* .

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PAGE 6

**Marketing and Competition :** The Company faces competition from other online service companies, consumer electronics and printer manufacturers 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 on-line, public relations 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.

## **FILM AND PHOTOFINISHING SYSTEMS GROUP (FPG) SEGMENT**

Sales from continuing operations of the FPG segment for 2006, 2005 and 2004 were (in millions) \$4,156, \$5,325 and \$7,051, respectively.

This segment is composed of traditional photographic products and services used to create motion pictures, capture and print photographs, and for professional and commercial imaging applications. The Company manufactures and markets films (motion picture, consumer, professional, industrial and aerial), one-time-use and re-loadable film cameras, consumer and professional color photographic papers, photographic processing chemicals, wholesale photofinishing services, on-site event imaging solutions, and equipment service and support.

The market for consumer and professional films and certain industrial and aerial films are in decline due to digital substitution. The market for motion picture films remains stable with significant impact from digital substitution still expected to be some time away. The continued future impact of digital substitution on these film markets is difficult to predict due to a number of factors, including the pace of digital technology adoption, the underlying economic strength or weakness in major world markets, and the timing of digital infrastructure installation. Film usage continues to decline as consumers continue to migrate from a film-only household, to a dual-use (digital camera and film) household, or digital only household.

**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 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, commercials and a number of other types of theatrical productions. Selective investments to sustain 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 Vision II series of motion picture films.

The distribution of motion pictures to theaters on print film is another important element of the business, one that the Company works hard to preserve. Price competition is a bigger factor in this segment of the motion picture market, but the Company continues to maintain the leading share position.

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PAGE 7

In the consumer and professional film markets, Kodak continues to maintain the leading worldwide share position despite continuing strong competition as the market declines. The exit of several smaller participants, along with the move of retailers to a 2-brand strategy, has enabled the Company to secure a number of preferred contract renewals with leading retailers in Europe and North America strengthening our position as the market consolidates. In 2006, Kodak continued to offer selective innovation, upgrading our family of one-time-use cameras with improved film

and introducing a new family of Kodak Professional Portra films, which won significant acclaim and industry awards. Price increases during 2006 led to the most stable pricing in nearly a decade.

Declines in the market for color photographic papers moderated during 2006, led by increased demand for digital printing. The Company's strategy to capitalize on this trend 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 supplier of consumables. Kodak's paper business also benefited from industry consolidation, gaining volume as several smaller participants have left the market.

Traditional products and services for the consumer are sold direct to retailers and through distributors throughout the world. Price competition continues to exist in all marketplaces. To be more cost competitive with its traditional product offerings, the Company is continuing to rationalize capacity and restructure its go-to-market model. As previously outlined, digital product offerings are substituting for some of the traditional film products, as a large number of consumers actively use digital cameras. While this substitution to date has had an impact primarily on the Company's film and paper sales, and processing services in the U.S., Japan and Western Europe, there are declining sales in emerging markets as well.

Throughout the world, almost all 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.

## **GRAPHIC COMMUNICATIONS GROUP (GCG) SEGMENT**

Sales from continuing operations of the Graphic Communications Group segment for 2006, 2005 and 2004 were (in millions) \$3,632, \$2,990 and \$1,344, 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 consumables, including plates, chemistry, and media; workflow and proofing software; color and black and white electrophotographic equipment and consumables; high-speed, high-volume continuous inkjet printing systems; wide-format inkjet printers; high-speed production document scanners; micrographic peripherals; and media (including micrographic films). The Company 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 been able to maintain price by adding more attractive features to its products through technological advances. The Company has developed a wide-range portfolio of digital products; workflow, equipment, media, and services to meet the needs of customers who are interested in converting from traditional 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.

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PAGE 8

The growth in digital solutions has negatively affected the sale of traditional graphic films. As a result, the Company has become more active in digital printing products and services in order to participate in this growth segment through the acquisitions of Scitex Digital Printing, renamed Kodak Versamark, the NexPress-related entities, KPG and Creo. Traditional graphic products, primarily consisting of graphic films and chemistry, were formerly sold directly by the Company to the KPG joint venture.

In addition, a range of inkjet products for digital printing and proofing are sold through direct and indirect means. Document scanners are sold primarily through a two-tiered distribution channel to a number of different industries. The Company remains competitive by focusing on developing digital solutions based on inkjet, thermal and electro-photographic technologies by comprehensive workflow, training and service systems.

## **HEALTH GROUP SEGMENT (KHG) SEGMENT**

Sales from continuing operations of the Health Group segment for 2006, 2005 and 2004 were (in millions) \$2,497, \$2,655 and \$2,686, respectively.

Products and services of the Health Group segment enable healthcare customers (e.g., hospitals, imaging centers, etc.) to capture, process, integrate, archive and display images and information in a variety of forms. These products and services provide intelligent decision support through the entire patient pathway from research to detection to diagnosis to treatment. The Health Group segment also provides products and services that help customers improve workflow in their facilities, which in turn helps them enhance the quality and productivity of healthcare delivery.

The Health Group segment provides digital medical imaging and information products, and systems and solutions, which are key components of sales and earnings growth. These include laser imagers, digital print films, computed and digital radiography systems, dental radiographic imaging systems, dental practice management software, advanced picture-archiving and communications systems (PACS), and healthcare information systems (HCIS). Products of the Health Group segment also include traditional analog medical films, chemicals, and processing equipment. The Company's history in traditional analog imaging has made it a leader in this area and has served as the foundation for building its important digital imaging business. The Health Group segment serves the general radiology market and specialty health markets, including dental, mammography, orthopedics and oncology. The segment also provides molecular imaging for the biotechnology research market.

The Company announced on January 10, 2007 that it has reached an agreement to sell the Health Group to Onex Corporation for as much as \$2.55 billion. The transaction is expected to close in the first half of 2007. As a result, KHG will be reported as a discontinued operation beginning in the first quarter of 2007.

**Marketing and Competition:** In the U.S., Canada and Latin America, health imaging consumables and analog equipment are sold through distributors. A significant portion of digital equipment and solutions is sold direct to end users, with the balance sold through distributors and OEMs. In the U.S., individual hospitals or groups of hospitals represented by, as buying agents, group purchasing organizations (GPOs), account for a significant portion of consumables and equipment sales industry-wide. The Health Group segment has secured long-term contracts with many of the major GPOs and, thus, has positioned itself well against competitors. In Europe, consumables and analog equipment are sold through distributors and value added service providers (VASPs) as well as direct to end users. Hospitals in Europe, which are a mix of private and government-funded types, employ a highly regimented tender process in acquiring medical imaging products. In addition to creating a competitive pricing environment, this process can result in a delay of up to 6 to 18 months between the time the tender is delivered to the hospital and the time the hospital makes a decision on the vendor. Additionally, the government-funded hospitals' budgets tend to be limited and restricted. Government reimbursement policies often drive the use of particular types of equipment and influence the transition from analog to digital imaging. These policies vary widely among European countries. In Asia and Japan, sales of all products are split between distributors and end users. In Europe, Asia and Japan, consumables and analog equipment are often sold as part of a media/equipment bundle. Digital equipment and solutions are sold direct to end-users and through OEMs in these three geographic areas.

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PAGE 9

Worldwide, the medical imaging market is crowded with a range of strong competitors. To compete aggressively, the Company's Health Group segment has developed a full portfolio of value-adding products and services. Some competitors offer digital solutions similar to those of Kodak, and other competitors offer similar analog solutions or a mix of analog and digital. The Health Group segment has a wide range of solutions from analog to digital as well as solutions combining both analog and digital technologies. Moreover, the segment's portfolio is expanding into new areas, thus enabling the segment to offer solutions that combine medical images and information, such as patient reports, into one unified package for medical practitioners. The Company will continue to innovate products and services to meet the changing needs and preferences of the marketplace.

## ALL OTHER

Sales from continuing operations comprising All Other for 2006, 2005 and 2004 were (in millions) \$69, \$83 and \$70, respectively.

All Other is composed of the Company's display business, business development and other small, miscellaneous businesses. The development initiatives in consumer inkjet technologies continue to be reported in All Other through the end of 2006.

## CHANGE IN REPORTING STRUCTURE

In December 2006, the Company announced that effective January 1, 2007 the Film and Photofinishing Systems Group would be called the Film Products Group, and that certain strategic product groups (SPG's) previously included in FPG would become part of CDG. Also effective January 1, 2007, consumer inkjet systems, formerly reported in All Other, would become part of CDG. 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, 2007. The most significant change, the transfer of photographic paper and photofinishing services to CDG from FPG, reflects the increasing manner in which images captured or generated by CDG products and services are printed and shared. CDG will be the Company's primary point of contact for the digital picture-taking consumer, providing a full range of products and services for capturing, storing, printing and sharing images. Additionally, the new structure will concentrate FPG's portfolio exclusively on film-related and entertainment imaging businesses. The following indicates the changes from the old reporting structure to the new reporting structure that will be implemented beginning in the first quarter of 2007:

**Consumer Digital Imaging Group Segment (CDG):** This segment will include photographic paper and photofinishing services, formerly part of FPG, and consumer inkjet systems, formerly part of All Other.

**Film Products Group Segment (FPG):** The Film Products Group segment will no longer include photographic paper and photofinishing services, since they will become part of CDG. Additionally, the non-destructive testing business, formerly included in the FPG segment, will be included in the Health Group segment.

**Graphic Communications Group Segment (GCG):** There are no changes to the composition of the GCG segment from 2006. However, as the



GCG segment completes its integration process and further aligns the discrete businesses, starting in the first quarter of 2007, the GCG segment results will be reported using its new organizational structure, as described in Item 7, "Management's Discussion and Analysis of Financial Condition and Report of Operations."

**Health Group Segment (KHG):** The Company announced on January 10, 2007 that it has reached an agreement to sell the Health Group to Onex Corporation for as much as \$2.55 billion. The transaction is expected to close in the first half of 2007. As a result, the results of operations and assets, net of liabilities, to be sold, inclusive of the non-destructive testing business formerly included in FPG, will be reported as a discontinued operation beginning in the first quarter of 2007.

**All Other:** In February 2007, the Company announced its entry into the consumer inkjet business. Beginning with the first quarter of 2007, the results of the consumer inkjet business, formerly included in All Other, will be reported within the CDG segment. There are no other changes to the composition of All Other.

## FINANCIAL INFORMATION BY GEOGRAPHIC AREA

Financial information by geographic area for the past three years is shown in Note 23, "Segment Information."

PAGE 10

## RAW MATERIALS

The raw materials used by the Company are many and varied, and are generally readily available. 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. 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.

## 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 2006, sales of digital products were highest in the last four months of the year. Digital capture and home 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 people taking vacations 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 and events such as weddings and graduations.

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 budgeting processes.

With respect to the KHG segment, the sales of consumable products, which generate the major portion of the earnings of this segment, tend to occur uniformly throughout the year. Sales of equipment products, which carry lower margins than consumables, are highest in the fourth quarter as purchases by healthcare customers are linked to their year-end capital budget process. This pattern is also reflected in the third month of each quarter.

## RESEARCH AND DEVELOPMENT

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

Research and development expenditures for the Company's four reportable segments and All Other for 2006, 2005 and 2004 were as follows:

(in millions)	2006		2005		2004
Consumer Digital Imaging Group	\$	171	\$	179	\$ 164
Film & Photofinishing Systems Group		40		89	155
Graphic Communications Group		198		278	145
Health Group		138		162	180
All Other		163		184	192
Total	\$	710	\$	892	\$ 836

For an explanation of the trends in research and development expenditures in each of the segments and All Other see the discussion for each segment in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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PAGE 11

Research and development is headquartered in Rochester, New York. Other U.S. groups are located in Boston, Massachusetts; Dallas, Texas; Oakdale, Minnesota; New Haven, Connecticut; and San Jose and San Diego, California. Outside the U.S., groups are located in England, France, Iceland, Israel, Germany, Japan, China, Singapore and Canada. 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 & white electrophotographic printing systems; wide-format, continuous, and home inkjet printers; inkjet inks, media and printing systems; thermal dye transfer and dye sublimation printing systems; digital cinema; color negative films, processing and papers; x-ray films, mammography systems, computed radiography, digital radiography, photothermographic dry printing, medical and dental image and information systems; 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 (RCRA), 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 a program for environmental 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 the Notes to Financial Statements, Note 11, "Commitments and Contingencies."

## **EMPLOYMENT**

At the end of 2006, the Company employed approximately 40,900 full time equivalent people, of whom approximately 20,600 were employed in the U.S. The actual number of employees may be greater because some individuals work part time.

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PAGE 12

The current employment amounts are expected to decline more over the next year as a result of the personnel reductions yet to be made under the 2004-2007 cost reduction program. On February 8, 2007, the Company updated the ranges for anticipated restructuring activity. The Company now expects that the total employment reductions will be in the range of 28,000 to 30,000 positions and total charges will be in the range of \$3.6 billion to 3.8 billion. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion on this restructuring program.

## **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 Corporate, and then Investor Center. The Company also makes available free of charge through its website, at [www.Kodak.com/go/annualreport](http://www.Kodak.com/go/annualreport), its summary annual report to shareholders and proxy statement.

The public may also read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site, at [www.sec.gov](http://www.sec.gov), that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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 filed on March 2, 2006. Additionally, we filed with the New York Stock Exchange (NYSE) the CEO certification, dated June 5, 2006, 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**

Set forth below and elsewhere in this report and in other documents that the Company files with the Securities and Exchange Commission are risks and uncertainties that could cause the actual future results of the Company to differ from those expressed or implied in the forward-looking statements contained in this document and other public statements the Company makes. Additionally, because of the following risks and uncertainties, as well as other variables affecting our operating results, the Company's past financial performance should not be considered an indicator of future performance.

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PAGE 13

### **If we do not effectively execute our digital transformation, this could adversely affect our operations, revenue and ability to compete.**

The Company continues with its transformation from a traditional products and services company to a primarily digital products and services company. This transformation includes an aggressive restructuring program to reduce its traditional infrastructure to cost-effectively manage the declining traditional business and to reduce its general and administrative costs to the level necessary to compete profitably in the digital markets. The Company expects these actions to be largely completed by the end of 2007. As a result of the digital transformation, the Company has established three key financial metrics against which it will measure success: net cash generation, earnings growth from digital products and services, and revenue growth from digital products and services. Accordingly, the success of the Company's transformation is dependent upon the execution of the Company's transformation initiatives including (1) managing the amount and timing of the cost savings resulting from the restructuring of its traditional infrastructure and the reductions in general and administrative costs, (2) Kodak's ability to continue its development and sale of digital products and services that deliver competitive margins in each of its segments, (3) the Company's ability to manage the traditional business for cash generation in a cost-effective manner and (4) the Company's ability to continue to successfully integrate its acquisitions, including KPG and Creo. If Kodak cannot continue to successfully execute its transformation initiatives, the Company's ability to compete as a profitable and growing digital company could be negatively affected, which could adversely affect its results of operations and its ability to generate cash.

### **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 were to occur and is not waived by the lenders, then all outstanding debt, 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 manage transitions of our products and services, this could adversely affect our revenues.**

The industries in which Kodak competes are rapidly changing and becoming increasingly more complex. Kodak's ability to successfully transition its existing products to new offerings requires that the Company make accurate predictions of the product development schedule as well as volumes, product mix, customer demand, sales channels, and configuration. The process of developing new products and services is complex and often uncertain due to the frequent introduction of new products by competitors that offer improved performance and pricing. Kodak may anticipate demand and perceived market acceptance that differs from the product's realizable customer demand and revenue stream. Further, in the face of intense industry competition, any unanticipated delay in implementing certain product strategies (including digital products, category expansion and digitization) or in the development, production or marketing of a new product could decrease any advantage Kodak may have to be the first or among the first to market and could adversely affect Kodak's revenues. Kodak's failure to carry out a product rollout in the time frame anticipated and in the quantities appropriate to customer demand, or at all, could adversely affect future demand for the Company's products and services and have an adverse effect on its business. This risk is exacerbated when a product has a short life cycle or a competitor introduces a new product just before Kodak's introduction of a similar product.

Our results are subject to risks related to our significant investment in developing and introducing new products, such as consumer inkjet printers and CMOS semiconductors. These risk include: difficulties and delays in the development, production, testing and marketing of products; customer acceptance of products; resources we must devote to the development of new technology; and the ability to differentiate our products and compete with other companies in the same markets.

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PAGE 14

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

Due to changes in technology, the market for traditional photography products and services is in decline and, as a result, product development has 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 adequately protect our intellectual property, our business could be harmed.**

Kodak has made substantial investments in technologies and has filed patent applications and obtained patents to protect its intellectual property rights as well as the interests of the Company 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.

**Our revenue and earnings may suffer if we cannot continue to implement our intellectual property licensing strategies.**

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 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.

**Our revenue, earnings and expenses may suffer if we cannot continue to license or enforce our intellectual property rights.**

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.

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PAGE 15

**Our revenue, earnings and expenses may suffer if third parties assert that we violate their intellectual property rights.**

Third parties may claim that the Company or customers indemnified by Kodak are infringing upon their intellectual property rights. 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 the Company. 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 or on reasonable terms or substitute similar technology from another source, our revenue and earnings could

suffer.

**If we are not successful in transitioning certain financial processes and administrative functions to a global shared services model and outsourcing some of the work to third parties, our business performance, cost savings and cash flow could be adversely impacted.**

The Company continues to migrate various administrative and financial processes, such as general accounting, accounts payable, credit and collections, call centers and human resources processes to a global shared services model to more effectively manage its costs. Delays in the migration to the global shared services model and to third party vendors could adversely impact the Company's ability to meet its cost reduction goals. Also, if third party vendors do not perform to Kodak's standards, such as a delay in collection of customer receipts, the Company's cash flow could be negatively impacted.

**Our inability to develop and implement e-commerce strategies that align with industry standards, could adversely affect our business.**

In the event Kodak were unable to develop and implement e-commerce strategies that are in alignment with consumer trends, the Company's business could be adversely affected. The availability of software and standards related to e-commerce strategies is of an emerging nature. Kodak's ability to successfully align with the industry standards and services and ensure timely solutions requires the Company to make accurate predictions of the future accepted standards and services.

**System integration issues could adversely affect our revenues 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, stock price and reputation.

**Our inability to effectively manage our acquisitions could adversely impact our revenues and earnings.**

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 is accelerating the current restructuring of its traditional manufacturing infrastructure. 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.

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PAGE 16

**Our inability to complete divestitures and other portfolio actions could adversely impact our financial position.**

In January 2007, Kodak announced that it has reached an agreement to sell the Health Group to Onex Corporation. The transaction is expected to close in the first half of 2007. In the event that the Company is unable to complete the divestiture of the Health Group, it could fail to realize the favorable impacts to the Company created through the reduction of debt and other uses. Such a failure could cause Kodak to experience an adverse impact on its financial position.

**Economic trends in our major markets could adversely affect net sales.**

Economic downturns and declines in consumption in Kodak's major markets may affect the levels of both commercial and consumer sales. 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 inventory reductions, this could adversely affect our cash flow.**

Unanticipated delays in the Company's plans to continue inventory reductions in 2007 could adversely impact Kodak's cash flow outlook. Planned inventory reductions could be compromised by slower sales due to 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. In the event Kodak is unable to successfully manage these issues in a timely manner, they could adversely impact the planned inventory reductions.

**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, including its ongoing restructuring

actions to significantly reduce its traditional manufacturing infrastructure, could negatively impact the gross margins of the Company. Furthermore, if Kodak is unable to successfully negotiate raw material costs with its suppliers, or incurs adverse pricing on certain of its commodity-based raw materials, reduction in the gross margins could occur.

**We depend on third party suppliers and, therefore, our revenue and gross margins could suffer if we fail to manage supplier issues 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 schedules. Given the wide variety of products, services and systems that Kodak offers, the large number of suppliers and contract manufacturers 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 and risks related to terms of its contracts with suppliers.

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PAGE 17

**We have outsourced a significant portion of our overall worldwide manufacturing 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 operations 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 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 similar 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 our relationships with our customers, and reduce our market share, all of which could adversely affect our results of operations and financial condition.

**If our planned improvements in supply chain efficiency are delayed, this could adversely affect our revenues and earnings.**

As the Company continues with its transformation from a traditional products and services company to a digital products and services company, Kodak's planned improvement in supply chain efficiency, if delayed, 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 planned 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 film and digital cameras and related products and services has been particularly intense as competitors have aggressively cut prices and lowered their profit margins for these products. In the Health Group and Graphic Communications Group segments, aggressive pricing tactics have intensified in the contract negotiations as competitors vie for customers and market share. 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.**

We use 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 channel efforts to reach 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.

**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 customer financing to a customer in order to win a contract. Customer financing arrangements may include all or a portion of the purchase price for our products and services, as well as working capital. In some circumstances, these loans can be significant. We may also assist customers in obtaining financing from banks and other sources and may also 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

**Economic uncertainty in developing markets could adversely affect our revenue and earnings.**

Kodak conducts business in developing markets with economies that tend to be more volatile than those in the United States and Western Europe. The risk of doing business in developing markets such as China, India, Brazil, Argentina, Mexico, Russia and other economically volatile areas could adversely affect Kodak's operations and earnings. Such risks include the financial instability among customers in these regions, political instability and potential conflicts among developing nations and other non-economic factors such as irregular trade flows that need to be managed successfully with the help of the local governments. Kodak's failure to successfully manage economic, political and other risks relating to doing business in developing countries and economically and politically volatile areas could adversely affect its business.

**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 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 earnings should such events occur.

**Management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2006. If we discover a material weakness in the future, we may not be able to provide reasonable assurance regarding the reliability of our financial statements. As a result, our business, brand and operating results could be harmed.**

Effective internal control over financial reporting is necessary for the Company to provide reasonable assurance with respect to our financial reports. If the Company cannot provide reasonable assurance with respect to its financial reports, its business, brand and operating results could be harmed. As disclosed in the Company's 2005 Annual Report on Form 10-K, and in its Quarterly Reports on Form 10-Q for each of the first three quarters of 2006, management's assessment of the Company's internal controls over financial reporting identified a material weakness in the Company's internal controls related to the completeness and accuracy of the Company's deferred income tax valuation allowance account. During the year ended December 31, 2006, the Company has made significant progress in executing the remediation plans that were established to address the material weakness identified above. This resulted in material improvements in the Company's internal control over financial reporting, including the successful remediation of the material weakness in internal controls related to the completeness and accuracy of the Company's deferred income tax valuation allowance account as of December 31, 2006. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud. Therefore, even effective internal controls over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements.

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

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

The CDG segment of Kodak's business in the United States is headquartered in Rochester, New York. Kodak Gallery operations are managed from Emeryville, California. Kodak Inkjet Systems operations are located in San Diego, California and Rochester, New York. Many of CDG's businesses rely on manufacturing assets, company-owned or through relationships with design and manufacturing partners, which are located close to end markets and/or supplier networks.

The FPG segment of Kodak's business is centered in Rochester, New York, where film and photographic chemicals and related materials are manufactured. Other manufacturing facilities in Windsor, Colorado, Harrow, England, and Xiamen, China produce photographic paper. Additional manufacturing facilities supporting the business are located in China, Mexico, France, India, Brazil and Russia. There are a number of photofinishing laboratories in the U.S. and distribution sites throughout the world.

Products in the GCG segment are manufactured in the United States, primarily in Rochester, New York; Dayton, Ohio; Columbus, Georgia; Weatherford, Oklahoma; Windsor, Colorado; and San Diego, California. Manufacturing facilities outside the United States are located in the United Kingdom, Germany, South Africa, Israel, Bulgaria, China, Japan, Canada and Mexico. The segment provides digital and traditional products and services including prepress consumables, workflow and proofing software, color and black-and-white electrophotographic equipment and consumables, high-speed, high-volume continuous inkjet printing systems, wide-format inkjet printers, high-speed production document scanners, and micrographic peripherals and media (including micrographic films).

Products in the KHG segment are manufactured in the United States, primarily in Rochester, New York; Windsor, Colorado; Oakdale, Minnesota; and White City, Oregon. Manufacturing facilities outside the United States are located in Brazil, China, France, Germany, India and Mexico. The segment provides digital and traditional products and services including picture archiving and communications systems, radiology information systems, enterprise and departmental healthcare information systems, digital and computed radiography systems, laser imaging, mammography and oncology systems, x-ray film systems for general radiography, and dental imaging products.

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 plans to reduce its traditional manufacturing infrastructure by two-thirds below 2004 levels. The program is expected to be largely complete by year-end 2007. During 2006, the Company made significant progress towards achieving this goal and remains committed to this plan.

### **ITEM 3. LEGAL PROCEEDINGS**

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

On June 13, 2005, a purported shareholder class action lawsuit was filed against the Company and two of its executives in the United States District Court for the Southern District of New York. On June 20, 2005 and August 10, 2005, similar lawsuits were filed against the same defendants in the United States District Court for the Western District of New York. The cases were consolidated in the Western District of New York and the lead plaintiffs were John Dudek and the Alaska Electrical Pension Fund. The complaints filed in each of these actions (collectively, the "Complaints") sought to allege claims under the Securities Exchange Act on behalf of a proposed class of persons who purchased securities of the Company between April 23, 2003 and September 25, 2003, inclusive. An amended complaint was filed on January 20, 2006, containing essentially the same allegations as the original complaint but adding an additional named defendant. Defendants' motion to dismiss was argued on October 3, 2006 and granted on November 1, 2006. The plaintiffs did not appeal.

On or about November 9, 2005, the Company was served with a purported shareholder derivative lawsuit that had been commenced against the Company, as a nominal defendant, and eleven current and former directors and officers of the Company, in the New York State Supreme Court, Monroe County. The Complaint seeks to allege claims on behalf of the Company that, between April 2003 and September 2003, the defendant officers and directors caused the Company to make allegedly improper statements, in press release and other public statements, which falsely represented or omitted material information about the Company's financial results and guidance. The plaintiff alleges that this conduct was a breach of the defendants' common law fiduciary obligations to the Company, and constituted an abuse of control, gross mismanagement, waste and unjust enrichment. Defendants' initial responses to the Complaint are not yet due. The Company intends to defend this lawsuit vigorously.

The Company is named a Potentially Responsible Party ("PRP") along with seven other companies in connection with certain alleged environmental contamination at the Rochester Fire Academy, located in Rochester, New York. The Company provided flammable materials to the Fire Academy, which were used in fire-fighting training. The Company and the seven other PRPs have been negotiating with the New York State Attorney General's office. On November 15, 2005, the New York State Attorney General filed a complaint in the U.S. District Court, Western District of New York against all eight PRPs seeking recovery of expenses to remediate the site. The companies have reached a conceptual settlement with the NYS Attorney General, which if mutually acceptable terms are reached and the court approves the settlement, would result in the Company paying approximately \$196,000.

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

None.



## EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Positions Held	Date First Elected	
			an Executive Officer	to Present Office
Robert L. Berman	49	Senior Vice President	2002	2005
Philip J. Faraci	51	Senior Vice President	2005	2005
Carl E. Gustin, Jr.	55	Senior Vice President	1994	1994
Joyce P. Haag	56	General Counsel and Senior Vice President	2005	2005
Mary Jane Hellyar	53	Senior Vice President	2005	2005
Kevin J. Hobert	42	Senior Vice President	2005	2005
James T. Langley	56	Senior Vice President	2003	2003
William J. Lloyd	67	Senior Vice President	2005	2005
Antonio M. Perez	61	Chairman of the Board, Chief Executive Officer	2003	2005
Frank S. Sklarsky	50	Chief Financial Officer and Executive Vice President	2006	2006
Diane E. Wilfong	45	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. Hobert, who joined the Company on September 30, 2002; Mr. Perez, who joined the Company on April 2, 2003; Mr. Lloyd, who joined the Company on June 16, 2003; Mr. Langley, who joined the Company on August 18, 2003; Mr. Faraci, who joined the Company on December 6, 2004; and Mr. Sklarsky who joined the Company on October 30, 2006.

PAGE 21

The executive officers' biographies follow:

### Robert L. Berman

Mr. Berman was appointed to the position of Director, Human Resources 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. 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. His responsibility in that role included leadership in 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 key human resources positions for Kodak over his 24 year career, including the Director and Divisional Vice President of Human Resources for the Consumer Imaging business and the Human Resources Director for Kodak Colorado Division.

### Philip J. Faraci

Mr. Faraci was named President, Consumer Digital Imaging Group in September 2005, effective January 1, 2006. He oversees Kodak's consumer, digital capture, printing, kiosk, and imaging systems businesses. 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.

### Carl E. Gustin, Jr.

Mr. Gustin joined Kodak as Vice President and General Manager of the Digital and Applied Imaging Division in August 1994. In October 1995, he was appointed to his present position as Chief Marketing Officer and Senior Vice President, Eastman Kodak Company, in addition to his role as acting President and General Manager of Digital and Applied Imaging, which he held through 1996.

As Chief Marketing Officer, Mr. Gustin has been breaking new ground in the areas of advertising and marketing in an effort to fuel new market

growth while further enhancing and broadening the reach of the Kodak brand. His areas of responsibility include: corporate-wide general marketing, internet marketing, customer relationship marketing, presence marketing, corporate branding, new business incubation, multicultural marketing, business research and corporate design, as well as providing leadership and direction for the marketing functions across the Company.

### **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.

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PAGE 22

### **Mary Jane Hellyar**

Mary Jane Hellyar joined Eastman Kodak Company in 1982 as a research scientist in the Kodak Research Laboratories. She held a variety of positions within R&D and in 1988 she joined film manufacturing as a product engineer for motion picture films. In 1992 Ms. Hellyar was named director of the Chemicals Development Division, responsible for process development of chemical components for Kodak. 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 color negative films, papers and chemicals.

Effective May 1999, Ms. Hellyar was named general manager, Consumer Film Business, Consumer Imaging and was elected to Corporate Vice President. Subsequently, her responsibilities were expanded as general manager, Capture and Traditional Media, and in 2003 she added responsibilities for professional films.

In November 2004, Hellyar was named President, Display and Components Group. In January 2005, the Board of Directors elected her to 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, Mr. 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.

### **Kevin J. Hobert**

Kevin Hobert was appointed President of Kodak's Health Group and a Senior Vice President of the Company in February 2005.

Prior to his current position, Mr. Hobert was General Manager, Digital Capture Systems and Vice President of Kodak's Health Group. He drove significant process and product improvements that delivered revenue growth and improved margins. Under his leadership, the computed radiography business achieved the number two position worldwide, a digital radiography business was established and breast cancer computer aided detection, Kodak's first FDA PMA product, was introduced to the market.

Mr. Hobert joined Kodak in 2002 from General Electric Medical Systems (GEMS), a division of General Electric Co., with 11 years experience in the medical imaging market. At GE he was responsible for leading GEMS' global business comprised of digital, analog and mobile radiography market segments and remote, classical and multipurpose fluoroscopy market segments.

### **James T. Langley**

Mr. Langley is President, Graphic Communications Group, and Senior Vice President. He joined Kodak as President, Commercial Printing, in August 2003. The Commercial Printing Group was renamed Graphic Communications Group in May 2004. In September 2003 he was elected to Senior Vice President of the Company.

He was Vice President of Commercial Printing at HP from March 2000 to August 2002. Prior to that assignment, Mr. Langley served for three years as Vice President of Inkjet Worldwide Office Printers, responsible for expanding the presence of HP's inkjet products in new, higher-end markets. From August 1993 to June 1997, Mr. Langley served as the general manager of HP's Vancouver Printer Division.

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### **William J. Lloyd**

Mr. Lloyd is Chief Technical Officer, and Senior Vice President. He joined Kodak in June 2003 as Director, Portfolio Planning and Analysis. In October 2003, he was named Director, Inkjet Systems Program, and was elected to Vice President of the Company. In February 2005, he was elected to Senior Vice President. His current title became effective March 1, 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 (CTO) 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.

### **Antonio M. Perez**

Antonio M. Perez joined Kodak as President and Chief Operating Officer in April 2003, and was elected to the Company's Board of Directors in October 2004. In May 2005, he was elected Chief Executive Officer and on January 1, 2006, he became Chairman of the Company's Board of Directors.

Mr. Perez is leading the digital transformation of Kodak, aimed at delivering innovative digital products and services to consumer and commercial customers in the fastest-growing segments of the imaging industry.

Mr. Perez has extensive expertise in digital imaging technologies, stemming from a 25-year career at Hewlett-Packard Company (HP), where he was a corporate vice president and a member of the company's Executive Council. As President of HP's Consumer Business, Mr. Perez spearheaded the company's efforts to build a business in digital imaging and electronic publishing, ultimately generating worldwide revenue of more than \$16 billion.

Prior to that assignment, Mr. Perez served as President and CEO of HP's inkjet imaging business. During the five years in which he led the business, the installed base of inkjet printers grew from 17 million to 100 million worldwide, with total revenue of more than \$10 billion.

Just prior to joining Kodak, Mr. Perez served as an independent consultant for large investment firms, providing counsel on the effect of technology shifts on financial markets.

From June 2000 to December 2001, 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%, 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.

Prior to joining Kodak, Mr. Sklarsky was Executive Vice President and Chief Financial Officer of ConAgra Foods Inc.

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. Prior to DaimlerChrysler, Mr. Sklarsky, a certified public accountant, served as a Senior Accountant at Ernst & Young International from 1978 to 1981.

### **Diane E. Wilfong**

Ms. Wilfong was appointed Controller in September 2006. She began her Kodak career in July 1999, as Director – Finance and Vice President, Kodak Professional Division. In late 2000, she was named Assistant to the Chairman and President and Chief Executive Officer, where she served the Chairman’s office in an executive capacity until early 2003. At that time, she took an operating line position as General Manager, Graphics and Printing Systems SPG, in the Commercial Imaging Group (now the Graphic Communications Group). In late June 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. Before joining Corning, Ms. Wilfong was an Audit Manager with PricewaterhouseCoopers in the Charlotte, North Carolina office of the firm.

## PART II

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

Eastman Kodak Company common stock is principally traded on the New York Stock Exchange under the symbol “EK.” There are 63,219 shareholders of record of common stock as of January 31, 2007.

#### MARKET PRICE DATA

Price per share:	2006		2005	
	High	Low	High	Low
1st Quarter	\$ 30.91	\$ 23.49	\$ 35.19	\$ 30.87
2nd Quarter	28.68	22.49	33.10	24.63
3rd Quarter	23.87	18.93	29.24	23.97
4th Quarter	27.57	21.93	25.14	20.77

#### DIVIDEND INFORMATION

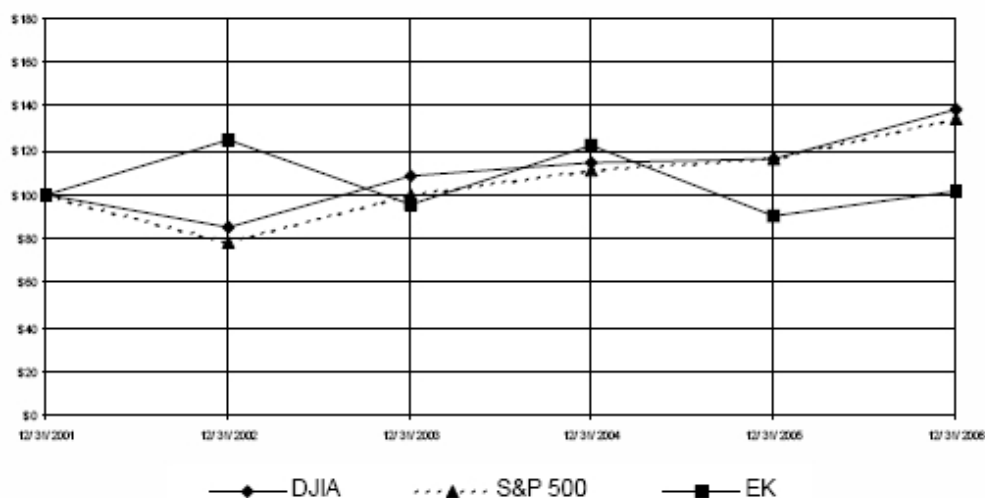
The Company has a dividend policy whereby it makes semi-annual payments of dividends, when declared, on the Company’s 10th business day each July and December to shareholders of record on the close of the first business day of the preceding month.

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

On May 11, 2005, the Board of Directors declared a semi-annual cash dividend of \$.25 per share payable to shareholders of record at the close of business on June 1, 2005. This dividend was paid on July 15, 2005. On October 18, 2005, the Board of Directors declared a semi-annual cash dividend of \$.25 per share payable to shareholders of record at the close of business on November 1, 2005. This dividend was paid on December 14, 2005. The total dividends paid for the year ended December 31, 2005 was \$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, 2001, plus reinvested dividends.



The graph assumes that \$100 was invested on December 31, 2001 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 150.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

### 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.

PAGE 26

### 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. For full service solutions sales, which consist of the sale of equipment and software which may or may not require significant production, modification or customization, there are two acceptable methods of accounting: percentage of completion accounting and completed contract accounting. For certain of the Company's full service solutions, the completed contract method of accounting is being followed by the Company. This is due to insufficient historical experience resulting in the inability to provide reasonably dependable estimates of the revenues and costs applicable to the various stages of such contracts as would be necessary under the percentage of completion methodology. When the Company does have sufficient historical experience and the ability to provide reasonably dependable estimates of the revenues and the costs applicable to the various stages of these contracts, the Company will account for these full service solutions under the percentage of completion methodology. The timing and the amount of revenue recognized from the licensing of intellectual property depend upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. When the Company has continuing obligations related to a licensing arrangement, revenue related to the ongoing arrangement is recognized over the period of the obligation. Revenue is only recognized after all of the following criteria are met: (1) the Company has entered into a legally binding arrangement with a licensee of Kodak's intellectual property, (2) Kodak has delivered the technology or intellectual property rights, (3) licensee payment is deemed fixed or determinable and free of significant uncertainties, and (4) collection from the licensee is reasonably assured.

At the time revenue is recognized, the Company also records reductions to revenue for customer incentive programs in accordance with the provisions of Emerging Issues Task Force (EITF) Issue No. 01-09, "Accounting for Consideration Given from a Vendor to a Customer (Including

a Reseller of the Vendor's Products).” Such incentive programs include cash and volume discounts, price protection, promotional, cooperative and other advertising allowances and coupons. For those incentives that require the estimation of sales volumes or redemption rates, such as for volume rebates or coupons, the Company uses historical experience and internal and customer data to estimate the sales incentive at the time revenue is recognized. In 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.

## **ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The Company records and maintains a provision for doubtful accounts for customers based on a variety of factors including the Company's historical experience, the length of time the receivable has been outstanding and the financial condition of the customer. In addition, the Company regularly analyzes its customer accounts and, when it becomes aware of a specific customer's inability to meet its financial obligations to the Company, such as in the case of bankruptcy filings or deterioration in the customer's overall financial condition, records a specific provision for uncollectible accounts to increase the allowance to the amount that is estimated to be uncollectible. If circumstances related to specific customers were to change, the Company's estimates with respect to the collectibility of the related receivables could be further adjusted. However, losses in the aggregate have not exceeded management's expectations.

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PAGE 27

## **INVENTORIES**

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

The Company reduces the carrying value of its inventory based on estimates of what is excess, slow-moving and obsolete, as well as inventory whose carrying value is in excess of net realizable value. These write-downs are based on current assessments about future demands, market conditions and related management initiatives. If, in the future, the Company determined that market conditions and actual demands are less favorable than those projected and, therefore, inventory was overvalued, the Company would be required to further reduce the carrying value of the inventory and record a charge to earnings at the time such determination was made. If, in the future, the Company determined that inventory write-downs were overstated and, therefore, inventory was undervalued, the Company would recognize the increase to earnings through higher gross profit at the time the related undervalued inventory was sold. However, actual results have not differed materially from management's estimates.

On January 1, 2006, the Company elected to change its method of costing its U.S. inventories to the average cost method, which approximates FIFO, whereas in all prior years most of Kodak's inventory in the U.S. was costed using the “last-in, first-out” (LIFO) method. The new method of accounting for inventory in the U.S. is deemed preferable because the average cost method provides better matching of revenue and expenses given the rapid technological change in the Company's products. The average cost method also better reflects the cost of inventory on the Company's Statement of Financial Position. Prior periods have been restated for comparative purposes in order to reflect the impact of this change in methodology from LIFO to average cost.

## **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 assesses the recoverability of the carrying value of long-lived assets, other than goodwill and purchased intangible assets with indefinite useful lives, by first grouping its long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (the asset group) and, secondly, estimating the undiscounted future cash flows that are directly associated with and expected to arise from the use of and eventual disposition of such asset group. The Company estimates the undiscounted cash flows over the remaining useful life of the primary asset within the asset group. If the carrying value of the asset group exceeds the estimated undiscounted cash flows, the Company records an impairment charge to the extent the carrying value of the long-lived asset exceeds its fair value. The Company determines fair value through quoted market prices in active markets or, if quoted market prices are unavailable, through the performance of internal analyses of discounted cash flows or external appraisals. The undiscounted and discounted cash flow analyses are based on a number of estimates and assumptions, including the expected period over which the asset will be utilized, projected future operating results of the asset group, discount rate and long-term growth rate.

To assess goodwill for impairment, the Company performs an assessment of the carrying value of its reporting units on an annual basis or when events and changes in circumstances occur that would more likely than not reduce the fair value of the Company's reporting units below their carrying value. If the carrying value of a reporting unit exceeds its fair value, the Company would record an impairment charge to earnings to the

extent the carrying amount of the reporting unit goodwill exceeds its implied fair value. The Company estimates the fair value of its reporting units through internal analyses and external valuations, which utilize income and market valuation approaches through the application of capitalized earnings, discounted cash flow and market comparable methods. These valuation techniques are based on a number of estimates and assumptions, including the projected future operating results of the reporting unit, discount rate, long-term growth rate and appropriate market comparables.

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PAGE 28

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 ongoing restructuring actions. Therefore, changes in the Company's strategy, the Company's ongoing 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.

In performing the annual assessment of goodwill for impairment, the Company determined that no material reporting units' carrying values exceeded their respective fair values. See "Goodwill" under Note 1, "Significant Accounting Policies."

## **INCOME TAXES**

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." The asset and liability approach underlying SFAS No. 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of the Company's assets and liabilities.

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 valuation allowance as of December 31, 2006 of \$1,849 million is attributable to \$324 million of foreign net deferred tax assets, including certain net operating loss and capital loss carryforwards and \$1,525 million of U.S. net deferred tax assets, including certain tax credits, which the Company believes it is not more likely than not that the assets will 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 asset in the future, for which there is currently no valuation allowance, an adjustment to the net deferred tax assets would be charged to earnings in the period such determination was made. Conversely, if the Company were to make a determination that it is more likely than not that the deferred tax assets, for which there is currently a valuation allowance, would be realized, the related valuation allowance would be reduced and a benefit to earnings would be recorded.

The Company's effective tax rate considers the impact of undistributed earnings of subsidiary companies outside of the U.S. Deferred taxes have not been provided for the potential remittance of such undistributed earnings, as it is the Company's policy to indefinitely reinvest its retained earnings. However, from time to time and to the extent that the Company can repatriate overseas earnings on essentially a tax-free basis, the Company's foreign subsidiaries will pay dividends to the U.S. Material changes in the Company's working capital and long-term investment requirements could impact the decisions made by management with respect to the level and source of future remittances and, as a result, the Company's effective tax rate. See Note 15, "Income Taxes."

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.

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PAGE 29

## **WARRANTY OBLIGATIONS**

Management estimates expected product failure rates, material usage and service costs in the development of its warranty obligations. At the time revenue is recognized, the Company provides for the estimated costs of its warranties as a charge to cost of goods sold. Estimates are based on historical warranty experience and related costs to repair. Actual results have not differed materially from management's estimates. In the event that the actual results of these items differ from the estimates, an adjustment to the warranty obligation would be recorded.

## **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 17, “Retirement Plans,” and Note 18, “Other Postretirement Benefits,” for disclosure of (i) the nature of the Company’s plans, (ii) the amount of income and expense included in the Company’s Consolidated Statement of Operations for the years ended December 31, 2006, 2005 and 2004, (iii) the Company’s contributions and estimated future funding requirements and (iv) the amount of unrecognized losses at December 31, 2006 and 2005.

Kodak’s 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 Company’s 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.

PAGE 30

The Company reviews its EROA assumption annually for the Kodak Retirement Income Plan (KRIP). 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, a new asset and liability modeling study was completed and the KRIP EROA assumption for 2005 and 2006 was 9.0%. The KRIP EROA assumption is expected to remain at 9.0% for 2007 as well. Given the increase in the discount rate of 50 basis points from 5.50% for 2006 to 6.00% for 2007, changes in demographic assumptions resulting from the completion of assumption studies in 2005, and a decrease in amortization expense relating to unrecognized actuarial losses in accordance with SFAS No. 87, 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 \$99 million in 2006 to \$133 million in 2007. Pension expense from continuing operations before special benefits, curtailments and settlements in the Company’s major funded and unfunded non-U.S. defined benefit plans is projected to decrease from \$85 million in 2006 to \$54 million in 2007, which is primarily attributable to decreased service cost and amortization expense relating to the unrecognized prior service cost from the Company’s restructuring actions. Additionally, due in part to the increase in the discount rate from 5.50% for 2006 to 5.75% for 2007 and an increase in amortization expense relating to the unrecognized actuarial losses, the Company expects the cost, before curtailment and settlement gains and losses, of its most significant postretirement benefit plan, the U.S. plan, to approximate \$184 million in 2007, as compared with \$175 million for 2006.

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, 2007 and the projected benefit obligation (PBO) at December 31, 2006 for the Company’s major U.S. and non-U.S. defined benefit pension plans:

(in millions)	Impact on 2007 Pre-Tax Pension Expense Increase (Decrease)		Impact on PBO December 31, 2006 Increase (Decrease)	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Change in assumption:				
25 basis point decrease in discount rate	\$ (2)	\$ 12	\$ 150	\$ 140
25 basis point increase in discount rate	2	(12)	(142)	(132)
25 basis point decrease in EROA	15	8		
25 basis point increase in EROA	(15)	(8)		

PAGE 31



## ENVIRONMENTAL COMMITMENTS

Environmental liabilities are accrued based on estimates of known environmental remediation exposures. The liabilities include accruals for sites owned by Kodak, sites formerly owned 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 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.

## STOCK-BASED COMPENSATION

The Company accounts for its stock options and other forms of stock-based compensation in accordance with SFAS No. 123R, "Share-Based Payment," as interpreted by Financial Accounting Standards Board (FASB) Staff Positions No. 123R-1, 123R-2, 123R-3, 123R-4, 123 R-5, and 123 R-6, using the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," effective January 1, 2005.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the following assumptions. Expected volatilities are based on historical volatility of the Company's stock, management's estimate of implied volatility of the Company's stock, and other factors. The expected term of options granted is derived from the vesting period of the award, as well as historical exercise behavior, and represents the period of time that options granted are expected to be outstanding. The risk-free rate is calculated using the U.S. Treasury yield curve, and is based on the expected term of the option. The Company uses historical data to estimate forfeitures.

The Company early adopted the provisions of SFAS No. 123R on January 1, 2005, utilizing the modified prospective approach of adoption. Previously, the Company accounted for its employee stock incentive plans under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and the related interpretations under FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation." Accordingly, no stock-based employee compensation cost was reflected in net earnings for the year ended December 31, 2004, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant.

## KODAK OPERATING MODEL AND REPORTING STRUCTURE

As of and for the year ended December 31, 2006 the Company had four reportable segments: Consumer Digital Imaging Group (CDG), Film & Photofinishing Systems Group (FPG), Graphic Communications Group (GCG), and Health Group (KHG). 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. A description of the segments is as follows:

**Consumer Digital Imaging Group Segment (CDG):** The CDG segment encompasses digital capture, kiosks, home printing systems, digital imaging services and imaging sensors. This segment provides consumers and professionals with digital products and services, and includes the licensing activities related to the Company's intellectual property in this product category.

**Film & Photofinishing Systems Group Segment (FPG):** The FPG segment encompasses consumer and professional film, photographic paper and photofinishing, aerial and industrial film, and entertainment products and services. This segment provides consumers, professionals and cinematographers with traditional products and services.

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PAGE 32

**Graphic Communications Group Segment (GCG):** 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 consumables, including plates, chemistry, and media; workflow and proofing software; color and black and white electrophotographic equipment and consumables; high-speed, high-volume continuous inkjet printing systems; wide-format inkjet printers; high-speed production document scanners; micrographic peripherals; and media (including micrographic films). The Company also provides maintenance and professional services for Kodak and other manufacturers' products, as well as providing imaging services to customers.

**Health Group Segment (KHG):** The KHG segment provides digital medical imaging and information products, and systems and solutions, which are key components of sales and earnings growth. These include laser imagers, digital print films, computed and digital radiography systems, dental radiographic imaging systems, dental practice management software (DPMS), advanced picture-archiving and communications systems (PACS), and healthcare information solutions (HCIS). Products of the Health Group segment also include traditional analog medical and dental films, chemicals, and processing equipment and related services. The Company's history in traditional analog imaging has made it a

worldwide leader in this area and has served as the foundation for building its important digital imaging business. The Health Group segment serves the general radiology market and specialty health markets, including dental, mammography, orthopedics and oncology. The segment also provides molecular imaging for the biotechnology research market.

**All Other:** All Other is composed of Kodak's display business, business development and other small, miscellaneous businesses. The development initiatives in consumer inkjet technologies continue to be reported in All Other through the end of 2006.

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

PAGE 33

## DETAILED RESULTS OF OPERATIONS

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

(in millions)	2006	Change	2005	Change	2004
<b>Consumer Digital Imaging Group</b>					
Inside the U.S.	\$ 1,872	- 8%	\$ 2,034	+41%	\$ 1,440
Outside the U.S.	1,048	-11	1,181	+28	926
<b>Total Consumer Digital Imaging Group</b>	<b>2,920</b>	<b>- 9</b>	<b>3,215</b>	<b>+36</b>	<b>2,366</b>
<b>Film &amp; Photofinishing Systems Group</b>					
Inside the U.S.	1,359	-23	1,767	-29	2,476
Outside the U.S.	2,797	-21	3,558	-22	4,575
<b>Total Film &amp; Photofinishing Systems Group</b>	<b>4,156</b>	<b>-22</b>	<b>5,325</b>	<b>-24</b>	<b>7,051</b>
<b>Graphic Communications Group</b>					
Inside the U.S.	1,248	+16	1,079	+ 84	587
Outside the U.S.	2,384	+25	1,911	+152	757
<b>Total Graphic Communications Group</b>	<b>3,632</b>	<b>+21</b>	<b>2,990</b>	<b>+122</b>	<b>1,344</b>
<b>Health Group</b>					
Inside the U.S.	914	-13	1,052	- 6	1,114
Outside the U.S.	1,583	- 1	1,603	+2	1,572
<b>Total Health Group</b>	<b>2,497</b>	<b>- 6</b>	<b>2,655</b>	<b>- 1</b>	<b>2,686</b>
<b>All Other</b>					
Inside the U.S.	52	+11	47	+15	41
Outside the U.S.	17	-53	36	+24	29
<b>Total All Other</b>	<b>69</b>	<b>-17</b>	<b>83</b>	<b>+19</b>	<b>70</b>
<b>Total Net Sales</b>	<b>\$ 13,274</b>	<b>- 7%</b>	<b>\$ 14,268</b>	<b>+6%</b>	<b>\$ 13,517</b>

(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

(in millions)	2006	Change	2005	Change	2004
Consumer Digital Imaging Group	\$ 1	+101%	\$ (131)	+31%	\$ (189)
Film & Photofinishing Systems Group	358	- 34	540	- 37	854
Graphic Communications Group	141	+444	(41)	+55	(91)
Health Group	278	- 25	370	- 24	484
All Other	(214)	+7	(231)	+10	(257)
Total of segments	564	+11	507	-37	801
Restructuring costs and other	(768)		(1,118)		(901)
Adjustments to legal reserves/(settlements)	2		(21)		(6)
Interest expense	(262)		(211)		(168)
Other income (charges), net	118		44		161
Consolidated loss from continuing operations before income taxes	\$ (346)	+57%	\$ (799)	- 607%	\$ (113)

## 2006 COMPARED WITH 2005

### RESULTS OF OPERATIONS - CONTINUING OPERATIONS

#### CONSOLIDATED

##### Worldwide Revenues

Net worldwide sales were \$13,274 million for 2006 as compared with \$14,268 million for 2005, representing a decrease of \$994 million or 7%. The decrease in net sales was primarily due to declines in volumes and unfavorable price/mix, which decreased sales by approximately 9.1 and 2.8 percentage points, respectively. The decrease in volumes was primarily driven by declines in the consumer film capture SPG, photofinishing services SPG, and consumer output SPG within the FPG segment; the consumer digital capture SPG within the CDG segment; the digital output SPG and radiology film SPG within the KHG segment; and the traditional prepress consumables SPG within the GCG segment. Unfavorable price/mix was primarily driven by the consumer film capture SPG and consumer output SPG within the FPG segment; the kiosk SPG and consumer digital capture SPG within the CDG segment; and the traditional prepress consumables SPG and digital prepress consumables SPG within the GCG segment. These decreases were partially offset by the acquisitions of Kodak Polychrome Graphics (KPG) and Creo in the prior year, which together contributed \$639 million or approximately 4.4 percentage points of an increase to the current year. Sales were also positively impacted by favorable foreign exchange, which increased net sales by \$68 million or approximately 0.5 percentage points.

Net sales in the U.S. were \$5,445 million for 2006 as compared with \$5,979 million for the prior year, representing a decrease of \$534 million, or 9%. Net sales outside the U.S. were \$7,829 million for the current year as compared with \$8,289 million for the prior year, representing a decrease of \$460 million, or 6%, which includes the positive impact of foreign currency fluctuations of \$68 million, or approximately 1%.

##### Digital Strategic Product Groups' Revenues

The Company's digital product sales, including new technologies product sales, were \$7,736 million for 2006 as compared with \$7,428 million for the prior year, representing an increase of \$308 million, or 4%, primarily driven by the Creo and KPG acquisitions, partially offset by the decline in digital cameras within the consumer digital capture SPG of the CDG segment. Product sales from new technologies, which are included in digital product sales, were \$49 million in the current year and \$57 million in the prior year.

##### Traditional Strategic Product Groups' Revenues

Net sales of the Company's traditional products were \$5,538 million for 2006 as compared with \$6,840 million for the prior year, representing a decrease of \$1,302 million, or 19%, primarily driven by declines in the consumer film capture SPG, the photofinishing services SPG and the consumer output SPG.

##### Foreign Revenues

The Company's operations outside the U.S. are reported in three regions: (1) the Europe, Africa and Middle East region (EAMER), (2) the Asia Pacific region and (3) the Canada and Latin America region. Net sales in EAMER were \$4,065 million for 2006 as compared with \$4,223 million for 2005, representing a decrease of \$158 million, or 4%. The decrease in net sales for the year included the favorable impact of foreign currency fluctuations of 1%. Net sales in the Asia Pacific region were \$2,396 million for 2006 as compared with \$2,652 million for 2005, representing a decrease of \$256 million, or 10%. The impact of foreign exchange on net sales for the period was immaterial. Net sales in the Canada and Latin America region were \$1,368 million for 2006 as compared with \$1,414 million for 2005, representing a decrease of \$46 million, or 3%. The decrease in net sales for the year included the favorable impact of foreign currency fluctuations of 2%.

##### Gross Profit

Gross profit was \$3,368 million for 2006 as compared with \$3,618 million for 2005, representing a decrease of \$250 million, or 7%. The gross profit margin was 25.4% in the current year as compared with 25.4% in the prior year. Favorable price/mix and foreign exchange positively impacted gross profit margins by approximately 0.7 percentage points and 0.1 percentage points, respectively. Additionally, the prior year acquisitions of KPG and Creo favorably impacted gross profit margins by approximately 0.3 percentage points.

These increases were offset by declines in volume, which reduced gross profit margins by approximately 0.6 percentage points, and increased manufacturing and other costs, which reduced gross profit margins by approximately 0.5 percentage points and were largely driven by increased silver and aluminum commodity costs.

The positive price/mix impact referred to above was primarily driven by extensions and amendments of existing license arrangements and a new licensing arrangement within the consumer digital capture SPG. The non-recurring portions of these licensing arrangements contributed approximately 1.4% of revenue to consolidated gross profit dollars in the current year, as compared with 0.4% of revenue to consolidated gross profit dollars for similar arrangements in the prior year. The positive impact of these arrangements was partially offset by negative price/mix

within the consumer film capture SPG and consumer output SPG within the FPG segment; the digital capture solutions SPG within the KHG segment; and the kiosk SPG and consumer digital capture SPG within the CDG segment. The volume declines were primarily driven by the consumer film capture SPG and consumer output SPG within the FPG segment; and the consumer digital capture SPG within the CDG segment.

### **Selling, General and Administrative Expenses**

SG&A expenses were \$2,389 million for 2006 as compared with \$2,668 million for the prior year, representing a decrease of \$279 million, or 10%. SG&A as a percentage of sales decreased from 19% from the prior year to 18% in the current year. The decrease in SG&A is primarily attributable to ongoing Company-wide cost reduction initiatives, partially offset by \$45 million of spending related to the Company's exploration of strategic alternatives for the Health Group. The Company announced on January 10, 2007 that it has reached an agreement to sell the Health Group to Onex Corporation for as much as \$2.55 billion. The transaction is expected to close in the first half of 2007.

### **Research and Development Costs**

R&D costs were \$710 million for 2006 as compared with \$892 million for 2005, representing a decrease of \$182 million, or 20%. R&D as a percentage of sales was 5% for the current year as compared with the prior year of 6%. This decrease was primarily driven by: (1) write-offs in the prior year of purchased in-process R&D associated with acquisitions made during 2005 of \$54 million, (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**

Restructuring costs and other were \$471 million for 2006 as compared with \$690 million for 2005, representing a decrease of \$219 million or 32%. 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.

### **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 2006 was \$202 million as compared with a loss of \$632 million for 2005, representing an improvement in earnings of \$430 million. This change is attributable to the reasons described above.

### **Interest Expense**

Interest expense for 2006 was \$262 million as compared with \$211 million for the prior year, representing an increase of \$51 million, or 24%. Higher interest expense is primarily attributable to increased levels of debt associated with the prior year acquisitions of KPG and Creo, and higher interest rates.

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PAGE 36

### **Other Income (Charges), Net**

The other income (charges), net component includes investment income, income and losses from equity investments, gains and losses on the sales of assets and investments and foreign exchange gains and losses. Other income for the current year was \$118 million as compared with other income of \$44 million for the prior year. The increase of \$74 million is 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 \$28 million, and (3) lower impairment charges recorded in the current year than in the prior year, which increased other income by \$33 million. These increases were partially offset by lower gains on sales of property, assets and investments, which declined \$9 million from prior year, and a loss on the early extinguishment of debt in the current year of \$9 million.

### **Loss From Continuing Operations Before Income Taxes**

The loss from continuing operations before income taxes for 2006 was \$346 million as compared with a loss of \$799 million for 2005, representing an improvement in earnings of \$453 million. This change is attributable to the reasons described above.

### **Income Tax (Benefit) Provision**

The Company's annual effective tax rate from continuing operations increased from a provision rate of 69% for 2005 to a provision rate of 73% for 2006. The change 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.

During the year ended December 31, 2006, the Company recorded a tax provision of \$254 million representing an income tax rate on losses from continuing operations of 73%. The income tax rate of 73% for the year ended December 31, 2006 differs from the Company's statutory tax rate of 35% primarily due to the inability to benefit losses in the U.S. and in certain jurisdictions outside the U.S., which resulted in the recording of the valuation allowance charge against net deferred tax assets in the amount of \$393 million. Some of the other significant items that caused the difference from the statutory tax rate include: (1) non-U.S. tax benefits of \$40 million associated with restructuring costs and property sales of \$728 million; (2) a benefit of \$16 million associated with rate differentials on operations outside the U.S.; (3) a benefit of \$14 million associated with export sales and manufacturing credits; and (4) a tax charge of \$13 million resulting from changes to the allocation of the purchase price to the respective jurisdictions associated with the finalization of purchase accounting for KPG and Creo.

On October 3, 2006, the Company filed a claim for a federal tax refund of approximately \$650 million related to a 1994 loss recognized on the

sale of shares of stock in a subsidiary that was disallowed at that time under Internal Revenue Service (IRS) regulations. Since that time, the IRS has issued new regulations that serve as the basis for this refund claim. Due to the uncertainty of the claim, the Company, in accordance with its accounting policies, has not recorded a tax benefit related to this refund claim.

#### **Valuation Allowance – Outside the U.S.**

During the fourth quarter of 2006, based on the Company's assessment of positive and negative evidence regarding the realization of the net deferred tax assets, the Company recorded additional valuation allowances of \$90 million against its net deferred tax assets in certain jurisdictions outside the U.S. In accordance with SFAS No. 109, the Company's assessment included the evaluation of scheduled reversals of deferred tax assets and liabilities, estimates of projected future taxable income, carryback potential and tax planning strategies. Based on the Company's assessment of realizability, the Company concluded that it was no longer more likely than not that these net deferred tax assets would be realized and, as such, recorded a valuation allowance of \$90 million.

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PAGE 37

#### **Loss From Continuing Operations**

The loss from continuing operations for 2006 was \$600 million, or \$2.09 per basic and diluted share, as compared with a loss from continuing operations for 2005 of \$1,354 million, or \$4.70 per basic and diluted share, representing an improvement in earnings of \$754 million. This change is attributable to the reasons described above.

### **CONSUMER DIGITAL IMAGING GROUP**

#### **Worldwide Revenues**

Net worldwide sales for the Consumer Digital Imaging Group (CDG) segment were \$2,920 million for 2006 as compared with \$3,215 million for 2005, representing a decrease of \$295 million, or 9%. The decrease in net sales was comprised of: (1) declines in volumes, which reduced net sales by approximately 5.8 percentage points, driven primarily by the consumer digital capture SPG, and (2) unfavorable price/mix, which decreased sales by approximately 3.8 percentage points, driven primarily by declines in the kiosk SPG and consumer digital capture SPG. The negative price/mix impact includes the positive effects to the consumer digital capture SPG of extensions and amendments of existing license arrangements and a new licensing arrangement, portions of which were non-recurring. These 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. These declines were partially offset by positive foreign exchange, which increased net sales by approximately 0.4 percentage points.

CDG segment net sales in the U.S. were \$1,872 million for the current year as compared with \$2,034 million for the prior year, representing a decrease of \$162 million, or 8%. CDG segment net sales outside the U.S. were \$1,048 million for the current year as compared with \$1,181 million for the prior year, representing a decrease of \$133 million, or 11%.

Net worldwide sales of consumer digital capture products, which include consumer digital cameras, accessories, memory products, imaging sensors, and intellectual property royalties, decreased 17% in 2006 as compared with the prior year, primarily reflecting volume decreases, as well as negative price/mix. The negative price/mix impact includes the positive impacts of extensions and amendments of existing license arrangements and a new licensing arrangement, as mentioned above. These 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. According to the NPD Group's consumer tracking service, Kodak EasyShare digital cameras were number one in unit market share in the U.S. for the year 2006. On a year-to-date basis through November, the Company remains in the top three unit market share position on a worldwide basis for consumer digital cameras.

Net worldwide sales of picture maker kiosks/media (the kiosk SPG) increased 11% in 2006 as compared with 2005, as a result of significant volume increases, partially offset by negative price/mix. Sales continue to be driven by strong consumable sales at retail locations with 4x6 media volumes increasing 53% versus last year.

Net worldwide sales of the home printing solutions SPG, which includes inkjet photo paper and printer docks/media, decreased 2% in the current year as compared with the prior year, driven by negative price/mix, partially offset by volume increases. On a year-to-date basis through November, the Company's printer dock product held a leading market share position in the U.S., U.K., and Australia.

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PAGE 38

#### **Gross Profit**

Gross profit for the CDG segment was \$675 million for 2006 as compared with \$598 million for the prior year, representing an increase of \$77 million or 13%. The gross profit margin was 23.1% in the current year as compared with 18.6% in the prior year. The 4.5 percentage point increase was primarily attributable to improvements in price/mix, which impacted gross profit margins by approximately 4.8 percentage points, primarily due to extensions and amendments to existing license arrangements during the current year, and a new licensing arrangement, as mentioned above. The impact of the non-recurring portions of these licensing arrangements contributed approximately 6.5% of revenue to segment gross profit dollars in 2006, as compared with 1.8% of revenue to segment gross profit dollars for similar arrangements in 2005.

Additionally, foreign exchange positively impacted gross profit margins by approximately 0.2 percentage points. These increases were partially offset by increased manufacturing costs, which reduced gross profit margins by approximately 0.3 percentage points, and volume declines, which negatively impacted gross profit margins by approximately 0.2 percentage points.

#### **Selling, General and Administrative Expenses**

SG&A expenses for the CDG segment decreased \$48 million, or 9%, from \$551 million in 2005 to \$503 million in the current year, and remained constant as a percentage of sales at 17%. This decrease was primarily driven by a decline in advertising spending as a result of focused cost reduction activities.

#### **Research and Development Costs**

R&D costs for the CDG segment decreased \$8 million, or 4%, from \$179 million in 2005 to \$171 million in the current year and remained constant as a percentage of sales at 6%.

#### **Earnings (Loss) From Continuing Operations Before Interest, Other Income (Charges), Net and Income Taxes**

Earnings from continuing operations before interest, other income (charges), net and income taxes for the CDG segment were \$1 million in 2006 compared with a loss of \$131 million in 2005, representing an increase in earnings of \$132 million or 101%, as a result of the factors described above.

### **FILM AND PHOTOFINISHING SYSTEMS GROUP**

#### **Worldwide Revenues**

Net worldwide sales for the Film and Photofinishing Systems Group (FPG) segment were \$4,156 million for 2006 as compared with \$5,325 million for 2005, representing a decrease of \$1,169 million, or 22%. The decrease in net sales was comprised of: (1) lower volumes, which decreased 2006 sales by approximately 20.5 percentage points, driven primarily by declines in the consumer film capture SPG, the consumer output SPG, and the photofinishing services SPG; and (2) declines related to negative price/mix, which reduced net sales by approximately 1.9 percentage points, primarily driven by the consumer film capture SPG and the consumer output SPG. These declines were partially offset by favorable foreign exchange, which increased net sales by approximately 0.4 percentage points.

FPG segment net sales in the U.S. were \$1,359 million for the current year as compared with \$1,767 million for 2005, representing a decrease of \$408 million, or 23%. FPG segment net sales outside the U.S. were \$2,797 million for 2006 as compared with \$3,558 million for the prior year, representing a decrease of \$761 million, or 21%.

Net worldwide sales of the consumer film capture SPG, including consumer roll film (35mm and APS film), one-time-use cameras (OTUC), professional films, reloadable traditional film cameras and batteries/videotape, decreased 29% in 2006 as compared with 2005, primarily reflecting industry volume declines.

Net worldwide sales for the consumer and professional output SPGs, which include color negative paper and photochemicals, decreased 20% in 2006 as compared with 2005, primarily reflecting industry volume declines and negative price/mix.

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PAGE 39

Net worldwide sales for the photofinishing services SPG, which includes equipment and photofinishing services at retail on-site and Qualex in the U.S. and CIS (Consumer Imaging Services) outside the U.S., decreased 45% in 2006 as compared with 2005, reflecting continuing volume declines in the development and processing of consumer films.

Net worldwide sales for the entertainment imaging SPGs, including origination, intermediate, and print films for the entertainment industry decreased 2%, primarily reflecting origination film volume declines and negative price/mix for print film, partially offset by volume increases for intermediate film. These results also reflect more conservative motion picture release strategies by major studios including the maturation of industry practice regarding simultaneous worldwide releases of major feature films.

#### **Gross Profit**

Gross profit for the FPG segment was \$1,068 million for 2006 as compared with \$1,630 million for the prior year, representing a decrease of \$562 million or 34%. The gross profit margin was 25.7% in the current year as compared with 30.6% in 2005. The 4.9 percentage point decrease was primarily attributable to increased manufacturing costs, which reduced gross profit margins by approximately 4.3 percentage points. These increased costs were driven by increased depreciation expense principally due to asset useful life changes in the third quarter of 2005 and higher silver costs. Volume declines negatively impacted gross profit margins by approximately 0.7 percentage points, partially offset by the favorable impact of foreign exchange, which increased gross profit margins by approximately 0.2 percentage points. The impact of price/mix on gross profit margins was not significant.

#### **Selling, General and Administrative Expenses**

SG&A expenses for the FPG segment decreased \$331 million, or 33%, from \$1,001 million in 2005 to \$670 million in the current year, and decreased as a percentage of sales from 19% in the prior year to 16% in the current year. The decline in SG&A was attributable to ongoing Company-wide cost reduction initiatives.

## Research and Development Costs

R&D costs for the FPG segment decreased \$49 million, or 55%, from \$89 million in 2005 to \$40 million in the current year and decreased as a percentage of sales from 2% in the prior year to 1% in the current year. The decrease in R&D was primarily attributable to significant reductions in spending related to traditional products and services.

## Earnings From Continuing Operations Before Interest, Other Income (Charges), Net and Income Taxes

Earnings from continuing operations before interest, other income (charges), net and income taxes for the FPG segment were \$358 million in 2006 compared with earnings of \$540 million in 2005, representing a decrease of \$182 million or 34%, resulting from the factors outlined above.

## GRAPHIC COMMUNICATIONS GROUP

On April 1, 2005, the Company became the sole owner of KPG through the redemption of Sun Chemical Corporation's 50 percent interest in the KPG joint venture. Under the terms of the transaction, the Company redeemed all of Sun Chemical's shares in KPG by providing \$317 million in cash at closing and by entering into two notes payable arrangements, one that will be payable within the U.S. (the U.S. note) and one that will be payable outside of the U.S. (the non-U.S. note), that required a principal and interest payment of \$200 million in the third quarter of 2006, and payments of \$50 million annually from 2008 through 2013. The total payments due under the U.S. note and the non-U.S. note are \$100 million and \$400 million, respectively. The aggregate fair value of these notes payable arrangements of approximately \$395 million as of the acquisition date was recorded as long-term debt in the Company's Consolidated Statement of Financial Position.

On June 15, 2005, the Company completed the acquisition of Creo Inc. (Creo), a premier supplier of prepress and workflow systems used by commercial printers around the world. The Company paid \$954 million (excluding approximately \$11 million in transaction related costs), or \$16.50 per share, for all of the outstanding shares of Creo. The Company used its bank lines to initially fund the acquisition, which has been refinanced with a term loan under the Company's Secured Credit Agreement.

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PAGE 40

During the second quarter of 2006, the Company indicated that, as a result of ongoing integration of acquisitions within the Graphic Communications Group, it had become increasingly difficult to report results by the discrete businesses that were acquired. Therefore, beginning with the third quarter of 2006, results for the GCG segment are reported using the following SPG structure:

- Digital Prepress Consumables – digital plates, chemistry, media and services
- NexPress Color – equipment, consumables and services for NexPress color products, and direct image press equipment
- Commercial Inkjet Printing Solutions – Versamark equipment, consumables and service
- Workflow and Prepress – workflow software, output devices, proofing equipment, and services
- Other Digital – electrophotographic black and white equipment and consumables, document scanners and services, wide-format inkjet, imaging services
- Traditional – analog plates, graphics and other films, paper, media equipment, archival products

As the GCG segment completes its integration process and further aligns the discrete businesses, starting in the first quarter of 2007, the GCG segment results will be reported using the following organizational structure:

- Enterprise Solutions - workflow software and digital controller development
- Digital Printing Solutions - all continuous inkjet and electrophotographic products, including equipment, consumables and service
- Prepress Solutions - prepress consumables; output devices; wide-format inkjet printers, media, and inks; proofing hardware, media and software; and related services
- Document Imaging Business - document scanners and services, and imaging services

## Worldwide Revenues

Net worldwide sales for the Graphic Communications Group segment were \$3,632 million for 2006 as compared with \$2,990 million for the prior year, representing an increase of \$642 million, or 21%. The increase in net sales was primarily due to the KPG and Creo acquisitions in 2005, which together contributed \$639 million or approximately 21.4 percentage points to the year-over-year increase in sales. Also contributing to the increase in net sales were volume increases, which increased sales by approximately 4.3 percentage points and which were largely attributable to the digital prepress consumables SPG, and favorable foreign exchange, which increased sales by approximately 0.8 percentage points.

These increases were partially offset by negative price/mix, which decreased 2006 net sales by approximately 5.0 percentage points, primarily driven by the digital prepress consumables SPG, the traditional prepress consumables SPG, the NexPress color SPG, and the workflow and prepress SPG.

Net sales in the U.S. were \$1,248 million for 2006 as compared with \$1,079 million for the prior year, representing an increase of \$169 million, or 16%. Net sales outside the U.S. were \$2,384 million in 2006 as compared with \$1,911 million for the prior year, representing an increase of \$473 million, or 25%.

### **Digital Strategic Product Groups' Revenues**

The Graphic Communications Group segment digital product sales are comprised of the digital prepress consumables SPG; NexPress color SPG; commercial inkjet printing solutions SPG; workflow and prepress systems SPG; and other digital SPGs.

Digital product sales for the Graphic Communications Group segment were \$3,085 million for 2006 as compared with \$2,437 million for the prior year, representing an increase of \$648 million, or 27%. The increase in digital product sales was primarily attributable to the acquisitions of KPG and Creo in the prior year, which generated revenues in the workflow and prepress SPG and the digital prepress consumables SPG.

Net worldwide sales for the NexPress color SPG increased 41% driven by strong volume increases. Sales from NexPress color equipment and consumables increased 50% from the prior year, while direct image press equipment sales declined 24% year-over-year. The installed base of digital production color presses continues to grow, resulting in higher page volumes and increased consumables revenue.

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PAGE 41

Net worldwide sales of commercial inkjet printing solutions increased 3% year-over-year, reflecting volume increases for services and consumables, partially offset by negative price/mix.

Net worldwide sales of other digital products and services decreased 6% year-over-year, primarily driven by volume declines. Sales declines for electrophotographic black and white equipment and consumables, and wide-format inkjet, were partially offset by sales increases for document scanners.

### **Traditional Strategic Product Groups' Revenues**

Segment traditional product sales are primarily comprised of sales of traditional graphics products, including films, paper, media, equipment and analog plates. These sales were \$547 million for 2006 compared with \$553 million for the prior year, representing a decrease of \$6 million, or 1%. The decrease in sales was primarily attributable to declines in analog plates and graphic films as the industry continues to transition to digital partially offset by the impact of the acquisition of KPG in the prior year.

### **Gross Profit**

Gross profit for the Graphic Communications Group segment was \$1,034 million for 2006 as compared with \$799 million in the prior year, representing an increase of \$235 million, or 29%. This increase was primarily attributable to the acquisitions of KPG and Creo in 2005, which together contributed \$197 million to the year-over-year increase in gross profit. The gross profit margin was 28.5% in 2006 as compared with 26.7% in the prior year period. The increase in the gross profit margin of 1.8 percentage points was primarily attributable to favorable price/mix, which increased gross profit margins by approximately 1.1 percentage points and was largely driven by the workflow and prepress SPG and the digital prepress consumables SPG. Also contributing to the increase in gross profit margins were: (1) reductions in manufacturing and other costs, which increased gross profit margins by approximately 0.4 percentage points, and (2) the acquisitions of Creo and KPG, which increased gross profit margins by approximately 0.6 percentage points. These increases were partially offset by unfavorable foreign exchange, which negatively impacted gross profit margins by approximately 0.4 percentage points. The impact from volume on gross profit margins was not significant.

### **Selling, General and Administrative Expenses**

SG&A expenses for the Graphic Communications Group segment were \$695 million for 2006 as compared with \$562 million in the prior year, representing an increase of \$133 million, or 24%, and remained constant as a percentage of sales at 19%. The increase in SG&A is primarily attributable to \$148 million of SG&A costs associated with the acquired KPG and Creo businesses, and redistribution of corporate costs associated with bringing acquired businesses into the Kodak portfolio, partially offset by integration synergies.

### **Research and Development Costs**

R&D costs for the Graphic Communications Group segment decreased \$80 million, or 29%, from \$278 million for 2005 to \$198 million for 2006, and decreased as a percentage of sales from 9% for 2005 to 5% for the current year. The decrease was primarily driven by \$52 million of write-offs in 2005 for purchased in-process R&D associated with acquisitions, and was also driven by integration synergies.

### **Earnings (Loss) From Continuing Operations Before Interest, Other Income (Charges), Net and Income Taxes**

Earnings from continuing operations before interest, other income (charges), net and income taxes for the Graphic Communications Group segment were \$141 million in 2006 compared with a loss of \$41 million in 2005. This increase in earnings is attributable to the reasons outlined above.

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## HEALTH GROUP

### Worldwide Revenues

Net worldwide sales for the Health Group segment were \$2,497 million for 2006 as compared with \$2,655 million for the prior year, representing a decrease of \$158 million, or 6%. The decrease in sales was attributable to declines in volume of approximately 5.6 percentage points, primarily driven by the digital output and radiology film SPGs, partially offset by the growth in the digital capture, and healthcare information SPGs. Unfavorable price/mix reduced sales by approximately 0.8 percentage points, primarily driven by the digital capture SPG and digital output SPG, partially offset by favorable price/mix in the dental SPG. These decreases were partially offset by favorable foreign exchange, which increased sales by approximately 0.4 percentage points.

Net sales in the U.S. were \$914 million for 2006 as compared with \$1,052 million for 2005, representing a decrease of \$138 million, or 13%. Net sales outside the U.S. were \$1,583 million for 2006 as compared with \$1,603 million for the prior year, representing a decrease of \$20 million, or 1%.

### Digital Strategic Product Groups' Revenues

Health Group segment digital sales, which include digital output (DryView laser imagers/media and wet laser printers/media), digital capture systems (computed radiography and digital radiography equipment), digital dental systems (practice management software and digital and computed radiography capture equipment), healthcare information solutions (Picture Archiving and Communications Systems (PACS), Radiology Information Systems (RIS) and Information Management Solutions (IMS)), and associated services were \$1,682 million for 2006 as compared with \$1,719 million for 2005, representing a decrease of \$37 million, or 2%. This sales decline was driven by lower revenues in the digital output SPG, partially offset by growth in the digital capture SPG, digital dental SPG, and healthcare information solutions SPG.

### Traditional Strategic Product Groups' Revenues

Segment traditional product sales, including analog and dental film, equipment, service, and chemistry, were \$815 million for 2006 as compared with \$936 million for 2005, representing a decrease of \$121 million, or 13%. This decline was largely driven by declines in traditional radiology film sales.

### Gross Profit

Gross profit for the Health Group segment was \$912 million for 2006 as compared with \$1,021 million in the prior year, representing a decrease of \$109 million, or 11%. The gross profit margin was 36.5% in 2006 as compared with 38.5% in the prior year. The decrease in the gross profit margin of 2.0 percentage points was principally attributable to: (1) unfavorable price/mix, which negatively impacted gross profit margins by approximately 2.0 percentage points, primarily driven by the digital capture SPG, and (2) volume declines, which reduced gross profit margins by approximately 0.2 percentage points, primarily driven by the digital output and radiology film SPGs. These declines were partially offset by favorable foreign exchange, which positively impacted gross profit margins by approximately 0.3 percentage points. The impact of manufacturing costs did not have a significant impact on gross profit margin, as higher silver and raw material costs were more than offset by cost reduction activities and operational improvements.

### Selling, General and Administrative Expenses

SG&A expenses for the Health Group segment increased \$8 million, or 2%, from \$489 million in 2005 to \$497 million for the current year, and increased as a percentage of sales from 18% in 2005 to 20% in the current year. The increase in SG&A expenses is primarily attributable to \$37 million of costs related to the exploration of strategic alternatives for the Health Group, which was announced on May 4, 2006, partially offset by a favorable legal settlement in the second quarter of 2006 and other cost reductions. The Company announced on January 10, 2007 that it has reached an agreement to sell the Health Group to Onex Corporation for as much as \$2.55 billion. The transaction is expected to close in the first half of 2007.

### Research and Development Costs

R&D costs for 2006 decreased \$24 million, or 15%, from \$162 million in 2005 to \$138 million, and remained constant as a percentage of sales at 6%. This decrease was primarily driven by cost reduction actions implemented in March 2006, which have been primarily focused on the digital output and digital capture SPGs, to reduce overall R&D spending for the Health Group. The year-over-year decrease was also partially due to the write-off of \$2 million of purchased in-process R&D in 2005 related to the acquisition of Orex Computed Radiography Ltd.

### Earnings From Continuing Operations Before Interest, Other Income (Charges), Net and Income Taxes

Earnings from continuing operations before interest, other income (charges), net and income taxes for the Health segment decreased \$92 million, or 25%, from \$370 million for 2005 to \$278 million for 2006 due to the reasons described above.

## ALL OTHER

### Worldwide Revenues

Net worldwide sales for All Other were \$69 million for 2006 as compared with \$83 million for 2005, representing a decrease of \$14 million, or

17%. Net sales in the U.S. were \$52 million for 2006 as compared with \$47 million for the prior year, representing an increase of \$5 million, or 11%. Net sales outside the U.S. were \$17 million in 2006 as compared with \$36 million in the prior year, representing a decrease of \$19 million, or 53%.

#### **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 \$214 million in 2006 as compared with a loss of \$231 million in 2005. This improvement in earnings was primarily driven by overall SG&A cost reductions of \$18 million, and reductions in R&D spending for the display business of \$26 million, partially offset by costs associated with the Company's new consumer inkjet printers, which were announced in February 2007.

#### **(LOSS) EARNINGS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES**

The loss from discontinued operations for 2006 was \$1 million, or \$.00 per basic and diluted share, as compared with earnings from discontinued operations for 2005 of \$150 million, or \$.52 per basic and diluted share. The 2005 earnings from discontinued operations were primarily related to a \$203 million reversal of certain tax accruals as a result of a settlement between the Company and the Internal Revenue Service on the audit of the tax years 1993 through 1998. These accruals had been established in 1994 in connection with the Company's sale of its pharmaceutical, consumer health and household products businesses during that year. The tax accrual reversals were partially offset by a pension settlement charge of \$54 million resulting from the finalization of the transfer of pension assets to ITT Industries, Inc. (ITT) in connection with the sale of the Company's Remote Sensing Systems business (RSS) in August 2004.

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

There was no loss from cumulative effect of accounting change, net of income taxes for 2006. The loss from cumulative effect of an accounting change, net of income taxes, of \$57 million or \$.20 per basic and diluted share for 2005 was the result of the Company's adoption of Financial Accounting Standards Board Interpretation No. (FIN) 47, "Accounting for Conditional Asset Retirement Obligations," as of December 31, 2005. Under FIN 47, the Company is required to record an obligation and an asset for the present value of the estimated cost of fulfilling its legal obligation with respect to the retirement of an asset when the timing or method of settling that obligation is conditional upon a future event (for example, the sale of, exiting from or disposal of an asset - the "settlement date"). The primary application of FIN 47 to the Company is with respect to asbestos remediation. The \$57 million charge represents the present value of the Company's asset retirement obligations (net of the related unamortized asset) relating to facilities with estimated settlement dates. Refer to further discussion in the "New Accounting Pronouncements" section of Item 7 for further information.

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PAGE 44

#### **NET LOSS**

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

#### **2005 COMPARED WITH 2004**

#### **RESULTS OF OPERATIONS – CONTINUING OPERATIONS**

##### **CONSOLIDATED**

##### **Worldwide Revenues**

Net worldwide sales were \$14,268 million for 2005 as compared with \$13,517 million for 2004, representing an increase of \$751 million or 6%. This increase in net sales was primarily attributable to the acquisitions of KPG, Creo and NexPress, which contributed \$1,562 million or approximately 11.6 percentage points to sales, and favorable exchange, which increased sales by approximately 0.5 percentage points. These increases were partially offset by declines in volumes and declines in price/mix, which decreased 2005 sales by approximately 1.9 and 4.6 percentage points, respectively. The decrease in volumes was primarily driven by declines in the consumer film capture SPG, the photofinishing services SPG, and the consumer output SPG within the FPG segment, and the digital output, film capture, and output SPGs within the Health Group segment. The decrease in price/mix was primarily driven by the film capture SPG within the FPG segment; the consumer digital capture SPG within the CDG segment; and the digital capture SPG within the Health Group segment.

Net sales in the U.S. were \$5,979 million for 2005 as compared with \$5,658 million for the prior year, representing an increase of \$321 million, or 6%. Net sales outside the U.S. were \$8,289 million for 2005 as compared with \$7,859 million for 2004, representing an increase of \$430 million, or 5%, which includes a favorable impact from exchange of 1%.

##### **Digital Strategic Product Groups' Revenues**

The Company's digital product sales, including new technologies product sales of \$57 million, were \$7,428 million for 2005 as compared with \$5,153 million, including new technologies of \$46 million, for the prior year, representing an increase of \$2,275 million, or 44%, primarily driven

by the digital portion of KPG and Creo, the consumer digital capture SPG, the kiosk SPG, and the home printing solutions SPG.

### **Traditional Strategic Product Groups' Revenues**

Net sales of the Company's traditional products were \$6,840 million for 2005 as compared with \$8,364 million for the prior year, representing a decrease of \$1,524 million, or 18%, primarily driven by declines in the film capture SPG, the photofinishing services SPG, and the consumer output SPG.

### **Foreign Revenues**

The Company's operations outside the U.S. are reported in three regions: (1) the Europe, Africa and Middle East region (EAMER), (2) the Asia Pacific region, and (3) the Canada and Latin America region. Net sales in EAMER were \$4,223 million for 2005 as compared with \$4,038 million for 2004, representing an increase of \$185 million, or 5%, which includes an insignificant impact from exchange. Net sales in the Asia Pacific region were \$2,652 million for 2005 as compared with \$2,549 million for 2004, representing an increase of \$103 million, or 4%, which includes a favorable impact from exchange of 1%. Net sales in the Canada and Latin America region were \$1,414 million for 2005 as compared with \$1,272 million for 2004, representing an increase of \$142 million, or 11%, which includes a favorable impact from exchange of 2%.

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PAGE 45

### **Gross Profit**

Gross profit was \$3,618 million for 2005 as compared with \$3,916 million for 2004, representing a decrease of \$298 million, or 8%. The gross profit margin was 25.4% in 2005 as compared with 29.0% in 2004. The 3.6 percentage point decrease was primarily attributable to: (1) price/mix, which reduced gross profit margins by approximately 3.7 percentage points, (2) declines in volumes, which reduced gross profit margins by approximately 0.1 percentage points, and (3) manufacturing costs, which reduced gross profit margins by approximately 0.2 percentage points. The negative price/mix impact was primarily driven by consumer digital cameras, one-time-use cameras, traditional consumer and digital health products and services, partially offset by the year-over-year increase in royalty income relating to digital capture. These decreases were partially offset by exchange, which favorably impacted gross profit margins by approximately 0.4 percentage points.

Included in 2005 manufacturing costs is \$139 million of additional depreciation expense related to the change in estimate of the useful lives of production machinery and equipment as a result of the faster-than-expected decline in the Company's traditional film and paper business. During the third quarter of 2005, the Company revised the useful lives of production machinery and equipment from 3-20 years to 3-5 years and manufacturing-related buildings from 10-40 years to 5-20 years. Also included in 2005 manufacturing costs were accelerated depreciation charges of \$391 million related to the 2004-2007 Restructuring Program, compared with accelerated depreciation charges of \$152 million in 2004.

### **Selling, General and Administrative Expenses**

SG&A expenses were \$2,668 million for 2005 as compared with \$2,491 million for 2004, representing an increase of \$177 million, or 7%. SG&A increased as a percentage of sales from 18% for 2004 to 19% for 2005. The increase in SG&A was primarily attributable to SG&A related to acquisitions of \$293 million, unfavorable legal settlements totaling \$21 million, and unfavorable exchange of \$6 million, partially offset by cost reduction initiatives.

### **Research and Development Costs**

R&D costs were \$892 million for 2005 as compared with \$836 million for 2004, representing an increase of \$56 million, or 7%. R&D as a percentage of sales remained unchanged at 6%. The dollar increase in R&D was primarily attributable to write-offs for purchased in-process R&D associated with acquisitions made in 2005 for \$54 million and increases in R&D spend related to newly-acquired businesses of \$95 million, partially offset by significant reductions in R&D spending related to traditional products.

### **Restructuring Costs and Other**

Restructuring costs and other were \$690 million for 2005 as compared with \$695 million for 2004, representing a decrease of \$5 million or 1%.

### **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 2005 was \$632 million as compared with a loss of \$106 million for 2004, representing an increase in the loss of \$526 million. This increase was attributable to the reasons described above.

### **Interest Expense**

Interest expense for 2005 was \$211 million as compared with \$168 million in the prior year. This increase is related to higher interest rates in 2005 and higher debt levels in 2005 as a result of borrowings to finance acquisitions.

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PAGE 46

### **Other Income (Charges), Net**

The other income (charges), net component includes investment income, income and losses from equity investments, foreign exchange, and gains and losses on the sales of assets and investments. Other income for 2005 was \$44 million as compared with other income of \$161 million for 2004. The decline of \$117 million is primarily attributable to proceeds from two favorable legal settlements totaling \$101 million in 2004, with no

similar favorable legal settlements in 2005. Also contributing to the decline for 2005 was a loss on foreign exchange of \$31 million due to the unhedged U.S. dollar denominated note payable outside of the U.S. relating to the KPG acquisition versus foreign exchange losses of \$10 million in 2004. On July 28, 2005, the Company entered into currency forward hedge contracts that will substantially offset foreign exchange gains or losses arising from this note payable.

The decline was also impacted by \$44 million of charges, including a \$19 million impairment of the investment in Lucky Film as a result of an other-than-temporary decline in the market value of Lucky's stock and a \$25 million asset impairment. Additionally, equity income from joint ventures declined by \$18 million due to the acquisitions of KPG and NexPress, which were formerly accounted for under the equity method, and have been consolidated in the Company's Statement of Operations and included in the Graphic Communications Group segment since the date of acquisition. These items were partially offset by a net year-over-year increase of \$59 million from gains on the sale of properties and capital assets.

#### **Loss From Continuing Operations Before Income Taxes**

The loss from continuing operations before income taxes for 2005 was \$799 million as compared with a loss of \$113 million for 2004, representing an increase in the loss of \$686 million. This change was attributable to the reasons described above.

#### **Income Tax (Benefit) Provision**

The Company's annual effective tax rate from continuing operations decreased from a benefit rate of 161% for 2004 to a provision rate of 69% for 2005. The change is primarily attributable to the inability to recognize a benefit from losses in the U.S. as a result of the requirement to record a valuation allowance against U.S. net deferred tax assets where it is not more likely than not that these benefits will be realized.

During the year ended December 31, 2005, the Company recorded a tax provision of \$555 million representing an income tax rate on losses from continuing operations of 69%. The income tax rate of 69% for the year ended December 31, 2005 differs from the Company's statutory tax rate of 35% primarily due to the inability to benefit losses in the U.S., which resulted in the recording of the valuation allowance charge against net U.S. deferred tax assets in the amount of \$955 million. Some of the other significant items that caused the difference from the statutory tax rate include: (1) non-U.S. tax benefits of \$106 million associated with total worldwide restructuring costs of \$1,143 million; (2) a benefit of \$101 million associated with rate differentials on operations outside the U.S.; (3) a benefit of \$28 million associated with export sales and manufacturing credits; (4) a tax charge of \$29 million associated with the remittance of earnings from subsidiary companies outside of the U.S. in connection with the American Jobs Creation Act of 2004; and (5) a tax benefit of \$44 million resulting from the Company's audit settlement with the Internal Revenue Service for tax years covering 1993 through 1998.

#### **Valuation Allowance - U.S.**

During the third quarter of 2005, based on the Company's assessment of positive and negative evidence regarding the realization of the net deferred tax assets, the Company recorded a valuation allowance of approximately \$778 million against its U.S. net deferred tax assets. In accordance with SFAS No. 109, the Company's assessment included the evaluation of scheduled reversals of deferred tax assets and liabilities, estimates of projected future taxable income, carryback potential and tax planning strategies.

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PAGE 47

Prior to the Company's third quarter 2005 assessment of realizability, it was believed, based on available evidence including tax planning strategies, that the Company would more likely than not realize its net U.S. deferred tax assets. The third quarter 2005 assessment considered the following significant matters based upon some recent changes that occurred in the quarter:

- In July 2005, management announced plans to significantly accelerate its restructuring efforts and to significantly reduce the assets supporting its traditional business by the end of 2007. This global plan includes accelerating the reduction of traditional film assets from \$2.9 billion in January 2004 to approximately \$1 billion by 2007 and terminating approximately 10,000 employees. These actions will have a negative impact on Kodak's ability to generate taxable income in the U.S.
- On October 18, 2005, the Company entered into a new secured credit facility pursuant to which the borrowings in the U.S. are collateralized by certain U.S. assets, including the Company's intellectual property assets. Thus, management determined that the previous tax planning strategy to sell the U.S. intellectual property to a foreign subsidiary to generate taxable income in the U.S. was no longer prudent nor feasible and should not be relied upon as part of the third quarter assessment of realizability of the Company's U.S. deferred tax assets.

Based upon the Company's above-mentioned September 30, 2005 assessment of realizability, the Company concluded that it was no longer more likely than not that the U.S. net deferred tax assets would be realized and, as such, recorded a valuation allowance of approximately \$778 million.

In the fourth quarter of 2005, the Company updated its assessment of the realizability of its net deferred tax assets. As a result of the Company's assessment of positive and negative evidence regarding the realization of the net deferred tax assets, which included the evaluation of scheduled reversals of deferred tax assets and liabilities, estimates of projected future taxable income, carryback potential and tax planning strategies, the Company maintained that it was still no longer more likely than not that the U.S. net deferred tax assets would be realized and, as such, increased the valuation allowance by approximately \$183 million relating to deferred tax benefits generated in the fourth quarter. In addition, the Company expects to record a valuation allowance on all U.S. tax benefits generated in the future until an appropriate level of profitability in the U.S. is sustained or until the Company is able to generate enough taxable income through other tax planning strategies and transactions. Both the net

deferred tax asset balances and the offsetting valuation allowance included estimates attributable to the acquisitions of KPG and Creo. Deferred tax amounts attributable to these businesses were finalized during 2006 with the completion of the Company's purchase accounting for these acquired entities.

As of December 31, 2005, the Company had a valuation allowance of \$1,116 million relating to its net deferred tax assets in the U.S. of \$1,195 million. The valuation allowance of \$1,116 million is attributable to (i) the charges totaling \$961 million that were recorded in the third and fourth quarters of 2005 and (ii) a valuation allowance of \$155 million recorded in a prior year for certain state tax carryforward deferred tax assets relating to which the Company believes it is not more likely than not that the assets will be realized. The remaining net deferred tax assets in excess of the valuation allowance of \$79 million relate to certain foreign tax credit deferred tax assets which the Company believes it is more likely than not that the assets will be realized.

#### ***Valuation Allowance – Outside the U.S.***

As of December 31, 2005, the Company had a valuation allowance of approximately \$212 million relating to its deferred tax assets outside of the U.S. of \$569 million. The valuation allowance of \$212 million is attributable to certain net operating loss and capital loss carryforwards which the Company believes it is not more likely than not that the assets will be realized.

#### **(Loss) Earnings From Continuing Operations**

The loss from continuing operations for 2005 was \$1,354 million, or \$4.70 per basic and diluted share, as compared with earnings from continuing operations for 2004 of \$69 million, or \$.24 per basic and diluted share, representing a decrease of \$1,423 million. This decrease in earnings from continuing operations is attributable to the reasons described above.

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PAGE 48

### **CONSUMER DIGITAL IMAGING GROUP (CDG)**

#### **Worldwide Revenues**

Net worldwide sales for the CDG segment were \$3,215 million for 2005 as compared with \$2,366 million for 2004, representing an increase of \$849 million, or 36%. The increase in net sales was primarily attributable to volume increases, which increased net sales by approximately 53 percentage points, partially offset by negative price/mix, which decreased net sales by approximately 17 percentage points. The volume increases were largely driven by the consumer digital capture SPG and home printing solutions SPG. The negative price/mix impact was driven primarily by the home printing solutions SPG and consumer digital capture SPG. Foreign exchange did not have a significant impact on net sales.

CDG segment net sales in the U.S. were \$2,034 million for 2005 as compared with \$1,440 million for 2004, representing an increase of \$594 million, or 41%. CDG segment net sales outside the U.S. were \$1,181 million for 2005 as compared with \$926 million for the 2004, representing an increase of \$255 million, or 28%, which includes a favorable impact from exchange of 1%.

Net worldwide sales of consumer digital capture products, which include consumer digital cameras, accessories, memory products, imaging sensors, and intellectual property royalties, increased 30% in 2005 as compared with the prior year, primarily reflecting strong volume increases and favorable exchange, partially offset by negative price/mix.

Net worldwide sales of picture maker kiosks/media (the kiosk SPG) increased 37% in 2005 as compared with 2004, as a result of strong volume increases and favorable exchange. Sales continue to be driven by strong market acceptance of Kodak's new generation of kiosks and an increase in consumer demand for digital printing at retail.

Net worldwide sales of the home printing solutions SPG, which includes inkjet photo paper and printer docks/media, increased 57% in 2005 as compared with 2004 driven by sales of printer docks and associated thermal media. For full year 2005, Kodak's printer dock product held the number-one market share position (on a unit basis) in the United States, Canada, Germany, Australia and the United Kingdom. However, inkjet paper sales in 2005 declined year over year, as volume growth was more than offset by lower pricing. Industry growth for inkjet paper continues to slow as a result of improving retail printing solutions, and alternative home printing solutions.

#### **Gross Profit**

Gross profit for the CDG segment was \$598 million for 2005 as compared with \$463 million for the prior year period, representing an increase of \$135 million or 29%. The gross profit margin was 18.6% in 2005 as compared with 19.6% in 2004. The 1.0 percentage point decrease was primarily attributable to negative price/mix, which reduced gross profit margins by approximately 10.4 percentage points. This decline from negative price/mix was partially offset by positive results from initiatives to reduce manufacturing costs, which improved gross profit margins by approximately 8.0 percentage points; volume increases, which favorably impacted gross profit margins by approximately 1.2 percentage points; and foreign exchange, which favorably impacted gross profit margins by approximately 0.1 percentage points. The negative price/mix impact was primarily driven by the home printing solutions SPG and the consumer digital capture SPG, partially offset by the year-over-year increase in royalty income relating to digital capture.

#### **Selling, General and Administrative Expenses**

SG&A expenses for the CDG segment increased \$63 million, or 13%, from \$488 million in 2004 to \$551 million in 2005, and decreased as a percentage of sales from 21% for 2004 to 17% for 2005. The dollar increase is primarily attributable to increased advertising costs.

## **Research and Development Costs**

R&D costs for the CDG segment increased \$15 million, or 9%, from \$164 million in 2004 to \$179 million in 2005 and decreased as a percentage of sales from 7% in 2004 to 6% in 2005.

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PAGE 49

## **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 the CDG segment was \$131 million in 2005 compared with a loss of \$189 million in 2004, representing an improvement in earnings of \$58 million or 31%, as a result of the factors described above.

## **FILM AND PHOTOFINISHING SYSTEMS GROUP (FPG)**

### **Worldwide Revenues**

Net worldwide sales for the FPG segment were \$5,325 million for 2005 as compared with \$7,051 million for 2004, representing a decrease of \$1,726 million, or 24%. The decrease in net sales was primarily attributable to volume declines (primarily in the consumer film capture SPG, the photofinishing services SPG, and the consumer output SPG), which decreased sales by approximately 23.1 percentage points. Negative price/mix, largely driven by the consumer film capture SPG and the consumer output SPG, decreased sales by approximately 2.0 percentage points. These declines were partially offset by favorable exchange, which increased net sales by approximately 0.7 percentage points.

FPG segment net sales in the U.S. were \$1,767 million for 2005 as compared with \$2,476 million for 2004, representing a decrease of \$709 million, or 29%. FPG segment net sales outside the U.S. were \$3,558 million for 2005 as compared with \$4,575 million for 2004, representing a decrease of \$1,017 million, or 22%, which includes a favorable impact from exchange of 1%.

Net worldwide sales of the film capture SPG, including consumer roll film (35mm and APS film), one-time-use cameras (OTUC), professional films, reloadable traditional film cameras and batteries/videotape, decreased 31% in 2005 as compared with 2004, primarily reflecting volume declines and negative price/mix, partially offset by favorable exchange.

Net worldwide sales for the consumer and professional output SPGs, which include color negative paper and photochemicals, decreased 19% in 2005 as compared with 2004, primarily reflecting volume declines and unfavorable price/mix, partially offset by favorable exchange. The volume declines are largely driven by the substantial reduction of direct sales of minilab equipment, which began in the third quarter of 2005, as the Company has shifted its focus to providing minilab services.

Net worldwide sales for the photofinishing services SPG, which includes equipment and photofinishing services at retail on-site and Qualex in the U.S. and CIS (Consumer Imaging Services) outside the U.S., decreased 47% in 2005 as compared with 2004, reflecting continuing volume declines in the development and processing of consumer films.

Net worldwide sales for the entertainment film SPGs, including origination and print films for the entertainment industry increased 1%, primarily reflecting volume increases and favorable exchange, partially offset by overall negative price/mix.

### **Gross Profit**

Gross profit for the FPG segment was \$1,630 million for 2005 as compared with \$2,176 million for the prior year period, representing a decrease of \$546 million or 25%. The gross profit margin was 30.6% in 2005 as compared with 30.9% in 2004. The 0.3 percentage point decrease was primarily attributable to increased manufacturing costs, which negatively impacted gross profit margins by approximately 0.6 percentage points, and volume declines, which negatively impacted gross profit margins by approximately 0.5 percentage points. These declines were partially offset by favorable exchange, which positively impacted gross profit margins by approximately 0.6 percentage points, and positive price/mix, which positively impacted gross profit margins by approximately 0.2 percentage points.

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PAGE 50

## **Selling, General and Administrative Expenses**

SG&A expenses for the FPG segment decreased \$166 million, or 14%, from \$1,167 million in 2004 to \$1,001 million in 2005, and increased as a percentage of sales from 17% for 2004 to 19% for 2005. The dollar decrease is primarily attributable to cost reduction actions. These cost reduction actions are being outpaced by the decline of traditional product sales, which resulted in a minor year-over-year increase of SG&A as a percentage of sales.

## **Research and Development Costs**

R&D costs for the FPG segment decreased \$66 million, or 43%, from \$155 million in 2004 to \$89 million in 2005 and remained constant as a percentage of sales at 2%. The decrease in R&D was primarily attributable to spending reductions related to traditional products and services.

## **Earnings From Continuing Operations Before Interest, Other Income (Charges), Net and Income Taxes**

Earnings from continuing operations before interest, other income (charges), net and income taxes for the FPG segment were \$540 million in 2005 compared with \$854 million in 2004, representing a decrease of \$314 million or 37%, as a result of the factors described above.

## **GRAPHIC COMMUNICATIONS GROUP**

On May 1, 2004, Kodak completed the acquisition of the NexPress-related entities, which develop high quality on-demand digital color printing systems and manufacture digital black and white printing systems. There was no consideration paid to Heidelberg at closing. Under the terms of the acquisition, Kodak and Heidelberg agreed to use a performance-based earn-out formula whereby Kodak will make periodic payments to Heidelberg over a two-year period, if certain sales goals are met. If all sales goals were met during the two calendar years ended December 31, 2005, the Company would have paid a maximum of \$150 million in cash. For both the first calendar year (2004) and for the second calendar year (2005), there were no amounts paid to Heidelberg. Additional payments may also be made relating to the incremental sales of certain products in excess of a stated minimum number of units sold during a five-year period following the closing of the transaction.

On April 1, 2005, the Company became the sole owner of KPG through the redemption of Sun Chemical Corporation's 50 percent interest in the KPG joint venture. This transaction further established the Company as a leader in the graphic communications industry and complements the Company's existing business in this market. Under the terms of the transaction, the Company redeemed all of Sun Chemical's shares in KPG by providing \$317 million in cash (excluding \$7 million in transaction costs) at closing and by entering into two notes payable arrangements, one that will be payable within the U.S. (the U.S. note) and one that will be payable outside of the U.S. (the non-U.S. note), that will require principal and interest payments of \$200 million in the third quarter of 2006, and \$50 million annually from 2008 through 2013. The total payments due under the U.S. note and the non-U.S. note are \$100 million and \$400 million, respectively. The aggregate fair value of these note payable arrangements of approximately \$395 million as of the acquisition date was recorded as long-term debt in the Company's Consolidated Statement of Financial Position.

On June 15, 2005, the Company completed the acquisition of Creo Inc. (Creo), a premier supplier of prepress and workflow systems used by commercial printers around the world. The acquisition of Creo uniquely positions the Company to be the preferred partner for its customers, helping them improve efficiency, expand their offerings and grow their businesses. The Company paid \$954 million (excluding approximately \$13 million in transaction related costs), or \$16.50 per share, for all of the outstanding shares of Creo. The Company used its bank lines to initially fund the acquisition, which has been refinanced through a 7-Year Term Loan under the Company's new Secured Credit Facilities completed on October 18, 2005.

## **Worldwide Revenues**

Net worldwide sales for the Graphic Communications Group segment were \$2,990 million for 2005 as compared with \$1,344 million for the prior year period, representing an increase of \$1,646 million, or 122%, which includes a favorable impact from exchange of less than 1%. The increase in net sales was primarily due to the KPG, Creo and NexPress acquisitions, which contributed \$1,561 million in sales.

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PAGE 51

Net sales in the U.S. were \$1,079 million for 2005 as compared with \$587 million for the prior year, representing an increase of \$492 million, or 84%. Net sales outside the U.S. were \$1,911 million in 2005 as compared with \$757 million for the prior year period, representing an increase of \$1,154 million, or 152% as reported, which includes a favorable impact from exchange of approximately 1%.

## **Digital Strategic Product Groups' Revenues**

The Graphic Communications Group segment's digital product sales consist of KPG digital revenues; Creo, a supplier of prepress systems; NexPress Solutions, a producer of digital color and black and white printing solutions; Kodak Versamark, a leader in continuous inkjet technology; document scanners; Encad, Inc., a maker of wide-format inkjet printers; and service and support.

Digital product sales for the Graphic Communications Group segment were \$2,437 million for 2005 as compared with \$1,048 million for the prior year, representing an increase of \$1,389 million, or 133%. The increase in digital product sales was primarily attributable to the KPG, Creo and NexPress acquisitions.

## **Traditional Strategic Product Groups' Revenues**

The Graphic Communications Group segment's traditional product sales are primarily comprised of sales of traditional graphics products, KPG's analog plates and other films, and microfilm products. These sales were \$553 million for 2005 compared with \$296 million for the prior year, representing an increase of \$257 million, or 87%. This increase is primarily attributable to the acquisition of KPG.

## **Gross Profit**

Gross profit for the Graphic Communications Group segment was \$799 million for 2005 as compared with \$337 million in the prior year, representing an increase of \$462 million, or 137%. The gross profit margin was 26.7% in 2005 as compared with 25.1% in the prior year. The increase in the gross profit margin of 1.6 percentage points was primarily attributable to: (1) reductions in manufacturing and other costs, which positively impacted gross profit margins by approximately 3.3 percentage points, and (2) volume increases related to Versamark products and services of approximately 1.7 percentage points. These positive impacts on gross profit margin were partially offset by the negative impact of acquisitions on gross profit margins of approximately 2.9 percentage points, and by negative price/mix of approximately 0.5 percentage points. Foreign exchange did not have a significant impact on segment gross profit margin.

### **Selling, General and Administrative Expenses**

SG&A expenses for the Graphic Communications Group segment were \$562 million for 2005 as compared with \$283 million in the prior year, representing an increase of \$279 million, or 99%, and decreased as a percentage of sales from 21% in 2004 to 19% in 2005. The dollar increase in SG&A is primarily attributable to the acquisitions of KPG, Creo and NexPress, while the decrease in SG&A as a percentage of sales is primarily attributable to the increase in sales as a result of the acquisitions, as well as the fact that the acquired businesses generally have lower SG&A as a percentage of sales.

### **Research and Development Costs**

R&D costs for the Graphic Communications Group segment increased \$133 million, or 92%, from \$145 million for 2004 to \$278 million for 2005, and decreased as a percentage of sales from 11% in 2004 to 9% in 2005. The dollar increase was primarily attributable to the write-off of in-process R&D associated with the KPG and Creo acquisitions of \$52 million, as well as increased levels of R&D spending associated with the acquired companies of \$95 million.

### **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 the Graphic Communications Group segment was \$41 million in 2005 compared with a loss of \$91 million in 2004. This improvement in earnings of \$50 million is attributable to the reasons described above.

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PAGE 52

## **HEALTH GROUP**

### **Worldwide Revenues**

Net worldwide sales for the Health Group segment were \$2,655 million for 2005 as compared with \$2,686 million for the prior year, representing a decrease of \$31 million, or 1%. The decrease in sales was primarily attributable to decreases in price/mix of approximately 2.4 percentage points, primarily driven by the digital capture SPG, digital output SPG, and the traditional medical film portion of the film capture and output SPG. These decreases were partially offset by increases in volume, primarily driven by the digital capture SPG and the services SPG, which contributed approximately 1.0 percentage points to the increase in sales. Sales were also favorably impacted by exchange of approximately 0.3 percentage points.

Net sales in the U.S. were \$1,052 million for 2005 as compared with \$1,114 million for 2004, representing a decrease of \$62 million, or 6%. Net sales outside the U.S. were \$1,603 million for 2005 as compared with \$1,572 million for the prior year, representing an increase of \$31 million, or 2%, which includes a favorable impact from exchange of less than 1%.

### **Digital Strategic Product Groups' Revenues**

Health Group segment digital sales, which include digital products (DryView laser imagers/media and wet laser printers/media), digital capture equipment (computed radiography capture equipment and digital radiography equipment), services, dental systems (practice management software and digital radiography capture equipment) healthcare information systems (Picture Archiving and Communications Systems (PACS)), and Radiology Information Systems (RIS), were \$1,719 million for 2005 as compared with \$1,693 million for 2004, representing an increase of \$26 million, or 2%. The increase in digital product sales was primarily attributable to volume increases and favorable exchange, partially offset by negative price/mix.

### **Traditional Strategic Product Groups' Revenues**

Health Group segment's traditional product sales, including analog film, equipment, and chemistry, were \$936 million for 2005 as compared with \$993 million for 2004, representing a decrease of \$57 million, or 6%. The primary drivers were lower volumes and unfavorable price/mix for the film capture and output SPG, partially offset by favorable exchange.

### **Gross Profit**

Gross profit for the Health Group segment was \$1,021 million for 2005 as compared with \$1,132 million in the prior year, representing a decrease of \$111 million, or 10%. The gross profit margin was 38.5% in 2005 as compared with 42.1% in 2004. The decrease in the gross profit margin of 3.6 percentage points was principally attributable to: (1) price/mix, which negatively impacted gross profit margins by 2.6 percentage points driven by the digital capture SPG, digital output SPG and the traditional medical film portion of the film capture and output SPG, and (2) an increase in manufacturing cost, which decreased gross profit margins by approximately 1.3 percentage points due to an increase in silver and raw material costs. These decreases were partially offset by favorable exchange, which contributed approximately 0.4 percentage points to the gross profit margins.

### **Selling, General and Administrative Expenses**

SG&A expenses for the Health Group segment increased \$21 million, or 4%, from \$468 million in 2004 to \$489 million for 2005 and increased as a percentage of sales from 17% in 2004 to 18% in 2005. The increase in SG&A expenses is primarily attributable to increases in certain corporate overhead costs. SG&A was also negatively impacted by costs associated with the OREX acquisition of approximately \$6 million.

### **Research and Development Costs**

R&D costs for 2005 were \$162 million as compared with the prior year of \$180 million, representing a decrease of \$18 million or 10%, and decreased as a percentage of sales from 7% to 6%. This decrease is a result of reduced R&D spending related to traditional products and services.



**Earnings From Continuing Operations Before Interest, Other Income (Charges), Net and Income Taxes**

Earnings from continuing operations before interest, other income (charges), net and income taxes for the Health Group segment decreased \$114 million, or 24%, from \$484 million for the prior year to \$370 million for 2005 due to the reasons described above.

PAGE 53

**ALL OTHER****Worldwide Revenues**

Net worldwide sales for All Other were \$83 million for 2005 as compared with \$70 million for 2004, representing an increase of \$13 million, or 19%. Net sales in the U.S. were \$47 million for 2005 as compared with \$41 million for 2004, representing an increase of \$6 million, or 15%. Net sales outside the U.S. were \$36 million in 2005 as compared with \$29 million in the prior year, representing an increase of \$7 million, or 24%.

**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 \$231 million in 2005 as compared with a loss of \$257 million in 2004, representing an improvement in earnings of \$26 million or 10%.

**EARNINGS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES**

Earnings from discontinued operations for 2005 were \$150 million, or \$.52 per basic and diluted share and were primarily related to a \$203 million reversal of certain tax accruals as a result of a settlement between the Company and the Internal Revenue Service on the audit of the tax years 1993 through 1998. These accruals had been established in 1994 in connection with the Company's sale of its pharmaceutical, consumer health and household products businesses during that year. The tax accrual reversals were partially offset by a pension settlement charge of \$54 million resulting from the finalization of the transfer of pension assets to ITT Industries, Inc. (ITT) in connection with the sale of the Company's Remote Sensing Systems business (RSS) in August 2004. Earnings from discontinued operations for 2004 were \$475 million or \$1.66 per basic and diluted share and were primarily related to the gain on the sale of RSS to ITT in August 2004.

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

The loss from cumulative effect of an accounting change, net of income taxes, of \$57 million or \$.20 per basic and diluted share is the result of the Company's adoption of Financial Accounting Standards Board Interpretation No. (FIN) 47, "Accounting for Conditional Asset Retirement Obligations," as of December 31, 2005. Under FIN 47, the Company is required to record an obligation and an asset for the present value of the estimated cost of fulfilling its legal obligation with respect to the retirement of an asset when the timing or method of settling that obligation is conditional upon a future event (for example, the sale of, exiting from or disposal of an asset - the "settlement date"). The primary application of FIN 47 to the Company is with respect to asbestos remediation. The \$57 million charge represents the present value of the Company's asset retirement obligations (net of the related unamortized asset) relating to facilities with estimated settlement dates. Refer to further discussion in the "New Accounting Pronouncements" section of Item 7 for further information.

**NET (LOSS) EARNINGS**

The net loss for 2005 was \$1,261 million, or a loss of \$4.38 per basic and diluted share, as compared with net earnings for 2004 of \$544 million, or \$1.90 per basic and diluted share, representing a decrease of \$1,805 million, or 332%. This decrease is attributable to the reasons outlined above.

PAGE 54

**SUMMARY**

(in millions, except per share data)

	2006	Change	2005	Change	2004
Net sales from continuing operations	\$ 13,274	- 7%	\$ 14,268	+6%	\$ 13,517
Loss from continuing operations					
before interest, other income (charges),					
net, and income taxes	(202)	+68	(632)	-496	(106)
(Loss) earnings from continuing operations	(600)	+56	(1,354)	-2,062	69
(Loss) earnings from discontinued operations	(1)	-101	150	- 68	475
Cumulative effect of accounting change	—		(57)		—
Net (loss) earnings	\$ (601)	+52%	\$ (1,261)	-332%	\$ 544
Basic and diluted net (loss) earnings per share:					

Continuing operations	\$	(2.09)	+55%	\$	(4.70)	-2,058%	\$	.24
Discontinued operations		—	-100		.52	- 69		1.66
Cumulative effect of accounting change		—			(.20)			—
Total	\$	(2.09)	+52%	\$	(4.38)	- 331%	\$	1.90

The Company's results as noted above include certain one-time items, such as charges associated with focused cost reductions and other special charges. These items, which are described below, should be considered to better understand the Company's results of operations that were generated from normal operational activities.

## 2006

The Company's results from continuing operations for the year included the following:

Charges of \$768 million, net of reversals, (\$718 million after tax) related to focused cost reductions implemented primarily under the 2004-2007 Restructuring Program. See further discussion in the Restructuring Costs and Other section of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Note 16, "Restructuring Costs and Other."

Income of \$46 million (\$33 million after tax) related to property and asset sales related to focused cost reduction actions.

Charges of \$11 million (\$10 million after tax) related to impairment charges for assets sold or held for sale.

Reversals, net of \$2 million (\$2 million after tax) related to legal settlements.

Income tax charge of \$90 million to establish a valuation allowance against the Company's net deferred tax assets in certain countries outside the U.S., portions of which are reflected in the restructuring amount presented above.

## 2005

The Company's results from continuing operations for the year included the following:

Charges of \$1,118 million (\$1,020 million after tax) related to focused cost reductions implemented primarily under the 2004-2007 Restructuring Program. See further discussion in the Restructuring Costs and Other section of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Note 16, "Restructuring Costs and Other."

PAGE 55

Net charges of \$52 million (\$38 million after tax) related to purchased in-process R&D incurred in the second quarter (adjusted for credits of \$12 million (\$2 million after tax) in the third quarter) related to the acquisitions of KPG and Creo.

Charges of \$44 million (\$35 million after tax) related to a \$19 million impairment of the investment in Lucky Film and a \$25 million (\$16 million after tax) asset impairment.

Charges of \$21 million (\$21 million after tax) related to unfavorable legal settlements.

Other income of \$41 million (\$39 million after tax) related to the gain on the sale of properties in connection with restructuring actions.

Income tax charges of \$6 million related to a change in estimate with respect to a tax benefit recorded in connection with a land donation.

Income tax charge of \$961 million to establish a valuation allowance against the Company's net deferred tax assets in the U.S., portions of which are reflected in the restructuring amount presented above.

## 2004

The Company's results from continuing operations for the year included the following:

Charges of \$889 million (\$620 million after tax) related to focused cost reductions implemented primarily under the Third Quarter, 2003 Restructuring Program and 2004-2007 Restructuring Program. See further discussion in the Restructuring Costs and Other section of MD&A and Note 16, "Restructuring Costs and Other."

Charges of \$12 million (\$7 million after tax), including \$2 million (\$1 million after tax) for inventory write-downs and \$10 million (\$6 million

after tax) for the write-off of fixed assets related to Kodak's historical ownership interest in the NexPress joint venture in connection with the acquisition of the NexPress-related entities incurred in the second and fourth quarters.

Charges of \$15 million (\$10 million after tax) related to purchased in-process R&D incurred in the first and third quarters.

Charges of \$6 million (\$4 million after tax) related to a legal settlement.

Other income of \$101 million (\$63 million after tax) related to two favorable legal settlements.

Income tax charges of \$31 million related to valuation allowances for restructuring related deferred tax assets.

## RESTRUCTURING COSTS AND OTHER

The Company is currently undergoing the transformation from a traditional products and services company to a digital products and services company. In connection with this transformation, the Company announced a cost reduction program in January 2004 that would extend through 2006 to achieve the appropriate business model and to significantly reduce its worldwide facilities footprint. In July 2005, the Company announced an extension to this program into 2007 to accelerate its digital transformation, which included further cost reductions that will result in a business model consistent with what is necessary to compete profitably in digital markets.

In connection with its announcement relating to the extended "2004-2007 Restructuring Program," the Company has provided estimates with respect to (1) the number of positions to be eliminated, (2) the facility square footage reduction, (3) the reduction in its traditional manufacturing infrastructure, and (4) the total restructuring charges to be incurred.

PAGE 56

The actual charges for initiatives under this program are recorded in the period in which the Company commits to formalized restructuring plans or executes the specific actions contemplated by the program and all criteria for restructuring charge recognition under the applicable accounting guidance have been met.

### Restructuring Programs Summary

The activity in the accrued restructuring balances and the non-cash charges incurred in relation to all of the restructuring programs described below was as follows for the year ended December 31, 2006:

(in millions)	Balance Dec. 31, 2005	Charges	Reversals	Cash Payments (1)	Non-cash Settlements	Other Adjustments and Reclasses (2)	Balance Dec. 31, 2006
<b>2004-2007 Restructuring Program:</b>							
Severance reserve	\$ 271	\$ 318	\$ (3)	\$ (416)	\$ —	\$ 58	\$ 228
Exit costs reserve	23	69	(1)	(67)	—	—	24
Total reserve	<u>\$ 294</u>	<u>\$ 387</u>	<u>\$ (4)</u>	<u>\$ (483)</u>	<u>\$ —</u>	<u>\$ 58</u>	<u>\$ 252</u>
Long-lived asset impairments and inventory write-downs	\$ —	\$ 100	\$ —	\$ —	\$ (100)	\$ —	\$ —
Accelerated depreciation	—	285	—	—	(285)	—	—
<b>Pre-2004 Restructuring Programs:</b>							
Severance reserve	\$ 2	\$ —	\$ —	\$ (2)	\$ —	\$ —	\$ —
Exit costs reserve	13	—	—	(3)	—	1	11
Total reserve	<u>\$ 15</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (5)</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 11</u>
Total of all restructuring programs	<u>\$ 309</u>	<u>\$ 772</u>	<u>\$ (4)</u>	<u>\$ (488)</u>	<u>\$ (385)</u>	<u>\$ 59</u>	<u>\$ 263</u>

- (1) During the year ended December 31, 2006, the Company paid \$548 million related to restructuring. Of this total amount, \$488 million was recorded against restructuring reserves, while \$60 million was recorded against pension and other postretirement liabilities.
- (2) The total restructuring charges of \$772 million, excluding reversals, include: (1) pension and other postretirement charges and credits for curtailments, settlements and special termination benefits, and (2) environmental remediation charges that resulted from the Company's ongoing restructuring actions. However, because these charges and credits relate to the accounting for pensions, other postretirement benefits, and environmental remediation costs, the related impacts on the Consolidated Statement of Financial Position are reflected in their respective components as opposed to within the accrued restructuring balances at December 31, 2006 or 2005. Accordingly, the Other

Adjustments and Reclasses column of the table above includes: (1) reclassifications to Other long-term assets and Pension and other postretirement liabilities for the position elimination-related impacts on the Company's pension and other postretirement employee benefit plan arrangements, including net curtailment gains, settlement gains, and special termination benefits of \$37 million, and (2) reclassifications to Other long-term liabilities for the restructuring-related impacts on the Company's environmental remediation liabilities of \$(9) million. Additionally, the Other Adjustments and Reclasses column of the table above includes: (1) adjustments to the restructuring reserves of \$20 million related to the KPG and Creo purchase accounting impacts that were charged appropriately to Goodwill as opposed to Restructuring charges, and (2) foreign currency translation adjustments of \$10 million, which are reflected in Accumulated other comprehensive loss in the Consolidated Statement of Financial Position.

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PAGE 57

The costs incurred, net of reversals, which total \$768 million for the year ended December 31, 2006, include \$285 million and \$12 million of charges related to accelerated depreciation and inventory write-downs, respectively, which were reported in cost of goods sold in the accompanying Consolidated Statement of Operations for the year ended December 31, 2006. The remaining costs incurred, net of reversals, of \$471 million, were reported as restructuring costs and other in the accompanying Consolidated Statement of Operations for the year ended December 31, 2006. The severance reserve and exit costs reserve generally require the outlay of cash, while long-lived asset impairments, accelerated depreciation and inventory write-downs represent non-cash items.

### **2004-2007 Restructuring Program**

The Company announced on January 22, 2004 that it planned to develop and execute a comprehensive cost reduction program throughout the 2004 to 2006 timeframe. The objective of these actions was to achieve a business model appropriate for the Company's traditional businesses, and to sharpen the Company's competitiveness in digital markets.

The program was expected to result in total charges of \$1.3 billion to \$1.7 billion over the three-year period, of which \$700 million to \$900 million related to severance, with the remainder relating to the disposal of buildings and equipment. Overall, Kodak's worldwide facility square footage was expected to be reduced by approximately one-third. Approximately 12,000 to 15,000 positions worldwide were expected to be eliminated through these actions primarily in global manufacturing, selected traditional businesses and corporate administration.

On July 20, 2005, the Company announced that it would extend the restructuring activity, originally announced in January 2004, as part of its efforts to accelerate its digital transformation and to respond to a faster-than-expected decline in consumer film sales. As a result of this announcement, the overall restructuring program was renamed the "2004-2007 Restructuring Program." Under the 2004-2007 Restructuring Program, the Company expected to increase the total employment reduction to a range of 22,500 to 25,000 positions, and to reduce its traditional manufacturing infrastructure to approximately \$1 billion, compared with \$2.9 billion as of December 31, 2004. These changes were expected to increase the total charges under the program to a range of \$2.7 billion to \$3.0 billion. Based on the actual actions taken through the end of the fourth quarter of 2006 under this program and an understanding of the estimated remaining actions to be taken, the Company expected that the employment reductions and total charges under this program would be within the ranges of 25,000 to 27,000 positions and \$3.0 billion to \$3.4 billion, respectively. On February 8, 2007, the Company updated the ranges for anticipated restructuring activity. The Company now expects that the total employment reductions will be in the range of 28,000 to 30,000 positions and total charges will be in the range of \$3.6 billion to \$3.8 billion.

The Company implemented certain actions under this program during 2006. As a result of these actions, the Company recorded charges of \$768 million in 2006, net of reversals, which were composed of severance, long-lived asset impairments, exit costs, accelerated depreciation, and inventory write-downs of \$315 million, \$88 million, \$68 million, \$285 million and \$12 million, respectively. The severance costs related to the elimination of approximately 5,625 positions, including approximately 500 photofinishing, 2,950 manufacturing, 375 research and development and 1,800 administrative positions. The geographic composition of the positions to be eliminated includes approximately 2,675 in the United States and Canada and 2,950 throughout the rest of the world. The reduction of the 5,625 positions and the \$387 million charges for severance and exit costs are reflected in the 2004-2007 Restructuring Program table below. The \$88 million charge for long-lived asset impairments was included in restructuring costs and other in the accompanying Consolidated Statement of Operations for the year ended December 31, 2006. The charges taken for inventory write-downs of \$12 million were reported in cost of goods sold in the accompanying Consolidated Statement of Operations for the year ended December 31, 2006.

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PAGE 58

As a result of initiatives implemented under the 2004-2007 Restructuring Program, the Company recorded \$285 million of accelerated depreciation on long-lived assets in cost of goods sold in the accompanying Consolidated Statement of Operations for the year ended December 31, 2006. The accelerated depreciation relates to long-lived assets accounted for under the held and used model of SFAS No. 144. The year-to-date amount of \$285 million relates to \$11 million of photofinishing facilities and equipment, \$271 million of manufacturing facilities and equipment, and \$3 million of administrative facilities and equipment that will be used until their abandonment. The Company will record approximately \$33 million of additional accelerated depreciation in 2007 related to the initiatives implemented in 2006. Additional amounts of accelerated depreciation may be recorded in 2007 as the Company continues to execute its 2004-2007 Restructuring Program.

Under this program, on a life-to-date basis as of December 31, 2006, the Company has recorded charges of \$2,731 million, which were composed of severance, long-lived asset impairments, exit costs, inventory write-downs and accelerated depreciation of \$1,233 million, \$350 million, \$252 million, \$68 million and \$828 million, respectively. The severance costs related to the elimination of approximately 23,375 positions, including approximately 6,200 photofinishing, 10,900 manufacturing, 1,375 research and development and 4,900 administrative positions.

The following table summarizes the activity with respect to the charges recorded in connection with the focused cost reduction actions that the Company has committed to under the 2004-2007 Restructuring Program and the remaining balances in the related reserves at December 31, 2006:

(dollars in millions)	Number of Employees	Severance Reserve	Exit Costs Reserve	Total	Long-lived Asset Impairments and Inventory Write-downs	Accelerated Depreciation
2004 charges	9,625	\$ 418	\$ 99	\$ 517	\$ 157	\$ 152
2004 reversals	—	(6)	(1)	(7)	—	—
2004 utilization	(5,175)	(169)	(47)	(216)	(157)	(152)
2004 other adj. & reclasses	—	24	(15)	9	—	—
Balance at 12/31/04	4,450	267	36	303	—	—
2005 charges	8,125	497	84	581	161	391
2005 reversals	—	(3)	(6)	(9)	—	—
2005 utilization	(10,225)	(377)	(95)	(472)	(161)	(391)
2005 other adj. & reclasses	—	(113)	4	(109)	—	—
Balance at 12/31/05	2,350	271	23	294	—	—
2006 charges	5,625	318	69	387	100	285
2006 reversals	—	(3)	(1)	(4)	—	—
2006 utilization	(5,700)	(416)	(67)	(483)	(100)	(285)
2006 other adj. & reclasses	—	58	—	58	—	—
Balance at 12/31/06	2,275	\$ 228	\$ 24	\$ 252	\$ —	\$ —

As a result of the initiatives being implemented under the 2004-2007 Restructuring Program, severance payments will be paid during periods through 2008 since, in many instances, the employees whose positions were eliminated can elect or are required to receive their payments over an extended period of time. Most exit costs were paid during 2006. However, certain costs, such as long-term lease payments, will be paid over periods after 2006.

PAGE 59

The charges of \$772 million recorded in 2006, excluding reversals, included \$158 million applicable to the Film and Photofinishing Systems Group segment, \$27 million applicable to the Consumer Digital Group segment, \$22 million applicable to the Health Group segment, and \$38 million applicable to the Graphic Communications Group segment, and \$28 million applicable to All Other. The balance of \$499 million was applicable to manufacturing, research and development, and administrative functions, which are shared across all segments.

The restructuring actions implemented during fiscal year 2006 under the 2004-2007 Restructuring Program are expected to generate future annual cost savings of approximately \$400 million and future annual cash savings of approximately \$380 million. These cost savings began to be realized by the Company beginning in the first quarter of 2006, and are expected to be fully realized by the end of 2007 as most of the actions and severance payouts are completed. These total cost savings are expected to reduce future cost of goods sold, SG&A, and R&D expenses by approximately \$231 million, \$132 million, and \$38 million, respectively.

Based on all of the actions taken to date under the 2004-2007 Restructuring Program, the program is expected to generate annual cost savings of approximately \$1,385 million, including annual cash savings of \$1,331 million, as compared with pre-program levels. The Company began realizing these savings in the second quarter of 2004, and expects the savings to be fully realized by the end of 2007 as most of the actions and severance payouts are completed. These total cost savings are expected to reduce cost of goods sold, SG&A, and R&D expenses by approximately \$897 million, \$351 million, and \$137 million, respectively.

The above savings estimates are based primarily on objective data related to the Company's severance actions. Savings resulting from facility closures and other non-severance actions that are more difficult to quantify are not included. The Company estimates its total annual cost savings under the extended 2004-2007 Restructuring Program will be \$1.6 billion to \$1.8 billion.

#### Pre-2004 Restructuring Programs

At December 31, 2006, the Company had remaining exit costs reserves of \$11 million, relating to restructuring plans committed to or executed prior to 2004. Most of these remaining exit costs reserves represent long-term lease payments, which will continue to be paid over periods

throughout and after 2007.

## LIQUIDITY AND CAPITAL RESOURCES

### 2006

#### *Cash Flow Activity*

The Company's cash and cash equivalents decreased \$196 million from \$1,665 million at December 31, 2005 to \$1,469 million at December 31, 2006. The decrease resulted primarily from \$947 million of net cash used in financing activities, \$225 million of net cash used in investing activities, partially offset by \$956 million of net cash provided by operating activities.

The net cash provided by operating activities of \$956 million was primarily attributable to the Company's net loss of \$601 million which, when adjusted for equity in earnings from unconsolidated affiliates, depreciation and amortization, the gain on sales of businesses/assets, restructuring costs, asset impairments and other non-cash charges, and provision for deferred taxes, provided \$702 million of operating cash. Additionally, decreases in inventories of \$271 million and decreases in receivables of \$157 million, and increases in liabilities excluding borrowings of \$61 million, contributed to operating cash. The decrease in inventories is primarily due to planned inventory reductions driven by corporate initiatives, and a decline in demand for traditional products. The decrease in receivables was primarily caused by the continued industry decline in sales of traditional products and services. The increase in liabilities excluding borrowings is the result of non-cash adjustments to tax liabilities, partially offset by a decrease in accounts payable and other liabilities. Included in net cash provided by operating activities was approximately \$315 million provided by non-recurring licensing arrangements and \$548 million of cash used in restructuring activities during the period.

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PAGE 60

The net cash used in investing activities of \$225 million was utilized primarily for capital expenditures of \$379 million, partially offset by net proceeds from the sale of assets of \$178 million. The net cash used in financing activities of \$947 million was the result of net payments of borrowings of \$803 million and dividend payments of \$144 million.

The Company's primary uses of cash include restructuring payments, debt payments, capital additions, dividend payments, employee benefit plan payments/contributions, and working capital needs.

Capital additions were \$379 million in 2006, with the majority of the spending supporting new products, manufacturing productivity and quality improvements, infrastructure improvements, equipment placements with customers, and ongoing environmental and safety initiatives.

During the year ended December 31, 2006, the Company expended \$548 million against the related restructuring reserves and pension and other postretirement liabilities, primarily for the payment of severance benefits. Certain employees whose positions were eliminated could elect to receive severance payments for up to two years following their date of termination.

The Company has a dividend policy whereby it makes semi-annual payments of dividends, when declared, on the Company's 10th business day each July and December to shareholders of record on the close of the first business day of the preceding month. On May 10, 2006, the Board of Directors declared a semi-annual cash dividend of \$.25 per share payable to shareholders of record at the close of business on June 1, 2006. This dividend was paid on July 18, 2006. On October 17, 2006, the Board of Directors declared a semi-annual cash dividend of \$.25 per share payable to shareholders of record at the close of business on November 1, 2006. This dividend was paid on December 14, 2006. The total dividends paid for the year ended December 31, 2006 was \$144 million.

The Company made contributions (funded plans) or paid benefits (unfunded plans) totaling approximately \$187 million relating to its major U.S. and non-U.S. defined benefit pension plans in the year ended December 31, 2006.

The Company paid benefits totaling approximately \$224 million relating to its U.S., United Kingdom and Canada other postretirement benefit plans, which represent the Company's major other postretirement plans, in the year ended December 31, 2006.

The Company believes that its cash flow from operations in addition to asset sales will be sufficient to cover its working capital and capital investment needs and the funds required for future debt reduction, restructuring payments, dividend payments, employee benefit plan payments/contributions, and modest acquisitions. The Company's cash balances and its financing arrangements, as described under "Sources of Liquidity" below, will be used to bridge timing differences between expenditures and cash generated from operations.

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PAGE 61

#### *Sources of Liquidity*

Refer to Note 9, "Short-Term Borrowings and Long-Term Debt" of the Notes to Financial Statements for presentation of long-term debt, related maturities and interest rates as of December 31, 2006 and 2005.

### **Short-Term Borrowings**

As of December 31, 2006, the Company and its subsidiaries, on a consolidated basis, maintained \$1,110 million in committed bank lines of credit and \$616 million in uncommitted bank lines of credit to ensure continued access to short-term borrowing capacity.

### **Secured Credit Facilities**

On October 18, 2005 the Company closed on \$2.7 billion of Senior Secured Credit Facilities (Secured Credit Facilities) under a new Secured Credit Agreement (Secured Credit Agreement) and associated Security Agreement and Canadian Security Agreement. The Secured Credit Facilities consists of a \$1.0 billion 5-Year Committed Revolving Credit Facility (5-Year Revolving Credit Facility) expiring October 18, 2010 and \$1.7 billion of Term Loan Facilities (Term Facilities) expiring October 18, 2012.

The 5-Year Revolving Credit Facility can be used by Eastman Kodak Company (U.S. Borrower) for general corporate purposes including the issuance of letters of credit. Amounts available under the facility can be borrowed, repaid and re-borrowed throughout the term of the facility provided the Company remains in compliance with covenants contained in the Secured Credit Agreement. As of December 31, 2006, there was no debt outstanding and \$141 million of letters of credit issued under this facility.

Under the Term Facilities, \$1.2 billion was borrowed at closing primarily to refinance debt originally issued under the Company's previous \$1.225 billion 5-Year Facility to finance the acquisition of Creo Inc. on June 15, 2005. The \$1.2 billion consists of a \$920 million 7-Year Term Loan to the U.S. Borrower and \$280 million 7-Year Term Loan to Kodak Graphic Communications Canada Company (KGCCC or, the Canadian Borrower). Pursuant to the terms of the Secured Credit Agreement, an additional \$500 million was available to the U.S. Borrower under the seven-year term loan facility for advance at any time through June 15, 2006. On June 15, 2006, the Company used this \$500 million to refinance \$500 million 6.375% Medium Term Notes, Series A, due June 15, 2006. This term loan matures on October 18, 2012 and may be prepaid in whole or in part at specified interest reset dates without penalty. These obligations are secured through asset and equity pledges as described below.

At December 31, 2006, the balances for these secured credit facilities reported in Long-term debt, net of current portion, on the Consolidated Statement of Financial Position were \$861 million and \$277 million for the U.S. Borrower and the Canadian Borrower, respectively. The Secured Credit Agreement requires mandatory quarterly prepayment of .25% of the outstanding advances. Debt issue costs incurred of approximately \$57 million associated with the Secured Credit Facilities were recorded as an asset and are being amortized over the life of the borrowings.

In the fourth quarter of 2006, the Company prepaid \$542 million on its Term Loan Facility. In conjunction with this prepayment, the Company wrote off approximately \$9 million of debt issuance costs associated with the early extinguishment of debt.

On January 10, 2007, the Company announced that it had entered into an agreement to sell its Health Group to Onex Healthcare Holdings, Inc., a subsidiary of Onex Corporation. Under terms of the agreement, the Company will sell its Health Group to Onex for up to \$2.55 billion. The price is composed of \$2.35 billion in cash at closing, plus up to \$200 million in additional future payments if Onex achieves certain returns with respect to its investment. If Onex Healthcare investors realize an internal rate of return in excess of 25% on their investment, the Company will receive payment equal to 25% of the excess return, up to \$200 million.

On January 10, 2007, S&P stated that they will keep the Company on credit watch with negative implications. They have concerns that the anticipated debt reduction associated with the sale of the Health Group (announced on January 10, 2007) will not fully offset their view of a negative shift in the Company's business portfolio.

Pursuant to the Secured Credit Agreement and associated Security Agreement, each subsidiary organized in the U.S. jointly and severally guarantees the obligations under the Secured Credit Agreement and all other obligations of the Company and its subsidiaries to the Lenders. The guaranty is supported by the pledge of certain U.S. assets of the U.S. Borrower and the Company's U.S. subsidiaries including, but not limited to, receivables, inventory, equipment, deposit accounts, investments, intellectual property, including patents, trademarks and copyrights, and the capital stock of "Material Subsidiaries." Excluded from pledged assets are real property, "Principal Properties" and equity interests in "Restricted Subsidiaries", as defined in the Company's 1988 Indenture.

"Material Subsidiaries" are defined as those subsidiaries with revenues or assets constituting 5 percent or more of the consolidated revenues or assets of the corresponding borrower. "Material Subsidiaries" are determined on an annual basis under the Secured Credit Agreement.

Pursuant to the Secured Credit Agreement and associated Canadian Security Agreement, Eastman Kodak Company and Kodak Graphic Communications Company (KGCC, formerly Creo Americas, Inc.), jointly and severally guarantee the obligations of the Canadian Borrower, to the Lenders. Subsequently, KGCC has been merged into Eastman Kodak Company. Certain assets of the Canadian Borrower in Canada were also pledged in support of its obligations, including, but not limited to, receivables, inventory, equipment, deposit accounts, investments, intellectual property, including patents, trademarks and copyrights, and the capital stock of the Canadian Borrower's Material Subsidiaries.

Interest rates for borrowings under the Secured Credit Agreement are dependent on the Company's Long Term Senior Secured Credit Rating. The Secured Credit Agreement contains various affirmative and negative covenants customary in a facility of this type, including two quarterly financial covenants: (1) a consolidated debt for borrowed money to consolidated earnings before interest, taxes, depreciation and amortization



(EBITDA) (subject to adjustments to exclude any extraordinary income or losses, as defined by the Secured Credit Agreement, interest income and certain non-cash items of income and expense) ratio of not greater than: 3.50 to 1 as of December 31, 2006 and thereafter, and (2) a consolidated EBITDA to consolidated interest expense (subject to adjustments to exclude interest expense not related to borrowed money) ratio, on a rolling four-quarter basis, of no less than 3 to 1. As of December 31, 2006, the Company was in compliance with all covenants under the Secured Credit Agreement.

As of December 31, 2006, the Company's consolidated debt to EBITDA ratio was 1.92 and the consolidated EBITDA to consolidated interest ratio was 6.07. Consolidated EBITDA and consolidated interest expense, as adjusted, are non-GAAP financial measures. The Company believes that the presentation of the consolidated debt to EBITDA and EBITDA to consolidated interest expense financial measures is useful information to investors, as it provides information as to how the Company actually performed against the financial requirements under the Secured Credit Facilities, and how much headroom the Company has within these covenants.

The following table reconciles EBITDA, as included in the computation of the consolidated debt to EBITDA ratio under the Secured Credit Agreement covenants, to the most directly comparable GAAP measure of loss from continuing operations before interest, other income (charges), net and income taxes:

(dollar amounts in millions)	2006
Net loss	\$ (601)
Plus:	
Interest expense	262
Provision for income taxes	254
Depreciation and amortization	1,331
Non-cash restructuring charges and asset write-downs/impairments	247
Non-cash stock compensation expense	17
Total additions to calculate EBITDA	2,111
Less:	
Investment income	(60)
Total subtractions to calculate EBITDA	(60)
EBITDA, as included in the debt to EBITDA ratio as presented	\$ 1,450
(Following is a reconciliation to the most directly comparable GAAP measure)	
EBITDA, as included in the debt to EBITDA ratio as presented	\$ 1,450
Depreciation and amortization	(1,331)
Non-cash restructuring charges and asset write-downs/impairments	(247)
Other adjustments, net	(74)
Loss from continuing operations before interest, other income (charges), net and income taxes	\$ (202)

PAGE 63

The following table reconciles interest expense, as adjusted, as included in the computation of the EBITDA to interest expense ratio under the Secured Credit Agreement covenants, to the most directly comparable GAAP measure of interest expense:

(dollar amounts in millions)	2006
Interest expense, as included in the EBITDA to interest expense ratio	\$ 239
Adjustments to interest expense for purposes of the covenant calculation	23
Interest expense	\$ 262

Adjustments to interest expense relate to items that are not debt for borrowed money, including interest relating to capital leases and interest relating to tax matters.

In addition, subject to various conditions and exceptions in the Secured Credit Agreement, in the event the Company sells assets for net proceeds totaling \$75 million or more in any year, except for proceeds used within 12 months for reinvestments in the business of up to \$300 million, proceeds from sales of assets used in the Company's non-digital products and services businesses to prepay or repay debt or pay cash restructuring charges within 12 months from the date of sale of the assets, or proceeds from the sale of inventory in the ordinary course of business, the amount in excess of \$75 million must be applied to prepay loans under the Secured Credit Agreement.



The Company pays a commitment fee at an annual rate of 50 basis points on the undrawn balance of the 5-Year Revolving Credit Facility at the Company's current credit rating of Ba3 and B+ from Moody's Investor Services, Inc. (Moody's) and Standard & Poor's Rating Services (S&P), respectively. For the year ended December 31, 2006, this fee was \$5 million and is reported as interest expense in the Company's Consolidated Statement of Operations.

In addition to the 5-Year Revolving Credit Facility, the Company has other committed and uncommitted lines of credit at December 31, 2006 totaling \$110 million and \$616 million, respectively. These lines primarily support borrowing needs of the Company's subsidiaries, which include term loans, overdraft coverage, letters of credit and revolving credit lines. Interest rates and other terms of borrowing under these lines of credit vary from country to country, depending on local market conditions. Total outstanding borrowings against these other committed and uncommitted lines of credit at December 31, 2006 were \$18 million and \$29 million, respectively. These outstanding borrowings are reflected in the short-term borrowings in the accompanying Consolidated Statement of Financial Position at December 31, 2006.

At December 31, 2006, the Company had outstanding letters of credit totaling \$144 million and surety bonds in the amount of \$100 million primarily to ensure the payment of possible casualty and workers' compensation claims, environmental liabilities, and to support various customs and trade activities.

#### ***Debt Shelf Registration and Convertible Securities***

On September 5, 2003, the Company filed a shelf registration statement on Form S-3 (the primary debt shelf registration) for the issuance of up to \$2.0 billion of new debt securities. Pursuant to Rule 429 under the Securities Act of 1933, \$650 million of remaining unsold debt securities under a prior shelf registration statement were included in the primary debt shelf registration, thus giving the Company the ability to issue up to \$2.65 billion in public debt. After issuance of \$500 million in notes in October 2003, the remaining availability under the primary debt shelf registration was \$2.15 billion.

PAGE 64

Because of tax-loss carry forwards, the Company expects to retain the vast majority of the initial \$2.35 billion cash proceeds. The Company plans to use the proceeds to fully repay its approximately \$1.15 billion of secured term debt.

The Company has \$575 million of Convertible Senior Notes due 2033 (the Convertible Securities) on which interest accrues at the rate of 3.375% per annum and is payable semiannually. The Convertible Securities are unsecured and rank equally with all of the Company's other unsecured and unsubordinated indebtedness. The Convertible Securities may be converted, at the option of the holders, to shares of the Company's common stock if the Company's Senior Unsecured credit rating assigned to the Convertible Securities by either Moody's or S&P is lower than Ba2 or BB, respectively. At the Company's current Senior Unsecured credit rating, the Convertible Securities may be converted by their holders.

The Company's \$2.7 billion Secured Credit Facilities, along with other committed and uncommitted credit lines, and cash balances, provide the Company with adequate liquidity to meet its working capital and investing needs.

#### ***Credit Quality***

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

	Senior Secured Rating	Corporate Rating	Senior Unsecured Rating	Outlook
Moody's	Ba3	B1	B2	Negative
S&P	B+	B+	B	Negative

Moody's ratings reflect their views regarding the Company's: (i) execution challenges to achieve digital profitability as its business shifts into highly competitive digital imaging markets, (ii) ongoing exposure to the accelerating secular decline of its consumer film business and potential decline of its entertainment imaging film business, and (iii) variability in the utilization of its traditional manufacturing assets and potential for incremental restructuring costs.

Moody's Ba3 rating assigned to the Secured Credit Facilities reflects the above factors as well as the security collateral and the secured cross guarantee afforded to the Secured Credit Facilities.

The negative rating outlook reflects Moody's concern regarding the Company's challenges to transition to a digital product and services business, including requirements to fund investment and restructuring costs, and uncertain prospects for achieving solid digital business profitability.

On May 5, 2006, Moody's placed the Company's ratings on review for possible downgrade. The review was prompted by the announcement to explore strategic alternatives for the Health Group, declining Health Group revenue and earnings, a Consumer Digital Group revenue decline, and increased operating loss for the quarter ended March 31, 2006.

On January 10, 2007, Moody's stated that they will be continuing their review for possible downgrade. They will focus on the sale of the Health

Group (announced on January 10, 2007) and the Company's fundamental operating performance. They expect to conclude their review concurrent with the closing of the Health Group sale.

On August 2, 2006, S&P placed its ratings on the Company on CreditWatch with negative implications reflecting the Company's currently weak profitability and S&P's concern that the rapid decline of the traditional business will not be offset by the slower than expected revenue growth in the Company's digital business. Resolution of the CreditWatch listing will include S&P's updated assessment of the Company's near- and intermediate-term profit and cash flow potential in light of the difficult operating environment, competition and slower than expected digital sales growth.

PAGE 65

The Company is in compliance with all covenants or other requirements set forth in its credit agreements and indentures. Further, the Company does not have any rating downgrade triggers that would accelerate the maturity dates of its debt. However, the Company could be required to increase the dollar amount of its letters of credit or provide other financial support up to an additional \$73 million at the current credit ratings. As of the filing date of this Form 10-K, the Company has not been requested to materially increase its letters of credit or other financial support. However, at the current Senior Unsecured Rating of B2 by Moody's and B by S&P, Convertible Securities holders may, at their option, convert their Convertible Securities to common stock. Further downgrades in the Company's credit rating or disruptions in the capital markets could impact borrowing costs and the nature of its funding alternatives. However, further downgrades will not impact borrowing costs under the Company's \$2.7 billion Secured Credit Facilities.

### Contractual Obligations

As of December 31, 2006, the impact that our contractual obligations are expected to have on the Company's liquidity and cash flow in future periods is as follows:

(in millions)	Total	2007	2008	2009	2010	2011	2012+
Long-term debt (1)	\$ 2,731	\$ 17	\$ 273	\$ 34	\$ 36	\$ 39	\$ 2,332
Operating lease obligations	636	159	131	103	79	63	101
Purchase obligations (2)	1,664	792	393	169	103	68	139
Total (3) (4)	<u>\$ 5,031</u>	<u>\$ 968</u>	<u>\$ 797</u>	<u>\$ 306</u>	<u>\$ 218</u>	<u>\$ 170</u>	<u>\$ 2,572</u>

- (1) Represents maturities of the Company's long-term debt obligations as shown on the Consolidated Statement of Financial Position. See Note 9, "Short-Term Borrowings and Long-Term Debt."
- (2) Purchase obligations include agreements related to supplies, production and administrative services, as well as marketing and advertising, that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty. The terms of these agreements cover the next two to sixteen years. See Note 11, "Commitments and Contingencies."
- (3) Funding requirements for the Company's major defined benefit retirement plans and other postretirement benefit plans have not been determined, therefore, they have not been included. In 2006, the Company made contributions to its major defined benefit retirement plans and other postretirement benefit plans of \$187 million (\$56 million relating to its U.S. defined benefit plans) and \$224 million (\$220 million relating to its U.S. other postretirement benefits plan), respectively. The Company expects to contribute approximately \$19 million and \$269 million, respectively, to its U.S. defined benefit plans and other postretirement benefit plans in 2007.
- (4) Because their future cash outflows are uncertain, the other long-term liabilities presented in Note 10: Other Long-Term Liabilities are excluded from this table.

PAGE 66

### Off-Balance Sheet Arrangements

The Company guarantees debt and other obligations of certain customers. At December 31, 2006, these guarantees totaled a maximum of \$150 million, with outstanding guaranteed amounts of \$131 million. The maximum guarantee amount includes guarantees of up to: \$148 million of customer amounts due to banks and leasing companies in connection with financing of customers' purchases of product and equipment from the Company (\$130 million outstanding), and \$2 million to other third parties (less than \$1 million outstanding).

The guarantees for the third party debt mature between 2007 and 2011. The customer financing agreements and related guarantees typically have a term of 90 days for product and short-term equipment financing arrangements, and up to five years for long-term equipment financing arrangements. These guarantees would require payment from the Company only in the event of default on payment by the respective debtor. In some cases, particularly for guarantees related to equipment financing, the Company has collateral or recourse provisions to recover and sell the equipment to reduce any losses that might be incurred in connection with the guarantees.

Management believes the likelihood is remote that material payments will be required under any of the guarantees disclosed above. With respect to the guarantees that the Company issued in the year ended December 31, 2006, the Company assessed the fair value of its obligation to stand ready to perform under these guarantees by considering the likelihood of occurrence of the specified triggering events or conditions requiring performance as well as other assumptions and factors.

The Company also guarantees debt owed to banks for some of its consolidated subsidiaries. The maximum amount guaranteed is \$799 million, and the outstanding debt under those guarantees, which is recorded within the short-term borrowings and long-term debt, net of current portion components in the accompanying Consolidated Statement of Financial Position, is \$255 million. These guarantees expire in 2007 through 2025. As of the closing of the \$2.7 billion Secured Credit Facilities on October 18, 2005, a \$160 million KPG credit facility was closed. Debt outstanding under the KPG credit facility of \$57 million was repaid and the guarantees of \$160 million were terminated. Pursuant to the terms of the Company's \$2.7 billion Senior Secured Credit Agreement dated October 18, 2005, obligations under the \$2.7 billion Secured Credit Facilities and other obligations of the Company and its subsidiaries to the \$2.7 billion Secured Credit Facilities lenders are guaranteed.

The Company issues indemnifications in certain instances when it sells businesses and real estate, and in the ordinary course of business with its customers, suppliers, service providers and business partners. Further, the Company indemnifies its directors and officers who are, or were, serving at the Company's request in such capacities. Historically, costs incurred to settle claims related to these indemnifications have not been material to the Company's financial position, results of operations or cash flows. Additionally, the fair value of the indemnifications that the Company issued during the year ended December 31, 2006 was not material to the Company's financial position, results of operations or cash flows.

## 2005

The Company's cash and cash equivalents increased \$410 million, to \$1,665 million at December 31, 2005 from \$1,255 million at December 31, 2004. The increase resulted primarily from \$1,208 million of net cash provided by operating activities and \$533 million of net cash provided by financing activities, offset by \$1,304 million of net cash used in investing activities.

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PAGE 67

The net cash provided by operating activities of \$1,208 million was primarily attributable to a decrease in receivables, excluding the impacts of acquisitions, of \$228 million, and a decrease in inventories, excluding the impacts of acquisitions, of \$274 million. The decrease in receivables, excluding the impacts of acquisitions, is primarily due to lower customer rebate accruals and lower miscellaneous non-trade receivables, and was also impacted by the Company's collection efforts, including customer-sponsored payment programs. The decrease in inventories is primarily due to a combination of: (1) planned inventory reductions driven by corporate initiatives, (2) an increasingly seasonal demand for digital products in anticipation of the holiday season, and (3) a decline in demand for traditional products. In addition, the Company reported a net loss of \$1,362 million, which, when adjusted for the earnings from discontinued operations, cumulative effect of a change in accounting principle, equity in earnings from unconsolidated affiliates, depreciation and amortization, purchased research and development, the gain on sales of businesses/assets, restructuring costs, asset impairments and other non-cash charges, and provision for deferred taxes, provided \$582 million of operating cash. These sources of cash were further increased by the favorable impacts of the Company's continuing progress in the monetization of its intellectual property.

The net cash used in investing activities of \$1,304 million was utilized primarily for capital expenditures of \$472 million and business acquisitions of \$984 million. These uses of cash were partially offset by \$130 million from the sale of assets and investments. The net cash provided by financing activities of \$533 million was primarily the result of a net increase in borrowings of \$722 million due to the funding of the acquisition of Creo during the second quarter of 2005, partially offset by repayments of debt.

Acquisitions were \$984 million in 2005, net of cash acquired. Approximately \$927 million and \$11 million of this amount is related to the acquisitions of Creo and KPG, respectively. The acquisition of Creo uniquely positions the Company to be the preferred partner for its customers, helping them improve efficiency, expand their offerings and grow their business. The acquisition of KPG further establishes the Company as a leader in the graphics communications industry and complements the Company's existing business in this market. Both Creo and KPG operate within the Graphic Communications Group segment. The remaining amount of \$46 million was utilized to complete the acquisition of OREX. The acquisition of OREX adds the technology of OREX's small format computed radiography products for use in various health imaging markets.

Capital additions were \$472 million in 2005, with the majority of the spending supporting new products, manufacturing productivity and quality improvements, infrastructure improvements, and ongoing environmental and safety initiatives.

During the year ended December 31, 2005, the Company expended \$508 million against the related restructuring reserves, primarily for the payment of severance benefits. Employees whose positions were eliminated could elect to receive their severance payments over a period not to exceed two years following their date of termination.

The Company has a dividend policy whereby it makes semi-annual payments of dividends, when declared, on the Company's 10th business day each July and December to shareholders of record on the close of the first business day of the preceding month. On May 11, 2005, the Board of Directors declared a semi-annual cash dividend of \$.25 per share payable to shareholders of record at the close of business on June 1, 2005. This dividend was paid on July 15, 2005. On October 18, 2005, the Board of Directors declared a semi-annual cash dividend of \$.25 per share payable to shareholders of record at the close of business on November 1, 2005. This dividend was paid on December 14, 2005. The total dividends paid for the year ended December 31, 2005 was \$144 million.

## **2004**

The Company's cash and cash equivalents increased \$5 million, from \$1,250 million at December 31, 2003 to \$1,255 million at December 31, 2004. The increase resulted primarily from \$1,168 million of net cash provided by operating activities. This was offset by \$1,066 million of net cash used in financing activities, and \$120 million of net cash used in investing activities.

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PAGE 68

The net cash provided by operating activities of \$1,168 million was mainly attributable to the Company's net earnings for the year ended December 31, 2004, as adjusted for the earnings from discontinued operations, equity in earnings from unconsolidated affiliates, depreciation, purchased research and development, restructuring costs, asset impairments and other non-cash charges, a benefit from deferred taxes, and a gain on sales of businesses/assets. This source of cash was partially offset by \$481 million of restructuring payments and an increase in receivables of \$43 million. The increase in receivables is primarily attributable to increased sales of digital products. The net cash used in investing activities from continuing operations of \$828 million was utilized primarily for capital expenditures of \$460 million and business acquisitions of \$369 million. The net cash used in financing activities of \$1,066 million was the result of net reduction of debt of \$928 million as well as dividend payments for the year ended December 31, 2004.

Capital additions were \$460 million in the year ended December 31, 2004, with the majority of the spending supporting new products, manufacturing productivity and quality improvements, infrastructure improvements, and ongoing environmental and safety initiatives.

During the year ended December 31, 2004, the Company expended \$481 million against the related restructuring reserves, primarily for the payment of severance benefits. Employees whose positions were eliminated could elect to receive their severance benefits over a period not to exceed two years following their date of termination.

The Company has a dividend policy whereby it makes semi-annual payments which, when declared, will be paid on the Company's 10th business day each July and December to shareholders of record on the close of the first business day of the preceding month. On May 12, 2004, the Board of Directors declared a dividend of \$.25 per share payable to shareholders of record at the close of business on June 1, 2004. This dividend was paid on July 15, 2004. On October 19, 2004, the Board of Directors declared a dividend of \$.25 per share payable to shareholders of record at the close of business on November 1, 2004. This dividend was paid on December 14, 2004.

## **OTHER**

Refer to Note 11, "Commitments and Contingencies" of the Notes to Financial Statements for discussion regarding the Company's undiscounted liabilities for environmental remediation costs relative to December 31, 2006.

## **NEW ACCOUNTING PRONOUNCEMENTS**

### ***FASB Statement No. 151***

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, "Inventory Costs" that amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing" (ARB No. 43) to clarify the accounting for abnormal idle facility expense, freight, handling costs, and wasted material (spoilage). In addition, this Statement requires that an allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred for fiscal years beginning after June 15, 2005 (year ending December 31, 2006 for the Company). The adoption of SFAS No. 151 in 2006 did not have a material impact on the Consolidated Financial Statements of the Company.

### ***FASB Interpretation No. 47***

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in FASB No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. In addition, FIN 47 clarifies when a company would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

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PAGE 69

The Company adopted FIN 47 during the fourth quarter of 2005. FIN 47 requires that conditional asset retirement obligations, legal obligations to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event, be reported, along with associated capitalized asset retirement costs, at their fair values. Upon initial application, FIN 47 requires recognition of (1) a liability, adjusted for cumulative accretion from the date the obligation was incurred until the date of adoption of FIN 47, for existing asset retirement obligations; (2) an asset retirement cost capitalized as an increase to the carrying amount of the associated long-lived asset; and (3) accumulated depreciation on the capitalized asset retirement cost. Accordingly, the Company recognized the following amounts in its Statement of Financial Position at December 31, 2005 and Statement of Operations for the year ended December 31, 2005:

(dollar amounts in millions)

Additions to property, plant and equipment, gross	\$	33
Additions to accumulated depreciation	\$	(33)
Additions to property, plant and equipment, net	\$	—
Asset retirement obligations	\$	66
Cumulative effect of change in accounting principle, gross	\$	66
Cumulative effect of change in accounting principle, net of tax	\$	57

The adoption of FIN 47 reduced 2005 net earnings by \$57 million, or \$.20 per share.

The Company has determined the pro forma (loss) earnings from continuing operations, net (loss) earnings, and corresponding per share information as if the provisions of FIN 47 had been adopted prior to January 1, 2004. The pro forma information is as follows:

(in millions, except per share data)

	2005	2004
(Loss) earnings from continuing operations		
As reported	\$ (1,354)	\$ 69
Pro forma	\$ (1,361)	\$ 64
(Loss) earnings from continuing operations, per basic and diluted share		
As reported	\$ (4.70)	\$ .24
Pro forma	\$ (4.73)	\$ .22
Net (loss) earnings		
As reported	\$ (1,261)	\$ 544
Pro forma	\$ (1,211)	\$ 539
Net (loss) earnings, per basic and diluted share		
As reported	\$ (4.38)	\$ 1.90
Pro forma	\$ (4.21)	\$ 1.88
Number of shares used in earnings per share		
Basic	287.9	286.6
Diluted	287.9	286.8

The liability for asset retirement obligations as of December 31, 2004 would have been \$71 million if FIN 47 had been implemented prior to January 1, 2004.

Refer to Note 11, “Commitments and Contingencies,” for further discussion of the Company’s asset retirement obligations.

#### ***FASB Statement No. 155***

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments (an amendment of FASB Statements No. 133 and 140).” This Statement permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity’s first fiscal year that begins after September 15, 2006 (year ending December 31, 2007 for the Company). Additionally, the fair value option may also be applied upon adoption of this Statement for hybrid financial instruments that had been bifurcated under previous accounting guidance prior to the adoption of this Statement. The Company is currently evaluating the impact of SFAS No. 155.

#### ***FASB Interpretation No. 48***

In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainty in income taxes recognized in accordance with SFAS No. 109, “Accounting for Income Taxes.” This Interpretation prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position

taken or expected to be taken in a tax return, and also provides guidance on various related matters such as derecognition, interest and penalties, and disclosure. The Company will adopt FIN 48 in the first quarter of 2007, and does not expect the adoption of this Interpretation to have a material impact on its Consolidated Financial Statements.

#### **FASB Statement No. 157**

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” which establishes a comprehensive framework for measuring fair value in GAAP and expands disclosures about fair value measurements. Specifically, this Statement sets forth a definition of fair value, and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The provisions of SFAS No. 157 are generally required to be applied on a prospective basis, except to certain financial instruments accounted for under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” for which the provisions of SFAS No. 157 should be applied retrospectively. The Company will adopt SFAS No. 157 in the first quarter of 2008.

#### **FASB Statement No. 158**

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

PAGE 71

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

(in millions)	Before Application of SFAS No. 158	Adjustments Increase/(Decrease)	After Application of SFAS No. 158
Other long-term assets	\$ 3,421	\$ 304	\$ 3,725
Total assets	14,016	304	14,320
Accounts payable and other current liabilities	4,100	43	4,143
Total current liabilities	4,928	43	4,971
Pension and other postretirement liabilities	3,318	646	3,964
Other long-term liabilities	1,282	1	1,283
Total liabilities	12,242	690	12,932
Accumulated other comprehensive loss	(249)	386	(635)
Total shareholders’ equity	1,774	(386)	1,388
Total liabilities and shareholders’ equity	\$ 14,016	\$ 304	\$ 14,320

#### **SAB No. 108**

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” SAB No. 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. This SAB establishes a “dual approach” methodology that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company’s financial statements (both the statement of operations and statement of financial position). The SEC has stated that SAB No. 108 should be applied no later than the annual financial statements for the first fiscal year ending after November 15, 2006, with earlier application encouraged. SAB No. 108 permits a company to elect either retrospective or prospective application. The Company’s prospective application requires recording a cumulative effect adjustment in the period of adoption, as well as detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The Company’s application of SAB No. 108 in the fourth quarter of 2006 did not have any impact on its Consolidated Financial Statements.

#### **FASB Statement No. 159**

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities,” which permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The provisions of this statement are required to be applied prospectively. The Company expects to adopt SFAS No. 159 in the first quarter of 2008.

PAGE 72

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

Certain statements in this report may be forward-looking in nature, or “forward-looking statements” as defined in the United States Private Securities Litigation Reform Act of 1995. For example, references to expectations for the Company’s growth, new products and product line extensions, seasonal trends, expected costs for environmental compliance, opportunities for monetization of intellectual property, payments associated with guarantees, stability of the motion picture film market, cash, cash flow, restructuring plans and charges, accelerated depreciation, cost savings from restructuring, reduction of SG&A, employment reductions, pension contributions, target cost model and closing of the sale of the Health Group are forward-looking statements.

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

- execution of the digital growth and profitability strategies, business model and cash plan;
- implementation of the cost reduction programs;
- transition of certain financial processes and administrative functions to a global shared services model and the outsourcing of certain functions to third parties;
- implementation of, and performance under, the debt management program, including compliance with the Company’s debt covenants;
- development and implementation of product go-to-market and e-commerce strategies;
- protection, enforcement and defense of the Company’s intellectual property, including defense of our products against the intellectual property challenges of others;
- implementation of intellectual property licensing and other strategies;
- completion of information systems upgrades, including SAP, the Company’s enterprise system software;
- completion of various portfolio actions;
- reduction of inventories;
- integration of acquired businesses;
- improvement in manufacturing productivity and techniques;
- improvement in receivables performance;
- improvement in supply chain efficiency; and
- implementation of the strategies designed to address the decline in the Company’s traditional businesses.

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

- inherent unpredictability of currency fluctuations, commodity prices and raw material costs;
- competitive actions, including pricing;
- changes in the Company’s debt credit ratings and its ability to access capital markets;
- the nature and pace of technology evolution;
- changes to accounting rules and to tax laws, as well as other factors which could impact the Company’s reported financial position or effective tax rate;
- general economic, business, geo-political and regulatory conditions;
- market growth predictions;

- continued effectiveness of internal controls; and
- other factors and uncertainties disclosed from time to time in the Company's filings with the Securities and Exchange Commission.

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

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PAGE 73

## **SUMMARY OF OPERATING DATA**

A summary of operating data for 2006 and for the four years prior is shown on page 150.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates, commodity prices, and interest rates, which may adversely affect its results of operations and financial position. In seeking to minimize the risks associated with such activities, the Company may enter into derivative contracts.

Foreign currency forward contracts are used to hedge existing foreign currency denominated assets and liabilities, especially those of the Company's International Treasury Center, as well as forecasted foreign currency denominated intercompany sales. Silver forward contracts are used to mitigate the Company's risk to fluctuating silver prices. The Company's exposure to changes in interest rates results from its investing and borrowing activities used to meet its liquidity needs. Long-term debt is generally used to finance long-term investments, while short-term debt is used to meet working capital requirements. The Company does not utilize financial instruments for trading or other speculative purposes.

Using a sensitivity analysis based on estimated fair value of open forward contracts using available forward rates, if the U.S. dollar had been 10% weaker at December 31, 2006 and 2005, the fair value of open forward contracts would have increased \$2 million and decreased \$29 million, respectively. Such gains or losses would be substantially offset by losses or gains from the revaluation or settlement of the underlying positions hedged.

There were no open forward contracts hedging silver at December 31, 2006. Using a sensitivity analysis based on estimated fair value of open forward contracts using available forward prices, if available forward silver prices had been 10% lower at December 31, 2005, the fair value of open forward contracts would have decreased \$3 million. Such losses in fair value were offset by lower costs of manufacturing silver-containing products.

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

Using a sensitivity analysis based on estimated fair value of short-term and long-term borrowings, if available market interest rates had been 10% (about 63 basis points) higher at December 31, 2006, the fair value of short-term and long-term borrowings would have decreased less than one million and \$59 million, respectively. Using a sensitivity analysis based on estimated fair value of short-term and long-term borrowings, if available market interest rates had been 10% (about 63 basis points) higher at December 31, 2005, the fair value of short-term and long-term borrowings would have decreased \$2 million and \$68 million, respectively.

The Company's financial instrument counterparties are high-quality investment or commercial banks with significant experience with such instruments. The Company manages exposure to counterparty credit risk by requiring specific minimum credit standards and diversification of counterparties. The Company has procedures to monitor the credit exposure amounts. The maximum credit exposure at December 31, 2006 was not significant to the Company.

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PAGE 74

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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



We have completed integrated audits of Eastman Kodak Company's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

#### Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Eastman Kodak Company and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for inventory on January 1, 2006. As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for pension and postretirement benefit plans as of December 31, 2006. As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for share-based payments on January 1, 2005. As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for asset retirement obligations as of December 31, 2005.

#### Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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PAGE 75

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

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

PricewaterhouseCoopers LLP  
Rochester, New York  
March 1, 2007

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PAGE 76

**Eastman Kodak Company**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

(in millions, except per share data)	For the Year Ended December 31,		
	2006	2005	2004
Net sales	\$ 13,274	\$ 14,268	\$ 13,517
Cost of goods sold	<u>9,906</u>	<u>10,650</u>	<u>9,601</u>
Gross profit	3,368	3,618	3,916
Selling, general and administrative expenses	2,389	2,668	2,491
Research and development costs	710	892	836
Restructuring costs and other	<u>471</u>	<u>690</u>	<u>695</u>
Loss from continuing operations before interest, other income (charges), net and income taxes	(202)	(632)	(106)
Interest expense	262	211	168
Other income (charges), net	<u>118</u>	<u>44</u>	<u>161</u>
Loss from continuing operations before income taxes	(346)	(799)	(113)
Provision (benefit) for income taxes	<u>254</u>	<u>555</u>	<u>(182)</u>
(Loss) earnings from continuing operations	<u>\$ (600)</u>	<u>\$ (1,354)</u>	<u>\$ 69</u>
(Loss) earnings from discontinued operations, net of income taxes	<u>\$ (1)</u>	<u>\$ 150</u>	<u>\$ 475</u>
Loss from cumulative effect of accounting change, net of income taxes	<u>\$ —</u>	<u>\$ (57)</u>	<u>\$ —</u>
NET (LOSS) EARNINGS	<u>\$ (601)</u>	<u>\$ (1,261)</u>	<u>\$ 544</u>
Basic and diluted net (loss) earnings per share:			
Continuing operations	\$ (2.09)	\$ (4.70)	\$ .24
Discontinued operations	—	.52	1.66
Cumulative effect of accounting change	—	(.20)	—
Total	<u>\$ (2.09)</u>	<u>\$ (4.38)</u>	<u>\$ 1.90</u>
Cash dividends per share	<u>\$ .50</u>	<u>\$ .50</u>	<u>\$ .50</u>

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

PAGE 77

**Eastman Kodak Company**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(in millions, except share and per share data)	At December 31,	
	2006	2005
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,469	\$ 1,665
Receivables, net	2,669	2,760
Inventories, net	1,202	1,455
Deferred income taxes	108	100
Other current assets	<u>109</u>	<u>116</u>
Total current assets	<u>5,557</u>	<u>6,096</u>
Property, plant and equipment, net	2,842	3,778

Goodwill	2,196	2,141
Other long-term assets	3,725	3,221
<b>TOTAL ASSETS</b>	<b>\$ 14,320</b>	<b>\$ 15,236</b>

## LIABILITIES AND SHAREHOLDERS' EQUITY

### CURRENT LIABILITIES

Accounts payable and other current liabilities	\$ 4,143	\$ 4,187
Short-term borrowings	64	819
Accrued income and other taxes	764	483
<b>Total current liabilities</b>	<b>4,971</b>	<b>5,489</b>

Long-term debt, net of current portion	2,714	2,764
Pension and other postretirement liabilities	3,964	3,476
Other long-term liabilities	1,283	1,225
<b>Total liabilities</b>	<b>12,932</b>	<b>12,954</b>

Commitments and Contingencies (Note 11)

### SHAREHOLDERS' EQUITY

Common stock, \$2.50 par value, 950,000,000 shares authorized; 391,292,760 shares issued as of December 31, 2006 and 2005; 287,333,123 and 287,223,323 shares outstanding as of December 31, 2006 and 2005

	978	978
Additional paid in capital	881	867
Retained earnings	5,967	6,717
Accumulated other comprehensive loss	(635)	(467)
	7,191	8,095
Treasury stock, at cost 103,959,637 shares as of December 31, 2006 and 104,069,437 shares as of December 31, 2005	5,803	5,813
<b>Total shareholders' equity</b>	<b>1,388</b>	<b>2,282</b>

**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** **\$ 14,320** **\$ 15,236**

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

PAGE 78

## Eastman Kodak Company CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(in millions, except share and per share data)	Common Stock (1)	Additional Paid In Capital	Retained Earnings (3)	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Shareholders' Equity						
December 31, 2003	\$ 978	\$ 842	\$ 7,741	\$ (238)	\$ (5,852)	\$ 3,471
Net earnings	—	—	544	—	—	544
Other comprehensive income (loss):						
Unrealized losses on available-for-sale securities (\$18 million pre-tax)	—	—	—	(11)	—	(11)
Unrealized gains arising from hedging activity (\$8 million pre-tax)	—	—	—	5	—	5
Reclassification adjustment for hedging related gains						

included in net earnings (\$11 million pre-tax)	—	—	—	8	—	8
Currency translation adjustments	—	—	—	228	—	228
Minimum pension liability adjustment (\$126 million pre- tax)	—	—	—	(82)	—	(82)
Other comprehensive income	—	—	—	148	—	148
Comprehensive income						692
Cash dividends declared (\$.50 per common share)	—	—	(143)	—	—	(143)
Treasury stock issued, net (105,323 shares) (4)	—	—	(5)	—	7	2
Unvested stock issuances (10,944 shares)	—	3	(1)	—	1	3
Reclassification of stock- based compensation awards under SFAS No. 123R adoption (2)	—	9	—	—	—	9
Shareholders' Equity December 31, 2004	<u>\$ 978</u>	<u>\$ 854</u>	<u>\$ 8,136</u>	<u>\$ (90)</u>	<u>\$ (5,844)</u>	<u>\$ 4,034</u>

PAGE 79

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

(in millions, except share and per share data)	Common Stock (1)	Additional Paid In Capital	Retained Earnings (3)	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Shareholders' Equity December 31, 2004	\$ 978	\$ 854	\$ 8,136	\$ (90)	\$ (5,844)	\$ 4,034
Net loss	—	—	(1,261)	—	—	(1,261)
Other comprehensive income (loss):						
Unrealized losses on available-for-sale securities (\$9 million pre-tax)	—	—	—	(8)	—	(8)
Unrealized gains arising from hedging activity (\$21 million pre-tax)	—	—	—	21	—	21
Reclassification adjustment for hedging related gains included in net earnings (\$15 million pre-tax)	—	—	—	(15)	—	(15)
Currency translation adjustments	—	—	—	(219)	—	(219)
Minimum pension liability adjustment (\$223 million pre- tax)	—	—	—	(156)	—	(156)
Other comprehensive income	—	—	—	(377)	—	(377)
Comprehensive income						(1,638)
Cash dividends declared (\$.50 per common share)	—	—	(144)	—	—	(144)
Recognition of equity-based compensation expense	—	14	—	—	—	14

Treasury stock issued, net (357,345 shares) (4)	—	—	(10)	—	22	12
Unvested stock issuances (169,040 shares)	—	(1)	(4)	—	9	4
Shareholders' Equity December 31, 2005	<u>\$ 978</u>	<u>\$ 867</u>	<u>\$ 6,717</u>	<u>\$ (467)</u>	<u>\$ (5,813)</u>	<u>\$ 2,282</u>

PAGE 80

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

(in millions, except share and per share data)

(in millions, except share and per share data)	Common Stock (1)	Additional Paid In Capital	Retained Earnings (3)	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Shareholders' Equity December 31, 2005	\$ 978	\$ 867	\$ 6,717	\$ (467)	\$ (5,813)	\$ 2,282
Net loss	—	—	(601)	—	—	(601)
Other comprehensive income (loss):						
Unrealized losses on available-for-sale securities (\$2 million pre-tax)	—	—	—	(2)	—	(2)
Unrealized gains arising from hedging activity (\$8 million pre-tax)	—	—	—	8	—	8
Reclassification adjustment for hedging related gains included in net earnings (\$12 million pre-tax)	—	—	—	(12)	—	(12)
Currency translation adjustments	—	—	—	88	—	88
Minimum pension liability adjustment (\$185 million pre- tax)	—	—	—	136	—	136
Other comprehensive loss	—	—	—	218	—	218
Comprehensive loss						(383)
Adjustment to initially apply SFAS No. 158 for pension and other postretirement benefits (\$466 million pre- tax)	—	—	—	(386)	—	(386)
Cash dividends declared (\$.50 per common share)	—	—	(144)	—	—	(144)
Recognition of equity-based compensation expense	—	15	—	—	—	15
Treasury stock surrendered, net (135 shares) (4)	—	—	(3)	—	4	1
Unvested stock issuances (109,935 shares)	—	(1)	(2)	—	6	3
Shareholders' Equity December 31, 2006	<u>\$ 978</u>	<u>\$ 881</u>	<u>\$ 5,967</u>	<u>\$ (635)</u>	<u>\$ (5,803)</u>	<u>\$ 1,388</u>

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

- (2) The amount presented as reclassification of stock-based compensation awards under SFAS No. 123R adoption represents the amount reclassified from liabilities to Additional Paid In Capital upon the adoption of SFAS No. 123R on January 1, 2005. The reclassification was made for comparative purposes.
- (3) Amounts have been restated to reflect the change in methodology of costing U.S. inventories from LIFO to average cost. For further discussion, refer to Note 3, "Inventories."
- (4) Includes Stock Options exercised and other stock awards issued, offset by shares surrendered for taxes.

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

PAGE 81

**Eastman Kodak Company**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

(in millions)	For the Year Ended December 31,		
	2006	2005	2004
Cash flows from operating activities:			
Net (loss) earnings	\$ (601)	\$ (1,261)	\$ 544
Adjustments to reconcile to net cash provided by operating activities:			
Loss (earnings) from discontinued operations, net of income taxes	1	(150)	(475)
Loss from cumulative effect of accounting change, net of income taxes	—	57	—
Equity in earnings from unconsolidated affiliates	—	(12)	(20)
Depreciation and amortization	1,331	1,402	1,030
Gain on sales of businesses/assets	(65)	(78)	(13)
Purchased research and development	—	54	16
Non-cash restructuring costs, asset impairments and other charges	141	195	130
(Benefit) provision for deferred income taxes	(104)	343	(44)
Decrease (increase) in receivables	157	228	(43)
Decrease in inventories	271	306	102
Increase (decrease) in liabilities excluding borrowings	61	(118)	(283)
Other items, net	(236)	214	202
Total adjustments	1,557	2,441	602
Net cash provided by continuing operations	956	1,180	1,146
Net cash provided by discontinued operations	—	28	22
Net cash provided by operating activities	956	1,208	1,168
Cash flows from investing activities:			
Additions to properties	(379)	(472)	(460)
Net proceeds from sales of businesses/assets	178	130	24
Acquisitions, net of cash acquired	(3)	(984)	(369)
(Investments in) distributions from unconsolidated affiliates	(19)	34	(31)
Marketable securities - sales	133	182	124
Marketable securities - purchases	(135)	(194)	(116)
Net cash used in continuing operations	(225)	(1,304)	(828)
Net cash provided by discontinued operations	—	—	708

		)	)	)
Net cash used in investing activities	(225	(1,304	(120	)
Cash flows from financing activities:				
		)	)	)
Net decrease in borrowings with maturities of 90 days or less	(11	(126	(308	)
Proceeds from other borrowings	765	2,520	147	)
		)		
Debt issuance costs	—	(57	—	)
		)		
Repayment of other borrowings	(1,557	(1,672	(767	)
		)		
Dividends to shareholders	(144	(144	(143	)
Exercise of employee stock options	—	12	5	)
		)		
Net cash (used in) provided by financing activities	(947	533	(1,066	)
		)		
Effect of exchange rate changes on cash	20	(27	23	)
		)		
Net (decrease) increase in cash and cash equivalents	(196	410	5	)
Cash and cash equivalents, beginning of year	1,665	1,255	1,250	)
Cash and cash equivalents, end of year	\$ 1,469	\$ 1,665	\$ 1,255	)

PAGE 82

**Eastman Kodak Company**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)**

**SUPPLEMENTAL CASH FLOW INFORMATION**

Cash paid for interest and income taxes was:

(in millions)	2006	2005	2004
Interest, net of portion capitalized of \$3, \$3 and \$2	\$ 255	\$ 172	\$ 169
Income taxes	96	110	72

The following non-cash items are not reflected in the Consolidated Statement of Cash Flows:

	2006	2005	2004
Minimum pension liability adjustments	\$ 136	\$ 156	\$ 82
Adjustment to initially apply SFAS No. 158	386	—	—
Liabilities assumed in acquisitions	—	681	123
Issuance of unvested stock, net of forfeitures	1	5	—
Debt assumed for acquisition	—	395	—
Increase in other non-current receivables through increase in deferred royalty revenue from licensee	—	311	—

During the years ended December 31, 2005 and 2004, the Company completed several acquisitions. Information regarding the fair value of assets acquired and liabilities assumed is presented in Note 21, "Acquisitions."

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

PAGE 83

## **NOTE 1: SIGNIFICANT ACCOUNTING POLICIES**

### **COMPANY OPERATIONS**

Eastman Kodak Company (the Company or Kodak) is engaged primarily in developing, manufacturing, and marketing digital and traditional imaging products, services and solutions to consumers, businesses, the graphic communications market, the entertainment industry, professionals, healthcare providers and other customers. The Company's products are manufactured in a number of countries in North and South America, Europe and Asia. The Company's products are marketed and sold in many countries throughout the world.

### **BASIS OF CONSOLIDATION**

The consolidated financial statements include the accounts of Kodak and its majority owned subsidiary companies. Intercompany transactions are eliminated and net earnings are reduced by the portion of the net earnings of subsidiaries applicable to minority interests. The equity method of accounting is used for joint ventures and investments in associated companies over which Kodak has significant influence, but does not have effective control. Significant influence is generally deemed to exist when the Company has an ownership interest in the voting stock of the investee of between 20% and 50%, although other factors, such as representation on the investee's Board of Directors, voting rights and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate. Income and losses of investments accounted for using the equity method are reported in other income (charges), net, in the accompanying Consolidated Statement of Operations. See Note 7, "Investments," and Note 14, "Other Income (Charges), Net."

The cost method of accounting is used for investments in equity securities that do not have a readily determined market value and when the Company does not have the ability to exercise significant influence. These investments are carried at cost and are adjusted only for other-than-temporary declines in fair value. The carrying value of these investments is reported in other long-term assets in the accompanying Consolidated Statement of Financial Position.

Certain amounts for prior periods have been reclassified to conform to the current period classification.

### **USE OF ESTIMATES**

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

### **CHANGE IN ACCOUNTING METHODOLOGY**

On January 1, 2006, the Company elected to change its method of costing its U.S. inventories to the average cost method, which approximates "first-in, first out" (FIFO), whereas in all prior years most of Kodak's inventory in the U.S. was costed using the "last-in, first-out" (LIFO) method. The new method of accounting for inventory in the U.S. is deemed preferable as the average cost method provides better matching of revenue and expenses given the rapid technological change in the Company's products. The average cost method also better reflects the cost of inventory on the Company's Statement of Financial Position. Prior periods have been restated for comparative purposes in order to reflect the impact of this change in methodology from LIFO to average cost. See Note 3, "Inventories, Net" for further details.

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PAGE 84

### **FOREIGN CURRENCY**

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

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

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



including related hedging activities, were losses of \$3 million, \$31 million, and \$10 million in the years 2006, 2005, and 2004, respectively, and are included in other income (charges), net, in the accompanying Consolidated Statement of Operations. Refer to the “Derivative Financial Instruments” section of Note 1, “Significant Accounting Policies,” for a description of how hedging activities are reflected in the Company’s Consolidated Statement of Operations.

**CONCENTRATION OF CREDIT RISK**

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

**CASH EQUIVALENTS**

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

**MARKETABLE SECURITIES AND NONCURRENT INVESTMENTS**

The Company classifies its investment securities as either held-to-maturity, available-for-sale or trading. The Company’s debt and equity investment securities are classified as held-to-maturity and available-for-sale, respectively. Held-to-maturity investments are carried at amortized cost and available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in shareholders’ equity under the caption accumulated other comprehensive (loss) income. The Company records losses that are other than temporary to net (loss) earnings.

At December 31, 2006 and 2005, the Company had short-term investments classified as held-to-maturity of \$18 million and \$15 million, respectively. These investments were included in other current assets in the accompanying Consolidated Statement of Financial Position. In addition, at December 31, 2006 and 2005, the Company had available-for-sale equity securities of \$4 million and \$13 million, respectively, included in other long-term assets in the accompanying Consolidated Statement of Financial Position. The Company had no investment securities classified as trading securities as of December 31, 2006 or 2005.

**INVENTORIES**

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

**PROPERTIES**

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

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

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

**GOODWILL**

Goodwill represents the excess of purchase price of an acquisition over the fair value of net assets acquired. The Company applies the provisions

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

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PAGE 86

## REVENUE

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 realized or realizable and earned, which is when the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the sales price is fixed or determinable; and collectibility is reasonably assured. At the time revenue is recognized, the Company provides for the estimated costs of customer incentive programs, warranties and estimated returns and reduces revenue accordingly.

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

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

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

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

Revenue from the sale of integrated solutions, which includes transactions that require significant production, modification or customization of software, is recognized in accordance with contract accounting. Under contract accounting, revenue is recognized by utilizing either the percentage-of-completion or completed-contract method. The Company currently utilizes the completed-contract method for all solution sales, as sufficient history does not currently exist to allow the Company to accurately estimate total costs to complete these transactions. Revenue from other long-term contracts, primarily government contracts, is generally recognized using the percentage-of-completion method.

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

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PAGE 87

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

volume rebates or coupons, the Company uses historical experience and internal and customer data to estimate the sales incentive at the time revenue is recognized.

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

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

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

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

## **RESEARCH AND DEVELOPMENT COSTS**

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

## **ADVERTISING**

Advertising costs are expensed as incurred and included in selling, general and administrative expenses in the accompanying Consolidated Statement of Operations. Advertising expenses amounted to \$394 million, \$490 million and \$513 million in 2006, 2005 and 2004, respectively.

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PAGE 88

## **SHIPPING AND HANDLING COSTS**

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

## **IMPAIRMENT OF LONG-LIVED ASSETS**

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

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

## **DERIVATIVE FINANCIAL INSTRUMENTS**

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

The Company uses cash flow hedges to manage foreign currency exchange risk and commodity price risk related to forecasted transactions. The Company also uses foreign currency forward contracts to offset currency-related changes in foreign currency denominated assets and liabilities; these foreign currency forward contracts are not designated as accounting hedges and all changes in fair value are recognized in net (loss) earnings in the period of change.

The fair values of foreign currency forward contracts designated as cash flow hedges of forecasted foreign currency denominated intercompany sales are reported in other current assets and/or current liabilities, and the effective portion of the gain or loss on the derivatives is recorded in accumulated other comprehensive (loss) income. When the related inventory is sold to third parties, the hedge gains or losses as of the date of the intercompany sale are transferred from accumulated other comprehensive (loss) income to cost of goods sold.

The fair values of silver forward contracts designated as hedges of forecasted worldwide silver purchases are reported in other current assets and/or current liabilities, and the effective portion of the gain or loss on the derivative is recorded in accumulated other comprehensive (loss) income. When the related silver-containing products are sold to third parties, the hedge gains or losses as of the date of the purchase of raw silver are transferred from accumulated other comprehensive (loss) income to cost of goods sold. These gains (losses) transferred to cost of goods sold are generally offset by increased (decreased) costs of silver purchased in the open market.

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PAGE 89

## **ENVIRONMENTAL EXPENDITURES**

Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate. Expenditures that relate to an existing condition caused by past operations and that do not provide future benefits are expensed as incurred. Costs that are capital in nature and that provide future benefits are capitalized. Liabilities are recorded when environmental assessments are made or the requirement for remedial efforts is probable, and the costs can be reasonably estimated. The timing of accruing for these remediation liabilities is generally no later than the completion of feasibility studies.

The Company has an ongoing monitoring and identification process to assess how the activities, with respect to the known exposures, are progressing against the accrued cost estimates, as well as to identify other potential remediation sites that are presently unknown.

## **INCOME TAXES**

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies the accounting and reporting for income taxes recognized in accordance with SFAS No. 109. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken, or expected to be taken, in income tax returns. The Company will adopt FIN 48 as of January 1, 2007, as required. The cumulative effect of adopting FIN 48 will be recorded as an adjustment to retained earnings. The Company does not expect that the adoption of FIN 48 will have a significant impact on the Company's financial position and results of operations.

The Company accounts for income taxes in accordance with SFAS No. 109. The asset and liability approach underlying SFAS No. 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of the Company's assets and liabilities. Management provides valuation allowances against the net deferred tax asset for amounts that are not considered more likely than not to be realized.

The valuation allowance as of December 31, 2006 of \$1,849 million is attributable to \$324 million of foreign net deferred tax assets, including certain net operating loss and capital loss carryforwards and \$1,525 million of U.S. net deferred tax assets, including certain tax credits, which are not considered more likely than not to be realized.

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PAGE 90

## **EARNINGS PER SHARE**

Basic earnings-per-share computations are based on the weighted-average number of shares of common stock outstanding during the year. Diluted earnings-per-share calculations reflect the assumed exercise and conversion of employee stock options that have an exercise price that is below the average market price of the common shares for the respective periods as well as shares related to the assumed conversion of the Convertible

Securities, if dilutive. The reconciliation between the numerator and denominator of the basic and diluted earnings-per-share computations is presented as follows:

	2006	2005	2004
<b>Numerator:</b>			
(Loss) earnings from continuing operations used in basic net	)	)	
(loss) earnings per share	\$ (600)	\$ (1,354)	\$ 69
<b>Denominator:</b>			
Number of common shares used in basic net earnings per share	287.3	287.9	286.6
<b>Effect of dilutive securities:</b>			
Employee stock options	—	—	0.2
Number of common shares used in diluted net earnings per share	287.3	287.9	286.8

For the years ended December 31, 2006 and 2005, outstanding options to purchase the Company's common stock of 34.6 million and 36.0 million shares, respectively, were not included in the computation of diluted earnings per share because the Company reported a net loss from continuing operations; therefore, the effect would be anti-dilutive. For the year ended December 31, 2004, options to purchase 32.5 million shares of common stock were outstanding at a weighted-average per share price of \$52.47, but were not included in the computation of diluted earnings per share because the option's exercise price was greater than the average market price of the common shares for the period, and the effect would be anti-dilutive.

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

## STOCK-BASED COMPENSATION

On January 1, 2005, the Company early adopted the stock option expensing rules of Statement of Financial Accounting Standards (SFAS) No. 123R, "Share-Based Payment," as interpreted by Financial Accounting Standards Board (FASB) Staff Positions No. 123R-1, 123R-2, 123R-3, 123R-4, 123 R-5, and 123 R-6, using the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." The Company recognized expense under SFAS No. 123R in the amount of \$8 million and \$16 million for the years ended December 31, 2006 and 2005, respectively. The related impact on basic and diluted earnings per share for the years ended December 31, 2006 and 2005 was a reduction of \$.03 and \$.06, respectively. The impacts on the Company's cash flow for 2006 and 2005 were not material.

Upon the adoption of SFAS No. 123R in January 2005, stock-based compensation costs are included in the costs capitalized in inventory at period end. Under the pro forma disclosures previously provided under SFAS No. 123, the Company was not assuming the capitalization of such costs.

PAGE 91

For all awards issued after adoption of SFAS No. 123R, the Company changed from the nominal-vesting approach to the non-substantive vesting approach for purposes of accounting for retirement eligible participants. The impact of applying the nominal-vesting approach vs. the non-substantive approach upon adoption of SFAS No. 123R in 2005 was immaterial. The Company has a policy of issuing shares of treasury stock to satisfy share option exercises. Based on an estimate of option exercises, the Company does not expect option exercises to result in the repurchase of stock during 2007.

The Company previously accounted for its employee stock incentive plans under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and the related interpretations under FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation." Accordingly, no stock-based employee compensation cost was reflected in net earnings for the year ended December 31, 2004, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant.

The Company has determined the pro forma net earnings and net earnings per share information as if the fair value method of SFAS No. 123, "Accounting for Stock-Based Compensation," had been applied to its stock-based employee compensation in 2004. The pro forma information is as follows:

(in millions, except per share data)	Year Ended December 31, 2004
Net earnings, as reported	\$ 544
Deduct: Total stock-based employee compensation expense determined under fair value	)

method for all awards, net of related tax effects (12)

Pro forma net earnings	\$	532
------------------------	----	-----

Earnings per share:

Basic - as reported	\$	1.90
Basic - pro forma	\$	1.86
Diluted - as reported	\$	1.90
Diluted - pro forma	\$	1.85

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatilities are based on historical volatility of the Company's stock, management's estimate of implied volatility of the Company's stock, and other factors. The expected term of options granted is derived from the vesting period of the award, as well as historical exercise behavior, and represents the period of time that options granted are expected to be outstanding. The risk-free rate is calculated using the U.S. Treasury yield curve, and is based on the expected term of the option. The Company uses historical data to estimate forfeitures.

PAGE 92

The Black-Scholes option pricing model was used with the following weighted-average assumptions for options issued in each year:

	2006	2005	2004
Weighted-average risk-free interest rate	4.6%	3.9%	3.1%
Risk-free interest rates	4.5% - 5.1%	3.6% - 4.5%	2.5% - 3.8%
Weighted-average expected option lives	6 years	5 years	4 years
Expected option lives	3 - 7 years	3 - 7 years	4 years
Weighted-average volatility	34%	35%	37%
Expected volatilities	29% - 36%	31% - 36%	36% - 40%
Weighted-average expected dividend yield	1.9%	1.8%	1.6%
Expected dividend yields	1.8% - 2.3%	1.5% - 1.9%	1.6% - 1.8%

The weighted-average fair value per option granted in 2006, 2005 and 2004 was \$8.18, \$7.70 and \$8.77, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to compensation expense over the options' vesting period (1-3 years).

## COMPREHENSIVE INCOME

Comprehensive income consists of net (loss) earnings, the net unrealized gains or losses on available-for-sale marketable securities, foreign currency translation adjustments, minimum pension liability adjustments, and unrealized gains and losses on financial instruments qualifying for cash flow hedge accounting, and is presented in the accompanying Consolidated Statement of Shareholders' Equity.

## SEGMENT REPORTING

The Company reports net sales from continuing operations, earnings (losses) from continuing operations before interest, other income (charges), net and income taxes, and certain expense, asset and geographical information about its reportable segments. Reportable segments are components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. In December 2006, the Company announced an organizational realignment that will change the current reportable segment structure effective January 1, 2007. See Note 23, "Segment Information," for a discussion of this change.

## RECENTLY ISSUED ACCOUNTING STANDARDS

### *FASB Statement No. 151*

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 151, "Inventory Costs" that amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing" (ARB No. 43) to clarify the accounting for abnormal idle facility expense, freight, handling costs, and wasted material (spoilage). In addition, this Statement requires that an allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred for fiscal years beginning after June 15, 2005 (year ending December 31, 2006 for the Company). The adoption of SFAS No. 151 in 2006 did not have a material impact on the Consolidated Financial Statements of the Company.

**FASB Interpretation No. 47**

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in FASB No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. In addition, FIN 47 clarifies when a company would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

The Company adopted FIN 47 during the fourth quarter of 2005. FIN 47 requires that conditional asset retirement obligations, legal obligations to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event, be reported, along with associated capitalized asset retirement costs, at their fair values. Upon initial application, FIN 47 requires recognition of (1) a liability, adjusted for cumulative accretion from the date the obligation was incurred until the date of adoption of FIN 47, for existing asset retirement obligations; (2) an asset retirement cost capitalized as an increase to the carrying amount of the associated long-lived asset; and (3) accumulated depreciation on the capitalized asset retirement cost. Accordingly, the Company recognized the following amounts in its Statement of Financial Position at December 31, 2005 and Statement of Operations for the year ended December 31, 2005:

(dollar amounts in millions)

Additions to property, plant and equipment, gross	\$	33
		)
Additions to accumulated depreciation	\$	(33)
Additions to property, plant and equipment, net	\$	—
Asset retirement obligations	\$	66
Cumulative effect of change in accounting principle, gross	\$	66
Cumulative effect of change in accounting principle, net of tax	\$	57

The adoption of FIN 47 reduced 2005 net earnings by \$57 million, or \$.20 per share.

The Company has determined the pro forma (loss) earnings from continuing operations, net (loss) earnings, and corresponding per share information as if the provisions of FIN 47 had been adopted prior to January 1, 2004. The pro forma information is as follows:

(in millions, except per share data)

	2005	2004
(Loss) earnings from continuing operations		
	)	
As reported	\$ (1,354	\$ 69
	)	
Pro forma	\$ (1,361	\$ 64
(Loss) earnings from continuing operations, per basic and diluted share		
	)	
As reported	\$ (4.70	\$ .24
	)	
Pro forma	\$ (4.73	\$ .22
Net (loss) earnings		
	)	
As reported	\$ (1,261	\$ 544
	)	
Pro forma	\$ (1,211	\$ 539
Net (loss) earnings, per basic and diluted share		
	)	
As reported	\$ (4.38	\$ 1.90
	)	
Pro forma	\$ (4.21	\$ 1.88
Number of shares used in earnings per share		
Basic	287.9	286.6

The liability for asset retirement obligations as of December 31, 2004 would have been \$71 million if FIN 47 had been implemented prior to January 1, 2004.

Refer to Note 11, "Commitments and Contingencies," for further discussion of the Company's asset retirement obligations.

PAGE 94

#### ***FASB Statement No. 155***

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments (an amendment of FASB Statements No. 133 and 140)." This Statement permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006 (year ending December 31, 2007 for the Company). Additionally, the fair value option may also be applied upon adoption of this Statement for hybrid financial instruments that had been bifurcated under previous accounting guidance prior to the adoption of this Statement. The Company is currently evaluating the impact of SFAS No. 155.

#### ***FASB Interpretation No. 48***

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

#### ***FASB Statement No. 157***

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which establishes a comprehensive framework for measuring fair value in GAAP and expands disclosures about fair value measurements. Specifically, this Statement sets forth a definition of fair value, and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The provisions of SFAS No. 157 are generally required to be applied on a prospective basis, except to certain financial instruments accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," for which the provisions of SFAS No. 157 should be applied retrospectively. The Company will adopt SFAS No. 157 in the first quarter of 2008.

#### ***FASB Statement No. 158***

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

PAGE 95

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

(in millions)	Before Application of SFAS No. 158	Adjustments Increase/(Decrease)	After Application of SFAS No. 158
Other long-term assets	\$ 3,421	\$ 304	\$ 3,725
Total assets	14,016	304	14,320
Accounts payable and other current liabilities	4,100	43	4,143
Total current liabilities	4,928	43	4,971
Pension and other postretirement liabilities	3,318	646	3,964
Other long-term liabilities	1,282	1	1,283
Total liabilities	12,242	690	12,932

)

)



Accumulated other comprehensive loss	(249	386	(635
		)	
Total shareholders' equity	1,774	(386	1,388
Total liabilities and shareholders' equity	\$ 14,016	\$ 304	\$ 14,320

### **SAB No. 108**

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. This SAB establishes a "dual approach" methodology that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements (both the statement of operations and statement of financial position). The SEC has stated that SAB No. 108 should be applied no later than the annual financial statements for the first fiscal year ending after November 15, 2006, with earlier application encouraged. SAB No. 108 permits a company to elect either retrospective or prospective application. The Company's prospective application requires recording a cumulative effect adjustment in the period of adoption, as well as detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The Company's application of SAB No. 108 in the fourth quarter of 2006 did not have any impact on its Consolidated Financial Statements.

### **FASB Statement No. 159**

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The provisions of this statement are required to be applied prospectively. The Company expects to adopt SFAS No. 159 in the first quarter of 2008.

## **NOTE 2: RECEIVABLES, NET**

(in millions)	2006	2005
Trade receivables	\$ 2,304	\$ 2,447
Miscellaneous receivables	365	313
Total (net of allowances of \$157 and \$162 as of December 31, 2006 and 2005, respectively)	\$ 2,669	\$ 2,760

Of the total trade receivable amounts of \$2,304 million and \$2,447 million as of December 31, 2006 and 2005, respectively, approximately \$344 million and \$374 million, respectively, are expected to be settled through customer deductions in lieu of cash payments. Such deductions represent rebates owed to the customer and are included in accounts payable and other current liabilities in the accompanying Consolidated Statement of Financial Position at each respective balance sheet date.

PAGE 96

## **NOTE 3: INVENTORIES, NET**

(in millions)	December 31, 2006	December 31, 2005
Finished goods	\$ 745	\$ 893
Work in process	213	243
Raw materials	244	319
Total	\$ 1,202	\$ 1,455

On January 1, 2006, the Company elected to change its method of costing its U.S. inventories to the average cost method, which approximates FIFO, whereas in all prior years most of the Company's inventory in the U.S. was costed using the LIFO method. As a result of this change, the cost of all of the Company's inventories is determined by either the FIFO or average cost method. The new method of accounting for inventory in the U.S. is deemed preferable as the average cost method provides better matching of revenue and expenses given the rapid technological change in the Company's products. The average cost method also better reflects more current costs of inventory on the Company's Statement of Financial Position. As prescribed in SFAS No. 154, "Accounting Changes and Error Corrections," retrospective application of the change in accounting method is disclosed below.

The effects of the change in methodology of costing U.S. inventories from LIFO to average cost on inventory and cost of goods sold for prior periods presented are as follows (in millions):

As of and for the Year Ended  
December 31, 2005

As of and for the Year Ended  
December 31, 2004

	LIFO Method	Average Cost Method	LIFO Method	Average Cost Method
Inventory	\$ 1,140	\$ 1,455	\$ 1,158	\$ 1,506
Cost of goods sold	\$ 10,617	\$ 10,650	\$ 9,582	\$ 9,601

PAGE 97

Components of the Company's Consolidated Statement of Operations affected by the change in costing methodology as originally reported under the LIFO method and as adjusted for the change in inventory costing methodology from the LIFO method to the average cost method are as follows (in millions, except per share data):

Year Ended December 31, 2005			
	As Previously Reported	LIFO to Average Cost Change in Costing Methodology Adjustments (1)	As Adjusted
Cost of goods sold	\$ 10,617	\$ 33	\$ 10,650
Gross profit	3,651	(33)	3,618
Loss from continuing operations before interest, other income (charges), net and income taxes	(599)	(33)	(632)
Loss from continuing operations before income taxes	(766)	(33)	(799)
Provision (benefit) for income taxes	689	(134)	555
(Loss) earnings from continuing operations	(1,455)	101	(1,354)
Net (loss) earnings	\$ (1,362)	\$ 101	\$ (1,261)
Basic and diluted net (loss) earnings per share:	\$ (4.73)	\$ .35	\$ (4.38)
Continuing operations	\$ (5.05)	\$ .35	\$ (4.70)

- (1) The impact on the provision (benefit) for income taxes for the year ended December 31, 2005 is primarily the result of the reduction in the U.S. net deferred tax assets for which a valuation allowance was previously recognized in the third quarter of 2005, as disclosed in Note 15.

PAGE 98

Year Ended December 31, 2004			
	As Previously Reported	LIFO to Average Cost Change in Costing Methodology Adjustments	As Adjusted
Cost of goods sold	\$ 9,582	\$ 19	\$ 9,601
Gross profit	3,935	(19)	3,916
Loss from continuing operations before interest, other income (charges), net and income taxes	(87)	(19)	(106)
Loss from continuing operations before income taxes	(94)	(19)	(113)
Benefit for income taxes	(175)	(7)	(182)

Earnings (loss) from continuing Operations	81	(12)	69
Net earnings (loss)	\$ 556	\$ (12)	\$ 544
Basic and diluted net earnings (loss) per share:	\$ 1.94	\$ (.04)	\$ 1.90
Continuing operations	\$ .28	\$ (.04)	\$ .24

Components of the Company's Consolidated Statement of Financial Position affected by the change in costing methodology as of December 31, 2005, as originally reported under the LIFO method and as adjusted for the change in inventory costing methodology from the LIFO method to the average cost method are as follows (in millions):

	As Previously Reported	LIFO to Average Cost Change in Costing Methodology Adjustments	As Adjusted
<b>ASSETS</b>			
<b>Current Assets</b>			
Inventories, net	\$ 1,140	\$ 315	\$ 1,455
<b>Total Current Assets</b>	5,781	315	6,096
<b>TOTAL ASSETS</b>	\$ 14,921	\$ 315	\$ 15,236
<b>SHAREHOLDERS' EQUITY</b>			
Retained earnings	\$ 6,402	\$ 315	\$ 6,717
<b>Total Shareholders' Equity</b>	1,967	315	2,282
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	\$ 14,921	\$ 315	\$ 15,236

PAGE 99

Components of the Company's Consolidated Statement of Cash Flows affected by the change in costing methodology for the year ended December 31, 2005 as originally reported under the LIFO method and as adjusted for the change in inventory valuation methodology from the LIFO method to the average cost method are as follows (in millions):

	As Previously Reported	LIFO to Average Cost Change in Costing Methodology Adjustments (1)	As Adjusted
Cash flows relating to operating activities:			
Net (loss) earnings	\$ (1,362)	\$ 101	\$ (1,261)
Adjustments to reconcile to net cash provided by operating activities:			
Provision (benefit) for deferred Taxes	476	(133)	343
Decrease in inventories	274	32	306
Net cash provided by operating activities	\$ 1,208	\$ —	\$ 1,208

(1) Refer to footnote (1) on Page 97.

Components of the Company's Consolidated Statement of Cash Flows affected by the change in costing methodology for the year ended December 31, 2004 as originally reported under the LIFO method and as adjusted for the change in inventory valuation methodology from the LIFO method to the average cost method are as follows (in millions):

	As Previously Reported	LIFO to Average Cost Change in Costing Methodology Adjustments	As Adjusted
Cash flows relating to operating activities:			

				)	
Net earnings (loss)	\$	556	\$	(12	\$ 544
Adjustments to reconcile to net cash provided by operating activities:		)		)	)
Benefit for deferred taxes		(37		(7	(44
Decrease in inventories		83		19	102
Net cash provided by operating activities	\$	1,168	\$	—	\$ 1,168

#### NOTE 4: PROPERTY, PLANT AND EQUIPMENT, NET

(in millions)	2006	2005
Land	\$ 98	\$ 127
Buildings and building improvements	2,393	2,552
Machinery and equipment	7,787	8,481
Construction in progress	94	219
	10,372	11,379
	)	)
Accumulated depreciation	(7,530	(7,601
Net properties	\$ 2,842	\$ 3,778

Depreciation expense was \$1,185 million, \$1,281 million and \$964 million for the years 2006, 2005 and 2004, respectively, of which approximately \$285 million, \$391 million and \$183 million, respectively, represented accelerated depreciation in connection with restructuring actions.

PAGE 100

#### NOTE 5: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was \$2,196 million and \$2,141 million at December 31, 2006 and 2005, respectively. The changes in the carrying amount of goodwill by reportable segment for 2005 and 2006 were as follows:

(in millions)	Consumer Digital Group	Film & Photo-finishing Systems Group	Health Group	Graphic Communications Group	Consolidated Total
Balance at December 31, 2004	\$ 162	\$ 579	\$ 587	\$ 118	\$ 1,446
Goodwill related to acquisitions	—	—	32	709	741
Finalization of purchase accounting	—	—	—	1	1
	)	)	)	)	)
Currency translation adjustments	(2	(8	(31	(6	(47
Balance at December 31, 2005	\$ 160	\$ 571	\$ 588	\$ 822	\$ 2,141
Finalization of purchase accounting	—	—	—	2	2
				)	
Currency translation adjustments	4	26	24	(1	53
Balance at December 31, 2006	\$ 164	\$ 597	\$ 612	\$ 823	\$ 2,196

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

Due to the realignment of the Company's operating model and change in reporting structure, as described in Note 23, "Segment Information," effective January 1, 2006, the Company reassessed its goodwill for impairment during the first quarter of 2006, and determined that no reporting units' carrying values exceeded their respective estimated fair values based on the realigned reporting structure and, therefore, there was no impairment.

The gross carrying amount and accumulated amortization by major intangible asset category for 2006 and 2005 were as follows:

As of December 31, 2006

(in millions)	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Technology-based	\$ 488	\$ 225	\$ 263	7 years
Customer-related	402	118	284	13 years
Other	217	91	126	7 years
Total	<u>\$ 1,107</u>	<u>\$ 434</u>	<u>\$ 673</u>	9 years

As of December 31, 2005

(in millions)	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Technology-based	\$ 482	\$ 154	\$ 328	7 years
Customer-related	400	81	319	13 years
Other	212	53	159	7 years
Total	<u>\$ 1,094</u>	<u>\$ 288</u>	<u>\$ 806</u>	9 years

PAGE 101

The intangible assets acquired during 2006 of \$3 million were attributable to technology-based intangible assets for the purchase of intellectual property.

Amortization expense related to intangible assets was \$146 million, \$125 million and \$67 million in 2006, 2005 and 2004, respectively.

Estimated future amortization expense related to purchased intangible assets at December 31, 2006 is as follows (in millions):

2007	\$ 136
2008	130
2009	118
2010	92
2011	48
2012+	149
Total	<u>\$ 673</u>

**NOTE 6: OTHER LONG-TERM ASSETS**

(in millions)	2006	2005
Prepaid pension costs	\$ 1,599	\$ 1,144
Investments in unconsolidated affiliates	54	61
Deferred income taxes, net of valuation allowance	642	450
Intangible assets other than goodwill	673	806
Non-current receivables	402	383
Miscellaneous other long-term assets	355	377
Total	<u>\$ 3,725</u>	<u>\$ 3,221</u>

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

**NOTE 7: INVESTMENTS**

**Equity Method -**

At December 31, 2006 and 2005, the Company's significant equity method investees and the Company's approximate ownership interest in each investee were as follows:

	2006	2005
SK Display Corporation	—	34
	%	%
Matsushita-Ultra Technologies Battery Corporation	30	30
	%	%
Lucky Film Co. Ltd (Lucky Film)	13	13
	%	%
KJ Imaging	34	34
	%	%
J League Photo	25	25

At December 31, 2006 and 2005, the carrying value of the Company's equity investment in these significant unconsolidated affiliates was \$36 million and \$30 million, respectively, and is reported within other long-term assets in the accompanying Consolidated Statement of Financial Position. The Company records its equity in the income or losses of these investees and reports such amounts in other income (charges), net in the accompanying Consolidated Statement of Operations. See Note 14, "Other Income (Charges), Net."

PAGE 102

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

Through April 1, 2005, the Company held a 50% interest in Kodak Polychrome Graphics (KPG). This joint venture between the Company and Sun Chemical Corporation was accounted for using the equity method of accounting. On April 1, 2005, the Company acquired Sun Chemical Corporation's 50% interest in KPG, which resulted in KPG becoming a wholly owned and fully consolidated subsidiary of the Company, operating within the Graphic Communications Group segment. See Note 21, "Acquisitions" for further discussion regarding the KPG acquisition.

Summarized financial information for KPG for 2004 is as follows:

#### Condensed Statement of Operations

(dollar amounts in millions)	2004
Net sales	\$ 1,715
Gross profit	563
Income from continuing operations	105
Net income	105

#### Condensed Balance Sheet

(dollar amounts in millions)	December 31, 2004
Current assets	\$ 909
Noncurrent assets	401
Current liabilities	458
Noncurrent liabilities	60

Kodak has no other material activities with its equity method investees.

#### Cost Method -

The Company also has certain investments with less than a 20% ownership interest in various private companies whereby the Company does not have the ability to exercise significant influence. These investments are accounted for under the cost method. For those investments that have readily determinable fair market values, the carrying values are adjusted to fair market value based on the most recent information available. For those investments that have no readily determinable fair market value, the carrying values are adjusted if there have been identified events or changes in circumstances that would have a significant effect on the fair value. The remaining carrying value of the Company's investments accounted for under the cost method at December 31, 2006 and 2005 of \$18 million and \$31 million, respectively, is included in other long-term assets in the accompanying Consolidated Statement of Financial Position.

**NOTE 8: ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES**

(in millions)	2006	2005
Accounts payable, trade	\$ 1,003	\$ 996
Accrued employment-related liabilities	876	950
Accrued advertising and promotional expenses	596	683
Deferred revenue	496	350
Accrued restructuring liabilities	263	309
Other	909	899
Total	<u>\$ 4,143</u>	<u>\$ 4,187</u>

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

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

The Company's short-term borrowings at December 31, 2006 and 2005 were as follows:

(in millions)	2006	2005
Current portion of long-term debt	\$ 17	\$ 706
Short-term bank borrowings	47	113
Total	<u>\$ 64</u>	<u>\$ 819</u>

The weighted-average interest rates for short-term bank borrowings outstanding at December 31, 2006 and 2005 were 9.84% and 5.82%, respectively.

As of December 31, 2006, the Company and its subsidiaries, on a consolidated basis, maintained \$1,110 million in committed bank lines of credit and \$616 million in uncommitted bank lines of credit to ensure continued access to short-term borrowing capacity.

**LONG-TERM DEBT, INCLUDING LINES OF CREDIT**

Long-term debt and related maturities and interest rates were as follows at December 31, 2006 and 2005 (in millions):

Country	Type	Maturity	2006		2005	
			Weighted-Average Interest Rate	Amount Out-Standing	Weighted-Average Interest Rate	Amount Out-Standing
U.S.	Medium-term	2006	—	\$ —	6.38%	\$ 500
U.S.	Medium-term	2008	3.63%	250	3.63%	250
U.S.	Term note	2007	7.60%*	10	—	—
U.S.	Term note	2012	7.60%*	861	6.63%*	920
Canada	Term note	2012	7.60%*	277	6.52%*	280
U.S.	Term notes	2006-2013	6.16%	47	6.16%	83
Germany	Term notes	2006-2013	6.16%	188	6.16%	331
U.S.	Term note	2013	7.25%	500	7.25%	500
U.S.	Term note	2018	9.95%	3	9.95%	3
U.S.	Term note	2021	9.20%	10	9.20%	10
U.S.	Convertible	2033	3.38%	575	3.38%	575
U.S.	Notes	2006-2010	5.90%*	8	5.80%*	16

Other	2	2
	2,731	3,470
Current portion of long-term debt	(17)	(706)
Long-term debt, net of current portion	\$ 2,714	\$ 2,764

\* Represents debt with a variable interest rate.

Annual maturities (in millions) of long-term debt outstanding at December 31, 2006 are as follows: \$17 in 2007, \$273 in 2008, \$34 in 2009, \$36 in 2010, \$39 in 2011 and \$2,332 in 2012 and beyond.

### ***Secured Credit Facilities***

On October 18, 2005 the Company closed on \$2.7 billion of Senior Secured Credit Facilities (Secured Credit Facilities) under a new Secured Credit Agreement (Secured Credit Agreement) and associated Security Agreement and Canadian Security Agreement. The Secured Credit Facilities consist of a \$1.0 billion 5-Year Committed Revolving Credit Facility (5-Year Revolving Credit Facility) expiring October 18, 2010 and \$1.7 billion of Term Loan Facilities (Term Facilities) expiring October 18, 2012.

The 5-Year Revolving Credit Facility can be used by Eastman Kodak Company (U.S. Borrower) for general corporate purposes including the issuance of letters of credit. Amounts available under the facility can be borrowed, repaid and re-borrowed throughout the term of the facility provided the Company remains in compliance with covenants contained in the Secured Credit Agreement. As of December 31, 2006, there was no debt outstanding and \$141 million of letters of credit issued under this facility.

Under the Term Facilities, \$1.2 billion was borrowed at closing primarily to refinance debt originally issued under the Company's previous \$1.225 billion 5-Year Facility to finance the acquisition of Creo Inc. on June 15, 2005. The \$1.2 billion consists of a \$920 million 7-Year Term Loan to the U.S. Borrower and a \$280 million 7-Year Term Loan to Kodak Graphic Communications Canada Company (KGCCC or, the Canadian Borrower). Pursuant to the terms of the Secured Credit Agreement, an additional \$500 million was available to the U.S. Borrower under the seven-year term loan facility for advance at any time through June 15, 2006. On June 15, 2006, the Company used this \$500 million to refinance \$500 million 6.375% Medium Term Notes, Series A, due June 15, 2006. This term loan matures on October 18, 2012 and may be prepaid in whole or in part at specified interest reset dates without penalty. These obligations are secured through asset and equity pledges as described below.

PAGE 105

At December 31, 2006, the balances for these secured credit facilities reported in long-term debt, net of current portion, on the Consolidated Statement of Financial Position were \$861 million and \$277 million for the U.S. Borrower and the Canadian Borrower, respectively. The Secured Credit Agreement requires mandatory quarterly prepayment of .25% of the outstanding advances. Debt issue costs incurred of approximately \$57 million associated with the Secured Credit Facilities were recorded as an asset and are being amortized over the life of the borrowings.

In the fourth quarter of 2006, the Company prepaid \$542 million on its Term Loan Facility. In conjunction with this prepayment, the Company wrote off approximately \$9 million of debt issuance costs associated with the early extinguishment of debt.

Pursuant to the Secured Credit Agreement and associated Security Agreement, each subsidiary organized in the U.S. jointly and severally guarantees the obligations under the Secured Credit Agreement and all other obligations of the Company and its subsidiaries to the Lenders. The guaranty is supported by the pledge of certain U.S. assets of the U.S. Borrower and the Company's U.S. subsidiaries including, but not limited to, receivables, inventory, equipment, deposit accounts, investments, intellectual property, including patents, trademarks and copyrights, and the capital stock of "Material Subsidiaries." Excluded from pledged assets are real property, "Principal Properties" and equity interests in "Restricted Subsidiaries", as defined in the Company's 1988 Indenture.

"Material Subsidiaries" are defined as those subsidiaries with revenues or assets constituting 5 percent or more of the consolidated revenues or assets of the corresponding borrower. Material Subsidiaries will be determined on an annual basis under the Secured Credit Agreement.

Pursuant to the Secured Credit Agreement and associated Canadian Security Agreement, Eastman Kodak Company and Kodak Graphic Communications Company (KGCC, formerly Creo Americas, Inc.), jointly and severally guarantee the obligations of the Canadian Borrower, to the Lenders. Subsequently, KGCC has been merged into Eastman Kodak Company. Certain assets of the Canadian Borrower in Canada were also pledged in support of its obligations, including, but not limited to, receivables, inventory, equipment, deposit accounts, investments, intellectual property, including patents, trademarks and copyrights, and the capital stock of the Canadian Borrower's Material Subsidiaries.

Interest rates for borrowings under the Secured Credit Agreement are dependent on the Company's Long Term Senior Secured Credit Rating. The Secured Credit Agreement contains various affirmative and negative covenants customary in a facility of this type, including two quarterly financial covenants: (1) a consolidated debt for borrowed money to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) (subject to adjustments to exclude any extraordinary income or losses, as defined by the Secured Credit Agreement, interest income and certain non-cash items of income and expense) ratio of not greater than: 3.50 to 1 as of December 31, 2006 and thereafter, and (2) a consolidated EBITDA to consolidated interest expense (subject to adjustments to exclude interest expense not related to borrowed money) ratio,



on a rolling four-quarter basis, of no less than 3 to 1. As of December 31, 2006, the Company was in compliance with all covenants under the Secured Credit Agreement.

In addition, subject to various conditions and exceptions in the Secured Credit Agreement, in the event the Company sells assets for net proceeds totaling \$75 million or more in any year, except for proceeds used within 12 months for reinvestments in the business of up to \$300 million, proceeds from sales of assets used in the Company's non-digital products and services businesses to prepay or repay debt or pay cash restructuring charges within 12 months from the date of sale of the assets, or proceeds from the sale of inventory in the ordinary course of business, the amount in excess of \$75 million must be applied to prepay loans under the Secured Credit Agreement.

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PAGE 106

The Company pays a commitment fee at an annual rate of 50 basis points on the undrawn balance of the 5-Year Revolving Credit Facility at the Company's current credit rating of Ba3 and B+ from Moody's Investor Services, Inc. (Moody's) and Standard & Poor's Rating Services (S&P), respectively. This fee is reported as interest expense in the Company's Consolidated Statement of Operations.

In addition to the 5-Year Revolving Credit Facility, the Company has other committed and uncommitted lines of credit at December 31, 2006 totaling \$110 million and \$616 million, respectively. These lines primarily support borrowing needs of the Company's subsidiaries, which include term loans, overdraft coverage, letters of credit and revolving credit lines. Interest rates and other terms of borrowing under these lines of credit vary from country to country, depending on local market conditions. Total outstanding borrowings against these other committed and uncommitted lines of credit at December 31, 2006 were \$18 million and \$29 million, respectively. These outstanding borrowings are reflected in the short-term borrowings in the accompanying Consolidated Statement of Financial Position at December 31, 2006.

At December 31, 2006, the Company had outstanding letters of credit totaling \$144 million and surety bonds in the amount of \$100 million primarily to ensure the payment of possible casualty and workers' compensation claims, environmental liabilities, and to support various customs and trade activities.

#### ***Debt Shelf Registration and Convertible Securities***

On September 5, 2003, the Company filed a shelf registration statement on Form S-3 (the primary debt shelf registration) for the issuance of up to \$2.0 billion of new debt securities. Pursuant to Rule 429 under the Securities Act of 1933, \$650 million of remaining unsold debt securities under a prior shelf registration statement were included in the primary debt shelf registration, thus giving the Company the ability to issue up to \$2.65 billion in public debt. After issuance of \$500 million in notes in October 2003, the remaining availability under the primary debt shelf registration was at \$2.15 billion.

On October 10, 2003, the Company completed the offering and sale of \$500 million aggregate principal amount of Senior Notes due 2013 (the Notes), which was made pursuant to the Company's new debt shelf registration. The remaining unused balance under the Company's new debt shelf is \$2.15 billion. Concurrent with the offering and sale of the Notes, on October 10, 2003, the Company completed the private placement of \$575 million aggregate principal amount of Convertible Senior Notes due 2033 (the Convertible Securities) to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. Interest on the Convertible Securities will accrue at the rate of 3.375% per annum and is payable semiannually. The Convertible Securities are unsecured and rank equally with all of the Company's other unsecured and unsubordinated indebtedness. As a condition of the private placement, on January 6, 2004 the Company filed a shelf registration statement under the Securities Act of 1933 relating to the resale of the Convertible Securities and the common stock to be issued upon conversion of the Convertible Securities pursuant to a registration rights agreement, and made this shelf registration statement effective on February 6, 2004.

The Convertible Securities contain a number of conversion features that include substantive contingencies. The Convertible Securities are convertible by the holders at an initial conversion rate of 32.2373 shares of the Company's common stock for each \$1,000 principal amount of the Convertible Securities, which is equal to an initial conversion price of \$31.02 per share. The initial conversion rate of 32.2373 is subject to adjustment for: (1) stock dividends, (2) subdivisions or combinations of the Company's common stock, (3) issuance to all holders of the Company's common stock of certain rights or warrants to purchase shares of the Company's common stock at less than the market price, (4) distributions to all holders of the Company's common stock of shares of the Company's capital stock or the Company's assets or evidences of indebtedness, (5) cash dividends in excess of the Company's current cash dividends, or (6) certain payments made by the Company in connection with tender offers and exchange offers.

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PAGE 107

The holders may convert their Convertible Securities, in whole or in part, into shares of the Company's common stock under any of the following circumstances: (1) during any calendar quarter, if the price of the Company's common stock is greater than or equal to 120% of the applicable conversion price for at least 20 trading days during a 30 consecutive trading day period ending on the last trading day of the previous calendar quarter; (2) during any five consecutive trading day period following any 10 consecutive trading day period in which the trading price of the Convertible Securities for each day of such period is less than 105% of the conversion value, and the conversion value for each day of such period was less than 95% of the principal amount of the Convertible Securities (the Parity Clause); (3) if the Company has called the Convertible Securities for redemption; (4) upon the occurrence of specified corporate transactions such as a consolidation, merger or binding share exchange pursuant to which the Company's common stock would be converted into cash, property or securities; and (5) if the Senior Unsecured credit rating

assigned to the Convertible Securities by either Moody's or S&P is lower than Ba2 or BB, respectively, or if the Convertible Securities are no longer rated by at least one of these services or their successors (the Credit Rating Clause). At the Company's current credit rating, the Convertible Securities may be converted by their holders.

The Company may redeem some or all of the Convertible Securities at any time on or after October 15, 2010 at a purchase price equal to 100% of the principal amount of the Convertible Securities plus any accrued and unpaid interest. Upon a call for redemption by the Company, a conversion trigger is met whereby the holder of each \$1,000 Convertible Senior Note may convert such note to shares of the Company's common stock.

The holders have the right to require the Company to purchase their Convertible Securities for cash at a purchase price equal to 100% of the principal amount of the Convertible Securities plus any accrued and unpaid interest on October 15, 2010, October 15, 2013, October 15, 2018, October 15, 2023 and October 15, 2028, or upon a fundamental change as described in the offering memorandum filed under Rule 144A in conjunction with the private placement of the Convertible Securities. As of December 31, 2005, the Company has reserved 18,536,447 shares in treasury stock to cover potential future conversions of these Convertible Securities into common stock.

Certain of the conversion features contained in the Convertible Securities are deemed to be embedded derivatives as defined under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." These embedded derivatives include the Parity Clause, the Credit Rating Clause, and any specified corporate transaction outside of the Company's control such as a hostile takeover. Based on an external valuation, these embedded derivatives were not material to the Company's financial position, results of operations or cash flows.

#### NOTE 10: OTHER LONG-TERM LIABILITIES

(in millions)	2006	2005
Deferred royalty revenue from licensees	\$ 545	\$ 501
Environmental liabilities	154	171
Deferred compensation	134	158
Asset retirement obligations	101	75
Deferred income taxes	1	33
Minority interest in Kodak companies	21	20
Other	327	267
Total	<u>\$ 1,283</u>	<u>\$ 1,225</u>

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

PAGE 108

#### NOTE 11: COMMITMENTS AND CONTINGENCIES

##### Environmental

Cash expenditures for pollution prevention and waste treatment for the Company's current facilities were as follows:

(in millions)	2006	2005	2004
Recurring costs for pollution prevention and waste treatment	\$ 65	\$ 79	\$ 75
Capital expenditures for pollution prevention and waste treatment	3	7	7
Site remediation costs	2	2	3
Total	<u>\$ 70</u>	<u>\$ 88</u>	<u>\$ 85</u>

At December 31, 2006 and 2005, the Company's undiscounted accrued liabilities for environmental remediation costs amounted to \$154 million and \$171 million, respectively. These amounts are reported in other long-term liabilities in the accompanying Consolidated Statement of Financial Position.

The Company is currently implementing a Corrective Action Program required by the Resource Conservation and Recovery Act (RCRA) at the Kodak Park site in Rochester, NY. As part of this program, the Company has completed the RCRA Facility Assessment (RFA), a broad-based environmental investigation of the site. The Company is currently in the process of completing, and in some cases has completed, RCRA Facility Investigations (RFI) and Corrective Measures Studies (CMS) for areas at the site. At December 31, 2006, estimated future investigation and remediation costs of \$65 million are accrued for this site and are included in the \$154 million reported in other long-term liabilities.

The Company has obligations relating to other operating sites and former operations with estimated future investigation, remediation and

monitoring costs of \$16 million. At December 31, 2006, these costs are accrued and included in the \$154 million reported in other long-term liabilities.

The Company has obligations relating to plant closures and former operations. As a result of four plant closures, the Company has estimated future investigation, remediation and monitoring cost of \$23 million. The Company has obligations with estimated future investigation, remediation and monitoring costs of \$9 million at sites of former operations. At December 31, 2006, these costs are accrued and included in the \$154 million reported in other long-term liabilities.

In 2005, the Company completed its acquisition of KPG through the redemption of Sun Chemical Corporation's 50 percent interest in the joint venture, and also completed its acquisition of Creo. As a result of the two acquisitions, the Company has obligations with estimated future investigation, remediation and monitoring costs of \$20 million. The closure of a Creo plant located in West Virginia was announced in the third quarter of 2005 with remediation at a cost of \$15 million and is included in the \$20 million. At December 31, 2006, these costs are accrued and included in the \$154 million reported in other long-term liabilities.

The Company has retained certain obligations for environmental remediation and Superfund matters related to certain sites associated with the non-imaging health businesses sold in 1994. At December 31, 2006, estimated future remediation costs of \$21 million are accrued for these sites and are included in the \$154 million reported in other long-term liabilities.

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PAGE 109

Cash expenditures for the aforementioned investigation, remediation and monitoring activities are expected to be incurred over the next twenty-nine years for many of the sites. For these known environmental liabilities, the accrual reflects the Company's best estimate of the amount it will incur under the agreed-upon or proposed work plans. The Company's cost estimates were determined using the ASTM Standard E 2137-01, "Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters," and have not been reduced by possible recoveries from third parties. The overall method includes the use of a probabilistic model which forecasts a range of cost estimates for the remediation required at individual sites. The projects are closely monitored and the models are reviewed as significant events occur or at least once per year. The Company's estimate includes equipment and operating costs for remediation and long-term monitoring of the sites. The Company does not believe it is reasonably possible that the losses for the known exposures could exceed the current accruals by material amounts.

A Consent Decree was signed in 1994 in settlement of a civil complaint brought by the U.S. Environmental Protection Agency and the U.S. Department of Justice. In connection with the Consent Decree, the Company is subject to a Compliance Schedule, under which the Company has improved its waste characterization procedures, upgraded one of its incinerators, and is evaluating and upgrading its industrial sewer system. The total expenditures required to complete this program are currently estimated to be approximately \$2 million over the next two years. These expenditures are incurred as part of plant operations and, therefore, are not included in the environmental accrual at December 31, 2006.

The Company is presently designated as a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (the Superfund Law), or under similar state laws, for environmental assessment and cleanup costs as the result of the Company's alleged arrangements for disposal of hazardous substances at six Superfund sites. With respect to each of these sites, the Company's liability is minimal. In addition, the Company has been identified as a PRP in connection with the non-imaging health businesses in three active Superfund sites. Numerous other PRPs have also been designated at these sites. Although the law imposes joint and several liability on PRPs, the Company's historical experience demonstrates that these costs are shared with other PRPs. Settlements and costs paid by the Company in Superfund matters to date have not been material. Future costs are also not expected to be material to the Company's financial position, results of operations or cash flows.

The Clean Air Act Amendments were enacted in 1990. Expenditures to comply with the Clean Air Act implementing regulations issued to date have not been material and have been primarily capital in nature. In addition, future expenditures for existing regulations, which are primarily capital in nature, are not expected to be material. Many of the regulations to be promulgated pursuant to this Act have not been issued.

Uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of outcomes. Estimates developed in the early stages of remediation can vary significantly. A finite estimate of costs does not normally become fixed and determinable at a specific time. Rather, the costs associated with environmental remediation become estimable over a continuum of events and activities that help to frame and define a liability, and the Company continually updates its cost estimates. The Company has an ongoing monitoring and identification process to assess how the activities, with respect to the known exposures, are progressing against the accrued cost estimates, as well as to identify other potential remediation sites that are presently unknown.

Estimates of the amount and timing of future costs of environmental remediation requirements are by their nature imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of presently unknown remediation sites and the allocation of costs among the potentially responsible parties. Based upon information presently available, such future costs are not expected to have a material effect on the Company's competitive or financial position. However, such costs could be material to results of operations in a particular future quarter or year.

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### Asset Retirement Obligations

As of December 31, 2006 and 2005, the Company has recorded approximately \$101 million and \$75 million, respectively, of asset retirement obligations within other long-term liabilities in the accompanying Consolidated Statement of Financial Position. The Company's asset retirement obligations primarily relate to asbestos contained in buildings that the Company owns. 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. Otherwise, the Company is not required to remove the asbestos from its buildings. 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. The Company does not have a liability recorded related to each building that contains asbestos because the Company cannot estimate the fair value of its obligation for certain buildings due to a lack of sufficient information about the range of time over which the obligation may be settled through demolition, renovation or sale of the building.

Reconciliations of the beginning and ending aggregate carrying amount of all asset retirement obligations (including those recorded under SFAS No. 143, FSP 143-1, and FIN 47) for the years ended December 31, 2006 and 2005 are presented below:

(dollar amounts in millions)	2006	2005
Asset retirement obligations as of January 1	\$ 75	\$ 7
Liabilities incurred in the current period (including the adoption of FIN 47 in 2005)	38	66
Liabilities settled in the current period	(30)	—
Accretion expense	18	2
Revisions in estimated cash flows	(5)	—
Foreign exchange	5	—
Asset retirement obligations as of December 31	<u>\$ 101</u>	<u>\$ 75</u>

A reconciliation for the year ended December 31, 2004 is not shown due to immateriality.

### Other Commitments and Contingencies

The Company has entered into agreements with several companies, which provide Kodak with products and services to be used in its normal operations. These agreements are related to supplies, production and administrative services, as well as marketing and advertising. The terms of these agreements cover the next two to sixteen years. The minimum payments for these agreements are approximately \$792 million in 2007, \$393 million in 2008, \$169 million in 2009, \$103 million in 2010, \$68 million in 2011 and \$139 million in 2012 and thereafter.

At December 31, 2006, the Company had outstanding letters of credit totaling \$144 million and surety bonds in the amount of \$100 million primarily to ensure the completion of payment of possible casualty and workers' compensation claims, environmental liabilities, and to support various customs and trade activities.

Rental expense, net of minor sublease income, amounted to \$170 million in 2006, \$149 million in 2005 and \$161 million in 2004. The approximate amounts of noncancelable lease commitments with terms of more than one year, principally for the rental of real property, reduced by minor sublease income, are \$159 million in 2007, \$131 million in 2008, \$103 million in 2009, \$79 million in 2010, \$63 million in 2011 and \$101 million in 2012 and thereafter.

In December 2003, the Company sold a property in France for approximately \$65 million, net of direct selling costs, and then leased back a portion of this property for a nine-year term. In accordance with SFAS No. 98, "Accounting for Leases," the entire gain on the property sale of approximately \$57 million was deferred and no gain was recognizable upon the closing of the sale as the Company's continuing involvement in the property is deemed to be significant. As a result, the Company is accounting for the transaction as a financing. Future minimum lease payments under this noncancelable lease commitment are approximately \$5 million per year for 2007 through 2011, and approximately \$5 million for 2012 and thereafter.

On March 8, 2004, the Company filed a complaint against Sony Corporation (Sony) in federal district court in Rochester, New York, for digital camera patent infringement. On March 31, 2004, Sony sued the Company for digital camera patent infringement in federal district court in Newark, New Jersey. Sony subsequently filed a second lawsuit against the Company in Newark, New Jersey, alleging infringement of a variety of other Sony patents. The Company filed a counterclaim in the New Jersey action, asserting infringement by Sony of the Company's kiosk patents. Both the Company and Sony sought unspecified damages and other relief. On December 29, 2006, the Company and Sony entered into an agreement settling their patent infringement lawsuits against each other, dismissing the patent infringement claims. No monetary consideration was paid under the settlement agreement.

Separately, the Company and Sony entered into a technology cross license agreement. Due to continuing obligations related to the license agreement, revenue will be recognized over the term of the continuing obligations, which is two years. No revenue was recognized during the current period related to this specific agreement.

On June 13, 2005, a purported shareholder class action lawsuit was filed against the Company and two of its current executives in the United States District Court for the Southern District of New York. On June 20, 2005 and August 10, 2005, similar lawsuits were filed against the same defendants in the United States District Court for the Western District of New York. The cases have been consolidated in the Western District of New York and the lead plaintiffs were John Dudek and the Alaska Electrical Pension Fund. The complaints filed in each of these actions (collectively, the "Complaints") sought to allege claims under the Securities Exchange Act on behalf of a proposed class of persons who purchased securities of the Company between April 23, 2003 and September 25, 2003, inclusive. An amended complaint was filed on January 20, 2006, containing essentially the same allegations as the original complaint but adding an additional named defendant. Defendants' motion to dismiss was argued on October 3, 2006 and granted on November 1, 2006. The plaintiff did not appeal.

On or about November 9, 2005, the Company was served with a purported shareholder derivative lawsuit that had been commenced against the Company, as a nominal defendant, and eleven current and former directors and officers of the Company, in the New York State Supreme Court, Monroe County. The Complaint seeks to allege claims on behalf of the Company that, between April 2003 and September 2003, the defendant officers and directors caused the Company to make allegedly improper statements, in press release and other public statements, which falsely represented or omitted material information about the Company's financial results and guidance. The plaintiff alleges that this conduct was a breach of the defendants' common law fiduciary obligations to the Company, and constituted an abuse of control, gross mismanagement, waste and unjust enrichment. Defendants' initial responses to the Complaint are not yet due. The Company intends to defend this lawsuit vigorously.

In addition to the matters described above, the Company and its subsidiary companies are involved in other lawsuits, claims, investigations and proceedings, including product liability, commercial, intellectual property, environmental, and health and safety matters, which are being handled and defended in the ordinary course of business. There are no such matters pending representing contingent losses that the Company and its General Counsel expect to be material in relation to the Company's business, financial position, results of operations or cash flows.

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PAGE 112

## **NOTE 12: GUARANTEES**

The Company guarantees debt and other obligations of certain customers. At December 31, 2006, these guarantees totaled a maximum of \$150 million, with outstanding guaranteed amounts of \$131 million. The maximum guarantee amount includes guarantees of up to: \$148 million of customer amounts due to banks and leasing companies in connection with financing of customers' purchases of product and equipment from the Company (\$130 million outstanding), and \$2 million to other third parties (less than \$1 million outstanding.)

The guarantees for the third party debt mature between 2007 and 2011. The customer financing agreements and related guarantees typically have a term of 90 days for product and short-term equipment financing arrangements, and up to five years for long-term equipment financing arrangements. These guarantees would require payment from the Company only in the event of default on payment by the respective debtor. In some cases, particularly for guarantees related to equipment financing, the Company has collateral or recourse provisions to recover and sell the equipment to reduce any losses that might be incurred in connection with the guarantees.

Management believes the likelihood is remote that material payments will be required under any of the guarantees disclosed above. With respect to the guarantees that the Company issued in the year ended December 31, 2006, the Company assessed the fair value of its obligation to stand ready to perform under these guarantees by considering the likelihood of occurrence of the specified triggering events or conditions requiring performance as well as other assumptions and factors.

The Company also guarantees debt owed to banks for some of its consolidated subsidiaries. The maximum amount guaranteed is \$799 million, and the outstanding debt under those guarantees, which is recorded within the short-term borrowings and long-term debt, net of current portion components in the accompanying Consolidated Statement of Financial Position, is \$255 million. These guarantees expire in 2007 through 2025. As of the closing of the \$2.7 billion Secured Credit Facilities on October 18, 2005, a \$160 million KPG credit facility was closed. Debt outstanding under the KPG credit facility of \$57 million was repaid and the guarantees of \$160 million were terminated. Pursuant to the terms of the Company's \$2.7 billion Senior Secured Credit Agreement dated October 18, 2005, obligations under the \$2.7 billion Secured Credit Facilities and other obligations of the Company and its subsidiaries to the \$2.7 billion Secured Credit Facilities lenders are guaranteed.

## **Indemnifications**

The Company issues indemnifications in certain instances when it sells businesses and real estate, and in the ordinary course of business with its customers, suppliers, service providers and business partners. Further, the Company indemnifies its directors and officers who are, or were, serving at the Company's request in such capacities. Historically, costs incurred to settle claims related to these indemnifications have not been material to the Company's financial position, results of operations or cash flows. Additionally, the fair value of the indemnifications that the Company issued during the year ended December 31, 2006 was not material to the Company's financial position, results of operations or cash flows.

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### Warranty Costs

The Company has warranty obligations in connection with the sale of its equipment. The original warranty period for equipment products is generally one year or less. The costs incurred to provide for these warranty obligations are estimated and recorded as an accrued liability at the time of sale. The Company estimates its warranty cost at the point of sale for a given product based on historical failure rates and related costs to repair. The change in the Company's accrued warranty obligations balance, which is reflected in accounts payable and other current liabilities in the accompanying Consolidated Statement of Financial Position, was as follows:

(in millions)

Accrued warranty obligations at December 31, 2004	\$	62
Actual warranty experience during 2005		(79)
2005 warranty provisions		72
Liabilities assumed from acquisitions		7
Adjustments for changes in estimates		(4)
Accrued warranty obligations at December 31, 2005	\$	58
Actual warranty experience during 2006		(79)
2006 warranty provisions		82
Adjustments for changes in estimates		(1)
Accrued warranty obligations at December 31, 2006	\$	60

The Company also offers its customers extended warranty arrangements that are generally one year, but may range from three months to three years after the original warranty period. The Company provides repair services and routine maintenance under these arrangements. The Company has not separated the extended warranty revenues and costs from the routine maintenance service revenues and costs, as it is not practicable to do so. Therefore, these revenues and costs have been aggregated in the presentation below. Costs incurred under these arrangements for the year ended December 31, 2006 amounted to \$281 million. The change in the Company's deferred revenue balance in relation to these extended warranty arrangements from December 31, 2005 to December 31, 2006, which is reflected in accounts payable and other current liabilities in the accompanying Consolidated Statement of Financial Position, was as follows:

(in millions)

Deferred revenue at December 31, 2004	\$	141
New extended warranty arrangements in 2005		484
Liabilities assumed from acquisitions		45
Recognition of extended warranty arrangement revenue in 2005		(487)
Deferred revenue at December 31, 2005	\$	183
New extended warranty arrangements in 2006		567
Recognition of extended warranty arrangement revenue in 2006		(557)
Deferred revenue at December 31, 2006	\$	193

Costs incurred under these extended warranty arrangements for the year ended December 31, 2006 and December 31, 2005 amounted to \$281 million and \$256 million, respectively.

### NOTE 13: FINANCIAL INSTRUMENTS

The following table presents the carrying amounts of the assets (liabilities) and the estimated fair values of financial instruments at December 31, 2006 and 2005:

(in millions)	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value

Marketable securities:					
	\$	\$			
Current	18	18	\$	15	\$ 16
Long-term	4	4		13	13
					)
Long-term borrowings	(2,714)	(2,740)		(2,764)	(2,688
Foreign currency forwards	(10)	(10)		1	1
Silver forwards	—	—		2	2

Marketable securities are valued at quoted market prices. The fair values of long-term borrowings are determined by reference to quoted market prices or by obtaining quotes from dealers. The fair values for the remaining financial instruments in the above table are based on dealer quotes and reflect the estimated amounts the Company would pay or receive to terminate the contracts. The carrying values of cash and cash equivalents, receivables, short-term borrowings and payables approximate their fair values.

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates, commodity prices and interest rates, which may adversely affect its results of operations and financial position. The Company manages such exposures, in part, with derivative financial instruments. The fair value of these derivative contracts is reported in other current assets or accounts payable and other current liabilities in the accompanying Consolidated Statement of Financial Position.

Foreign currency forward contracts are used to hedge existing foreign currency denominated assets and liabilities, especially those of the Company's International Treasury Center, as well as forecasted foreign currency denominated intercompany sales. Silver forward contracts are used to mitigate the Company's risk to fluctuating silver prices. The Company's exposure to changes in interest rates results from its investing and borrowing activities used to meet its liquidity needs. Long-term debt is generally used to finance long-term investments, while short-term debt is used to meet working capital requirements. The Company does not utilize financial instruments for trading or other speculative purposes.

The Company enters into foreign currency forward contracts that are designated as cash flow hedges of exchange rate risk related to forecasted foreign currency denominated intercompany sales. Hedge gains and losses are reclassified into cost of goods sold as the inventory transferred in connection with the intercompany sales is sold to third parties. At December 31, 2006, the Company had no open foreign currency cash flow hedges. During 2006, there were no foreign currency cash flow hedges and nothing was reclassified from accumulated other comprehensive (loss) income to cost of goods sold.

The Company does not apply hedge accounting to the foreign currency forward contracts used to offset currency-related changes in the fair value of foreign currency denominated assets and liabilities. These contracts are marked to market through net (loss) earnings at the same time that the exposed assets and liabilities are remeasured through net (loss) earnings (both in other income (charges), net). The majority of the contracts of this type held by the Company are denominated in euros. At December 31, 2006, the fair value of these open contracts was an unrealized loss of \$10 million (pre-tax).

The Company has entered into silver forward contracts that are designated as cash flow hedges of price risk related to forecasted worldwide silver purchases. Hedge gains and losses are reclassified into cost of goods sold as silver-containing products are sold to third parties. At December 31, 2006, the Company had no open forward contracts and nothing has been deferred in accumulated other comprehensive (loss) income. During 2006, gains of \$12 million (pre-tax) were reclassified from accumulated other comprehensive (loss) income to cost of goods sold. Hedge ineffectiveness was insignificant.

PAGE 115

The Company's financial instrument counterparties are high-quality investment or commercial banks with significant experience with such instruments. The Company manages exposure to counterparty credit risk by requiring specific minimum credit standards and diversification of counterparties. The Company has procedures to monitor the credit exposure amounts. The maximum credit exposure at December 31, 2006 was not significant to the Company.

#### NOTE 14: OTHER INCOME (CHARGES), NET

(in millions)	2006	2005	2004
Income (charges):			
Interest income	\$ 60	\$ 25	\$ 18
			)
Loss on foreign exchange transactions	(3)	(31)	(10)
Equity in income of unconsolidated affiliates	7	12	30
Gain on sales of capital assets	56	74	15
Interest on past-due receivables and finance revenue on sales	3	4	4

Minority interest	(7)	(4)	(2)
Asset impairments	(11)	(25)	—
Gains on sales of cost method investments	13	4	—
Loss on early extinguishment of debt	(9)	—	—
Lucky Film impairment	—	(19)	—
Sun Microsystems settlement	—	—	92
Legal settlement	—	—	9
Other	9	4	5
Total	<u>\$ 118</u>	<u>\$ 44</u>	<u>\$ 161</u>

## NOTE 15: INCOME TAXES

The components of (loss) earnings from continuing operations before income taxes and the related provision (benefit) for U.S. and other income taxes were as follows:

(in millions)	2006	2005	2004
<b>(Loss) earnings before income taxes</b>			
U.S.	\$ (555)	\$ (1,007)	\$ (600)
Outside the U.S.	<u>209</u>	<u>208</u>	<u>487</u>
Total	<u>\$ (346)</u>	<u>\$ (799)</u>	<u>\$ (113)</u>
<b>U.S. income taxes</b>			
Current provision (benefit)	\$ 194	\$ 19	\$ (234)
Deferred (benefit) provision	(145)	493	(92)
<b>Income taxes outside the U.S.</b>			
Current provision	135	138	141
Deferred provision (benefit)	38	(93)	(2)
<b>State and other income taxes</b>			
Current provision (benefit)	45	(2)	2
Deferred (benefit) provision	<u>(13)</u>	<u>—</u>	<u>3</u>
Total	<u>\$ 254</u>	<u>\$ 555</u>	<u>\$ (182)</u>

PAGE 116

The differences between income taxes computed using the U.S. federal income tax rate and the provision (benefit) for income taxes for continuing operations were as follows:

(in millions)	2006	2005	2004
Amount computed using the statutory rate	\$ (121)	\$ (280)	\$ (40)
Increase (reduction) in taxes resulting from:			
State and other income taxes, net of federal	6	—	(9)
Export sales and manufacturing credits	(14)	(28)	(30)
Operations outside the U.S.	(16)	(101)	(89)
Valuation allowance	393	995	(10)
Tax settlements and adjustments, including interest	16	(13)	1



Other, net	(10)	(18)	(5)
Provision (benefit) for income taxes	\$ 254	\$ 555	\$ (182)

### ***Valuation Allowance - U.S.***

The Company has performed the required assessment of positive and negative evidence regarding the realization of the net deferred tax assets in accordance with SFAS No. 109. This assessment included the evaluation of scheduled reversals of deferred tax assets and liabilities, estimates of projected future taxable income, carryback potential and tax planning strategies.

As of December 31, 2006, the Company has a valuation allowance of \$1,525 million relating to its net deferred tax assets in the U.S. of \$1,767 million. The remaining net deferred tax assets in excess of the valuation allowance of \$242 million relate primarily to current year losses and certain tax credits which the Company believes it is more likely than not that the assets will be realized. The Company continues to record a valuation allowance on all U.S. tax benefits until an appropriate level of profitability in the U.S. is sustained or until the Company is able to generate enough taxable income through other tax planning strategies and transactions.

As of December 31, 2005, the Company had a valuation allowance of \$1,116 million relating to its net deferred tax assets in the U.S. of \$1,195 million. The valuation allowance of \$1,116 million is attributable to (i) the charges totaling \$961 million that were recorded in the third and fourth quarters of 2005 and (ii) a valuation allowance of \$155 million recorded in a prior year for certain state tax carryforward deferred tax assets which the Company believes it is not more likely than not that the assets will be realized. The remaining net deferred tax assets in excess of the valuation allowance of \$79 million relate to certain foreign tax credit deferred tax assets relating to which management believes it is more likely than not that the assets will be realized.

### ***Valuation Allowance – Outside the U.S.***

As of December 31, 2006, the Company has a valuation allowance of approximately \$324 million relating to its net deferred tax assets outside of the U.S. of \$728 million. The valuation allowance of \$324 million is primarily attributable to certain net operating loss and capital loss carryforward assets which the Company believes are not more likely than not to be realized.

During the fourth quarter of 2006, based on the Company's assessment of positive and negative evidence regarding the realization of the net deferred tax assets, the Company recorded additional valuation allowances of \$90 million against its net deferred tax assets in certain jurisdictions outside the U.S. In accordance with SFAS No. 109, the Company's assessment included the evaluation of scheduled reversals of deferred tax assets and liabilities, estimates of projected future taxable income, carryback potential and tax planning strategies. Based on the Company's assessment of realizability, the Company concluded that it was no longer more likely than not that these net deferred tax assets would be realized and, as such, recorded a valuation allowance of \$90 million.

PAGE 117

As of December 31, 2005, the Company had a valuation allowance of \$212 million relating to its net deferred tax assets outside of the U.S. of \$569 million. The valuation allowance of \$212 million was attributable to certain net operating loss and capital loss carryforwards for which the Company believes it is not more likely than not that the assets will be realized.

### ***Tax Settlements, Including Interest***

During 2006, the Company has continued to be audited by various taxing authorities. No material settlements were reached during the year. 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. It is anticipated that audit settlements will be reached during 2007 in the United States and in certain foreign jurisdictions that could have a significant earnings impact. Due to the uncertainty of amounts and in accordance with its accounting policies, the Company has not recorded any potential impact of these settlements.

During 2005, the Company reached a settlement with the Internal Revenue Service covering tax years 1993-1998. As a result, the Company recognized a tax benefit from continuing operations of \$44 million, including interest. Net income from discontinued operations for 2005 was \$150 million, which was net of a \$203 million tax benefit. The \$203 million tax benefit for 2005 resulted from the Company's audit settlement with the Internal Revenue Service for tax years covering 1993 through 1998.

During 2004, the Company reached a settlement with the Internal Revenue Service covering tax years 1982-1992. As a result, the Company recognized a tax benefit of \$37 million in 2004, which consisted of benefits of \$32 million related to a formal concession concerning the taxation of certain intercompany royalties that could not legally be distributed to the parent entity and \$9 million related to the income tax treatment of a patent infringement litigation settlement, and a \$4 million charge related to other tax items. The Company also reached a favorable resolution of interest calculations for these years, and recorded a benefit of \$8 million. Finally, the Company recorded net charges of \$13 million for adjustments for audit years 1993 and thereafter.

The Company and its subsidiaries' income tax returns are routinely examined by various authorities. In management's opinion, adequate provision for income taxes has been made for all open years in accordance with SFAS No. 5, "Accounting for Contingencies." A degree of judgment is required in determining our effective tax rate and in evaluating our tax position. The Company establishes reserves when, despite significant

support for the Company's filing position, a belief exists that these positions may be challenged by the respective tax jurisdiction. The reserves are adjusted upon the occurrence of external, identifiable events, including the settlement of the related tax audit year with the Internal Revenue Service. A change in our tax reserves could have a significant impact on our effective tax rate and our operating results .

PAGE 118

### ***Deferred Tax Assets and Liabilities***

The significant components of deferred tax assets and liabilities were as follows:

(in millions)	2006	2005
Deferred tax assets		
	\$	\$
Pension and postretirement obligations	935	1,132
Restructuring programs	126	91
Foreign tax credit	353	447
Investment tax credits	147	156
Employee deferred compensation	143	106
Tax loss carryforwards	554	269
Other deferred revenue	214	—
Other	475	447
Total deferred tax assets	2,947	2,648
Deferred tax liabilities		
Depreciation	177	519
Leasing	71	78
Inventories	74	116
Other	130	171
Total deferred tax liabilities	452	884
Valuation allowance	1,849	1,328
	\$	\$
Net deferred tax assets	646	436

Deferred tax assets (liabilities) are reported in the following components within the Consolidated Statement of Financial Position:

(in millions)	2006	2005
Deferred income taxes (current)	\$ 108	\$ 100
Other long-term assets	642	450
		)
Accrued income taxes	(103)	(81)
		)
Other long-term liabilities	(1)	(33)
Net deferred tax assets	\$ 646	\$ 436

At December 31, 2006, the Company had available net operating loss carryforwards both inside and outside of the U.S. of approximately \$1,767 million for income tax purposes, of which approximately \$663 million has an indefinite carryforward period. The remaining \$1,104 million expires between the years 2007 and 2026. Utilization of these net operating losses may be subject to limitations in the event of significant changes in stock ownership of the Company. The Company also has \$353 million of unused foreign tax credits at December 31, 2006, with various expiration dates through 2016.

The valuation allowance as of December 31, 2006 of \$1,849 million is attributable to \$324 million of foreign net deferred tax assets, including certain net operating loss and capital loss carryforwards and \$1,525 million of U.S. net deferred tax assets, including current year losses and credits, which the Company believes it is not more likely than not that the assets will be realized.

PAGE 119

The valuation allowance as of December 31, 2005 of \$1,328 million is attributable to \$212 million of foreign net deferred tax assets, including

certain net operating loss and capital loss carryforwards and \$1,116 million of U.S. net deferred tax assets, including current year losses and credits, which the Company believes it is not more likely than not that the assets will be realized.

The Company has recognized the balance of its deferred tax assets on the belief that it is more likely than not that they will be realized. This belief is based on an assessment of all available evidence, including an evaluation of scheduled reversals of deferred tax assets and liabilities, estimates of projected future taxable income, carryback potential and tax planning strategies.

The Company has been utilizing net operating loss carryforwards to offset taxable income from its operations in China that have become profitable. The Company has been granted a tax holiday in China that became effective when the net operating loss carryforwards were fully utilized during 2004. The tax holiday thus became effective during 2004, and the Company's tax rate in China was zero percent for 2005. For 2006, 2007 and 2008, the Company's tax rate will be 7.5%, which is 50% of the normal 15% tax rate for the jurisdiction in which Kodak operates. Thereafter, the Company's tax rate will be 15%.

Retained earnings of subsidiary companies outside the U.S. were approximately \$2,031 million and \$1,906 million at December 31, 2006 and 2005, respectively. Deferred taxes have not been provided on such undistributed earnings, as it is the Company's policy to indefinitely reinvest its retained earnings, and it is not practicable to determine the deferred tax liability on such undistributed earnings in the event they were to be remitted. However, the Company periodically repatriates a portion of these earnings to the extent that it can do so tax-free, or at minimal cost.

The Jobs Creation Act was signed into law in October of 2004. The Act created a temporary incentive for U.S. multinationals to repatriate foreign subsidiary earnings by providing a 85% dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and requirements, including adoption of a specific domestic reinvestment plan for the repatriated earnings. The Company repatriated approximately \$580 million in dividends subject to the 85% dividends received deduction. Accordingly, the Company recorded a corresponding tax provision of \$29 million with respect to such dividends during 2005.

#### NOTE 16: RESTRUCTURING COSTS AND OTHER

The Company is currently undergoing the transformation from a traditional products and services company to a digital products and services company. In connection with this transformation, the Company announced a cost reduction program in January 2004 that would extend through 2006 to achieve the appropriate business model and to significantly reduce its worldwide facilities footprint. In July 2005, the Company announced an extension to this program into 2007 to accelerate its digital transformation, which included further cost reductions that will result in a business model consistent with what is necessary to compete profitably in digital markets.

In connection with its announcement relating to the extended "2004-2007 Restructuring Program," the Company has provided estimates with respect to (1) the number of positions to be eliminated, (2) the facility square footage reduction, (3) the reduction in its traditional manufacturing infrastructure, and (4) the total restructuring charges to be incurred.

The actual charges for initiatives under this program are recorded in the period in which the Company commits to formalized restructuring plans or executes the specific actions contemplated by the program and all criteria for restructuring charge recognition under the applicable accounting guidance have been met.

PAGE 120

#### Restructuring Programs Summary

The activity in the accrued restructuring balances and the non-cash charges incurred in relation to all of the restructuring programs described below was as follows for the year ended December 31, 2006:

(in millions)	Balance Dec. 31, 2005	Charges	Reversals	Cash Payments (1)	Non- cash Settlements	Other Adjustments and Reclasses (2)	Balance Dec. 31, 2006
<b>2004-2007 Restructuring Program:</b>							
Severance reserve	\$ 271	\$ 318	\$ (3)	\$ (416)	\$ —	\$ 58	\$ 228
Exit costs reserve	23	69	(1)	(67)	—	—	24
Total reserve	\$ 294	\$ 387	\$ (4)	\$ (483)	\$ —	\$ 58	\$ 252
Long-lived asset impairments and inventory write-downs	\$ —	\$ 100	\$ —	\$ —	\$ (100)	\$ —	\$ —
Accelerated depreciation	—	285	—	—	(285)	—	—
<b>Pre-2004 Restructuring Programs:</b>							
Severance reserve	\$ 2	\$ —	\$ —	\$ (2)	\$ —	\$ —	\$ —
Exit costs reserve	13	—	—	(3)	—	1	11

Total reserve	\$ 15	\$ —	\$ —	\$ (5)	\$ —	\$ 1	\$ 11
Total of all restructuring programs	\$ 309	\$ 772	\$ (4)	\$ (488)	\$ (385)	\$ 59	\$ 263

- (1) During the year ended December 31, 2006, the Company paid approximately \$548 million related to restructuring. Of this total amount, \$488 million was recorded against restructuring reserves, while \$60 million was recorded against pension and other postretirement liabilities.
- (2) The total restructuring charges of \$772 million, excluding reversals, include: (1) pension and other postretirement charges and credits for curtailments, settlements and special termination benefits, and (2) environmental remediation charges that resulted from the Company's ongoing restructuring actions. However, because these charges and credits relate to the accounting for pensions, other postretirement benefits, and environmental remediation costs, the related impacts on the Consolidated Statement of Financial Position are reflected in their respective components as opposed to within the accrued restructuring balances at December 31, 2006 or 2005. Accordingly, the Other Adjustments and Reclasses column of the table above includes: (1) reclassifications to Other long-term assets and Pension and other postretirement liabilities for the position elimination-related impacts on the Company's pension and other postretirement employee benefit plan arrangements, including net curtailment gains, settlement gains, and special termination benefits of \$37 million, and (2) reclassifications to Other long-term liabilities for the restructuring-related impacts on the Company's environmental remediation liabilities of \$(9) million. Additionally, the Other Adjustments and Reclasses column of the table above includes: (1) adjustments to the restructuring reserves of \$20 million related to the KPG and Creo purchase accounting impacts that were charged appropriately to Goodwill as opposed to Restructuring charges, and (2) foreign currency translation adjustments of \$10 million, which are reflected in Accumulated other comprehensive loss in the Consolidated Statement of Financial Position.

The costs incurred, net of reversals, which total \$768 million for the year ended December 31, 2006, include \$285 million and \$12 million of charges related to accelerated depreciation and inventory write-downs, respectively, which were reported in cost of goods sold in the accompanying Consolidated Statement of Operations for the year ended December 31, 2006. The remaining costs incurred, net of reversals, of \$471 million, were reported as restructuring costs and other in the accompanying Consolidated Statement of Operations for the year ended December 31, 2006. The severance reserve and exit costs reserve generally require the outlay of cash, while long-lived asset impairments, accelerated depreciation and inventory write-downs represent non-cash items.

PAGE 121

### 2004-2007 Restructuring Program

The Company announced on January 22, 2004 that it planned to develop and execute a comprehensive cost reduction program throughout the 2004 to 2006 timeframe. The objective of these actions was to achieve a business model appropriate for the Company's traditional businesses, and to sharpen the Company's competitiveness in digital markets.

The program was expected to result in total charges of \$1.3 billion to \$1.7 billion over the three-year period, of which \$700 million to \$900 million related to severance, with the remainder relating to the disposal of buildings and equipment. Overall, Kodak's worldwide facility square footage was expected to be reduced by approximately one-third. Approximately 12,000 to 15,000 positions worldwide were expected to be eliminated through these actions primarily in global manufacturing, selected traditional businesses and corporate administration.

On July 20, 2005, the Company announced that it would extend the restructuring activity, originally announced in January 2004, as part of its efforts to accelerate its digital transformation and to respond to a faster-than-expected decline in consumer film sales. As a result of this announcement, the overall restructuring program was renamed the "2004-2007 Restructuring Program." Under the 2004-2007 Restructuring Program, the Company expected to increase the total employment reduction to a range of 22,500 to 25,000 positions, and to reduce its traditional manufacturing infrastructure to approximately \$1 billion, compared with \$2.9 billion as of December 31, 2004. These changes were expected to increase the total charges under the program to a range of \$2.7 billion to \$3.0 billion. Based on the actual actions taken through the end of the fourth quarter of 2006 under this program and an understanding of the estimated remaining actions to be taken, the Company expected that the employment reductions and total charges under this program would be within the ranges of 25,000 to 27,000 positions and \$3.0 billion to \$3.4 billion, respectively. On February 8, 2007, the Company updated the ranges for anticipated restructuring activity. The Company now expects that the total employment reductions will be in the range of 28,000 to 30,000 positions and total charges will be in the range of \$3.6 billion to \$3.8 billion.

The Company implemented certain actions under this program during 2006. As a result of these actions, the Company recorded charges of \$768 million in 2006, net of reversals, which were composed of severance, long-lived asset impairments, exit costs, accelerated depreciation, and inventory write-downs of \$315 million, \$88 million, \$68 million, \$285 million and \$12 million, respectively. The severance costs related to the elimination of approximately 5,625 positions, including approximately 500 photofinishing, 2,950 manufacturing, 375 research and development and 1,800 administrative positions. The geographic composition of the positions to be eliminated includes approximately 2,675 in the United States and Canada and 2,950 throughout the rest of the world. The reduction of the 5,625 positions and the \$387 million charges for severance and exit costs are reflected in the 2004-2007 Restructuring Program table below. The \$88 million charge for long-lived asset impairments was included in restructuring costs and other in the accompanying Consolidated Statement of Operations for the year ended December 31, 2006. The charges taken for inventory write-downs of \$12 million were reported in cost of goods sold in the accompanying Consolidated Statement of Operations for the year ended December 31, 2006.

As a result of initiatives implemented under the 2004-2007 Restructuring Program, the Company recorded \$285 million of accelerated depreciation on long-lived assets in cost of goods sold in the accompanying Consolidated Statement of Operations for the year ended December 31, 2006. The accelerated depreciation relates to long-lived assets accounted for under the held and used model of SFAS No. 144. The year-to-date amount of \$285 million relates to \$11 million of photofinishing facilities and equipment, \$271 million of manufacturing facilities and equipment, and \$3 million of administrative facilities and equipment that will be used until their abandonment. The Company will record approximately \$33 million of additional accelerated depreciation in 2007 related to the initiatives implemented in 2006. Additional amounts of accelerated depreciation may be recorded in 2007 as the Company continues to execute its 2004-2007 Restructuring Program.

PAGE 122

Under this program, on a life-to-date basis as of December 31, 2006, the Company has recorded charges of \$2,731 million, which were composed of severance, long-lived asset impairments, exit costs, inventory write-downs and accelerated depreciation of \$1,233 million, \$350 million, \$252 million, \$68 million and \$828 million, respectively. The severance costs related to the elimination of approximately 23,375 positions, including approximately 6,200 photofinishing, 10,900 manufacturing, 1,375 research and development and 4,900 administrative positions.

The following table summarizes the activity with respect to the charges recorded in connection with the focused cost reduction actions that the Company has committed to under the 2004-2007 Restructuring Program and the remaining balances in the related reserves at December 31, 2006:

(dollars in millions)	Number of Employees	Severance Reserve	Exit Costs Reserve	Total	Long-lived Asset Impairments and Inventory Write-downs	Accelerated Depreciation
2004 charges	9,625	\$ 418	\$ 99	\$ 517	\$ 157	\$ 152
2004 reversals	—	(6)	(1)	(7)	—	—
2004 utilization	(5,175)	(169)	(47)	(216)	(157)	(152)
2004 other adj. & reclasses	—	24	(15)	9	—	—
Balance at 12/31/04	4,450	267	36	303	—	—
2005 charges	8,125	497	84	581	161	391
2005 reversals	—	(3)	(6)	(9)	—	—
2005 utilization	(10,225)	(377)	(95)	(472)	(161)	(391)
2005 other adj. & reclasses	—	(113)	4	(109)	—	—
Balance at 12/31/05	2,350	271	23	294	—	—
2006 charges	5,625	318	69	387	100	285
2006 reversals	—	(3)	(1)	(4)	—	—
2006 utilization	(5,700)	(416)	(67)	(483)	(100)	(285)
2006 other adj. & reclasses	—	58	—	58	—	—
Balance at 12/31/06	2,275	\$ 228	\$ 24	\$ 252	\$ —	\$ —

As a result of the initiatives being implemented under the 2004-2007 Restructuring Program, severance payments will be paid during periods through 2008 since, in many instances, the employees whose positions were eliminated can elect or are required to receive their payments over an extended period of time. Most exit costs were paid during 2006. However, certain costs, such as long-term lease payments, will be paid over periods after 2006.

The charges of \$772 million recorded in 2006, excluding reversals, included \$158 million applicable to the Film and Photofinishing Systems Group segment, \$27 million applicable to the Consumer Digital Group segment, \$22 million applicable to the Health Group segment, and \$38 million applicable to the Graphic Communications Group segment, and \$28 million applicable to All Other. The balance of \$499 million was applicable to manufacturing, research and development, and administrative functions, which are shared across all segments.

#### Pre-2004 Restructuring Programs

At December 31, 2006, the Company had remaining exit costs reserves of \$11 million, relating to restructuring plans committed to or executed prior to 2004. Most of these remaining exit costs reserves represent long-term lease payments, which will continue to be paid over periods throughout and after 2007.

PAGE 123

#### NOTE 17: RETIREMENT PLANS

Substantially all U.S. employees are covered by a noncontributory defined benefit plan, the Kodak Retirement Income Plan (KRIP), which is funded by Company contributions to an irrevocable trust fund. The funding policy for KRIP is to contribute amounts sufficient to meet minimum funding requirements as determined by employee benefit and tax laws plus additional amounts the Company determines to be appropriate. Generally, benefits are based on a formula recognizing length of service and final average earnings. Assets in the trust fund are held for the sole benefit of participating employees and retirees. They are comprised of corporate equity and debt securities, U.S. government securities, partnership and joint venture investments, interests in pooled funds, and various types of interest rate, foreign currency and equity market financial instruments.

On March 25, 1999, the Company amended this plan to include a separate cash balance formula for all U.S. employees hired after February 1999. All U.S. employees hired prior to that date were granted the option to choose the KRIP plan or the Cash Balance Plus plan. Written elections were made by employees in 1999, and were effective January 1, 2000. The Cash Balance Plus plan credits employees' accounts with an amount equal to 4% of their pay, plus interest based on the 30-year treasury bond rate. In addition, for employees participating in this plan and the Company's defined contribution plan, the Savings and Investment Plan (SIP), the Company will match SIP contributions for an amount up to 3% of pay, for employee contributions of up to 5% of pay. Company contributions to SIP were \$15 million, \$13 million and \$15 million for 2006, 2005 and 2004, respectively. As a result of employee elections to the Cash Balance Plus plan, the reductions in future pension expense will be almost entirely offset by the cost of matching employee contributions to SIP. The impact of the Cash Balance Plus plan is shown as a plan amendment.

The Company also sponsors unfunded defined benefit plans for certain U.S. employees, primarily executives. The benefits of these plans are obtained by applying KRIP provisions to all compensation, including amounts being deferred, and without regard to the legislated qualified plan maximums, reduced by benefits under KRIP.

Most subsidiaries and branches operating outside the U.S. have defined benefit retirement plans covering substantially all employees. Contributions by the Company for these plans are typically deposited under government or other fiduciary-type arrangements. Retirement benefits are generally based on contractual agreements that provide for benefit formulas using years of service and/or compensation prior to retirement. The actuarial assumptions used for these plans reflect the diverse economic environments within the various countries in which the Company operates.

The measurement date used to determine the pension obligation for all funded and unfunded U.S. and Non-U.S. defined benefit plans is December 31.

PAGE 124

See Note 1, "Significant Accounting Policies" for information regarding the Company's adoption of SFAS No. 158 as of December 31, 2006. SFAS No. 158 requires recognition of the overfunded or underfunded status of defined benefit plans as an asset or liability. Accordingly, the overfunded and underfunded status of the Company's defined benefit plans are recognized as assets and liabilities, respectively, in the Consolidated Statement of Financial Position as of December 31, 2006. Information regarding the major funded and unfunded U.S. and Non-U.S. defined benefit plans follows:

(in millions)	2006		2005	
	U.S.	Non-U.S.	U.S.	Non- U.S.
Change in Benefit Obligation				
Projected benefit obligation at January 1	\$ 6,204	\$ 3,784	\$ 6,475	\$ 3,652
Acquisitions/divestitures	—	—	—	46
Service cost	92	35	116	41
Interest cost	325	180	346	167
Participant contributions	—	16	—	14
Plan amendment	—	2	—	(1
Benefit payments	(394	(261	(740	(227
Actuarial (gain) loss	(190	(115	92	463
Curtailments	(53	(30	(85	(22
Settlements	(442	(20	—	(62
Special termination benefits	15	41	—	101
Currency adjustments	—	435	—	(388



Projected benefit obligation at December 31	\$ 5,557	\$ 4,067	\$ 6,204	\$ 3,784
Change in Plan Assets				
Fair value of plan assets at January 1	\$ 6,593	\$ 2,927	\$ 6,480	\$ 2,871
Acquisitions/divestitures	—	—	14	36
Actual return on plan assets	1,006	283	814	428
Employer contributions	57	131	25	156
Participant contributions	—	16	—	14
Settlements	(442)	(13)	—	(60)
Benefit payments	(394)	(261)	(740)	(227)
Currency adjustments	—	336	—	(291)
Fair value of plan assets at December 31	\$ 6,820	\$ 3,419	\$ 6,593	\$ 2,927
Over (Under) Funded Status at December 31	\$ 1,263	\$ (648)	\$ 389	\$ (857)
Unrecognized:				
Net transition obligation			—	9
Net actuarial loss			235	990
Prior service cost			4	43
Net amount recognized at December 31			\$ 628	\$ 185

PAGE 125

Amounts recognized in the Consolidated Statement of Financial Position for all major funded and unfunded U.S. and Non-U.S. defined benefit plans are as follows:

(in millions)	2006		2005	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Other long-term assets	\$ 1,514	\$ 63	\$ 790	\$ 329
Accounts payable and other current liabilities	(19)	(1)	—	—
Pension and other postretirement liabilities	(232)	(710)	(162)	(142)
Additional minimum pension liability	—	—	(101)	(796)
Intangible asset	—	—	2	21
Accumulated other comprehensive loss	—	—	99	773
Net amount recognized at December 31	\$ 1,263	\$ (648)	\$ 628	\$ 185

The additional minimum pension liability (net of intangible asset) is included in pension and other postretirement liabilities at December 31, 2005.

Amounts recognized in accumulated other comprehensive loss, as a result of the adoption of SFAS No. 158, for all major funded and unfunded U.S. and Non-U.S. defined benefit plans consist of:

(in millions)	2006	
	U.S.	Non- U.S.
Net transition obligation	\$ —	\$ 2
Prior service cost	2	6
Net actuarial (gain) loss	(429)	903
Total	\$ (427)	\$ 911

The accumulated benefit obligations for all the major funded and unfunded U.S. and Non-U.S. defined benefit plans are as follows:

(in millions)	2006		2005	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Accumulated benefit obligation	\$ 5,199	\$ 3,888	\$ 5,719	\$ 3,587

Information with respect to the major funded and unfunded U.S. and Non-U.S. defined benefit plans with an accumulated benefit obligation in excess of plan assets is as follows:

(in millions)	2006		2005	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Projected benefit obligation	\$ 387	\$ 3,723	\$ 422	\$ 3,426
Accumulated benefit obligation	368	3,554	389	3,241
Fair value of plan assets	136	3,012	126	2,542

PAGE 126

Pension (income) expense for all defined benefit plans included:

(in millions)	2006		2005		2004	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost	\$ 92	\$ 35	\$ 116	\$ 41	\$ 119	\$ 38
Interest cost	325	180	346	167	381	169
	)	)	)	)	)	)
Expected return on plan assets	(525	(224	(518	(208	(534	(198
Amortization of:						
Transition asset	—	(1	—	(1	—	(1
Prior service cost	1	13	1	25	1	(17
Actuarial loss	8	82	33	66	28	48
Pension (income) expense before special						
termination benefits, curtailments and settlements	(99	85	(22	90	(5	39
Special termination benefits	15	41	—	101	—	52
	)	)				
Curtailment (gains) losses	(50	(6	—	21	8	—
	)	)				
Settlement (gains) losses	(27	(8	54	11	—	—
	)	)				
Net pension (income) expense	(161	112	32	223	3	91
Other plans including unfunded plans	—	22	—	18	—	7
	)	)				
Total net pension (income) expense	(161	134	32	241	3	98
Net pension expense (income) from discontinued operations	1	—	(54	—	—	—
	)	)				
Net pension (income) expense from continuing operations	\$ (160	\$ 134	\$ (22	\$ 241	\$ 3	\$ 98

The estimated actuarial loss and prior service cost that will be amortized from accumulated other comprehensive loss into net periodic pension cost over the next fiscal year are \$79 million and \$2 million, respectively.

The special termination benefits of \$56 million, \$101 million and \$52 million for the years ended December 31, 2006, 2005 and 2004, respectively, were incurred as a result of the Company's restructuring actions and, therefore, have been included in restructuring costs and other in the Consolidated Statement of Operations for those respective periods. In addition, curtailment and settlement charges totaling \$50 million and \$30 million for 2006, \$21 million and \$11 million for 2005, and \$8 million and \$0 million for 2004 were also incurred as a result of the Company's restructuring actions and, therefore, have been included in restructuring costs and other in the Consolidated Statement of Operations for those respective periods.



In connection with the divestiture of RSS, the final asset transfer was completed in November 2005. In connection with the final asset transfer, a one-time settlement charge of \$54 million was recognized during the fourth quarter of 2005 in discontinued operations. See Note 22, “Discontinued Operations.”

The Japanese Welfare Pension Insurance Law (JWPIL) was amended in June 2001 to permit employers with Employees’ Pension Funds (EPFs) to separate the pay related portion of the old-age pension benefits under the JWPIL (Substitutional Portion) from the EPF. This obligation and related plan assets are transferred to a government agency, thereby relieving the EPF from paying the substitutional portion of benefits. The Kodak Japan Limited EPF completed the transfer of the substitutional portion to the Japanese Government in December 2004. The effect of the transfer resulted in a one-time credit due to the derecognition of future salary increases in the amount of \$3 million, a one-time credit due to the government subsidy from the transfer of liabilities and related plan assets of \$25 million and a one-time charge due to the accelerated recognition of unrecognized loss in accordance with SFAS No. 88 settlement accounting in the amount of \$20 million.

PAGE 127

The weighted-average assumptions used to determine the benefit obligation amounts as of the end of the year for all major funded and unfunded U.S. and Non-U.S. defined benefit plans were as follows:

	2006		2005	
	U.S.	Non-U.S.	U.S.	Non-U.S.
	%	%	%	%
Discount rate	5.99	5.00	5.51	4.51
	%		%	%
Salary increase rate	4.55	3.20%	4.58	3.67

The weighted-average assumptions used to determine net pension (income) expense for all the major funded and unfunded U.S. and Non-U.S. defined benefit plans were as follows:

	2006		2005	
	U.S.	Non-U.S.	U.S.	Non-U.S.
	%		%	%
Discount rate	5.98	4.78%	5.57	4.85
	%		%	%
Salary increase rate	4.58	3.67%	4.33	3.29
	%		%	%
Expected long-term rate of return on plan assets	8.60	7.99%	9.00	8.12

Of the total plan assets attributable to the major U.S. defined benefit plans at December 31, 2006 and 2005, 98% relate to the KRIP plan. The expected long-term rate of return on plan assets assumption (EROA) is determined from the plan’s asset allocation using forward-looking assumptions in the context of historical returns, correlations and volatilities. The investment strategy underlying the asset allocation is to manage the assets of the U.S. plans to provide for the long-term liabilities while maintaining sufficient liquidity to pay current benefits. This is primarily achieved by holding equity-like investments while investing a portion of the assets in long duration bonds in order to provide for benefits included in the projected benefit obligation. The Company undertakes an asset and liability modeling study once every three years or when there are material changes in the composition of the plan liability or capital markets. The Company completed its most recent study in 2005, which supports the EROA of 9%.

The expected return on plan assets for the major non-U.S. pension plans range from 3.74% to 9.00% for 2006. Every three years or when market conditions have changed materially, the Company will undertake new asset and liability modeling studies for each of its larger pension plans. The asset allocations and expected return on plan assets are individually set to provide for benefits included in the projected benefit obligation within each country’s legal investment constraints. The investment strategy is to manage the assets of the non-U.S. plans to provide for the long-term liabilities while maintaining sufficient liquidity to pay current benefits. This is primarily achieved by holding equity-like investments while investing a portion of the assets in long duration bonds in order to partially match the long-term nature of the liabilities.

The Company’s weighted-average asset allocations for its major U.S. defined benefit pension plans at December 31, 2006 and 2005, by asset category, are as follows:

Asset Category	2006	2005	Target
Equity securities	42%	42%	32%-42%
Debt securities	30%	31%	29%-34%
Real estate	5%	5%	3%-13%

Other	23%	22%	19%-29%
Total	100%	100%	

PAGE 128

The Company's weighted-average asset allocations for its major non-U.S. Defined Benefit Pension Plans at December 31, 2006 and 2005, by asset category are as follows:

Asset Category	2006	2005	Target
Equity securities	35%	35%	32%-42%
Debt securities	31%	32%	28%-34%
Real estate	7%	7%	3%-13%
Other	27%	26%	19%-29%
Total	100%	100%	

The Other asset category in the tables above is primarily composed of private equity, venture capital, cash and other investments.

The Company expects to contribute approximately \$19 million and \$41 million in 2007 for U.S. and Non-U.S. defined benefit pension plans, respectively.

The following pension benefit payments, which reflect expected future service, are expected to be paid:

(in millions)	U.S.	Non-U.S.
2007	\$ 461	\$ 239
2008	441	224
2009	438	218
2010	436	214
2011	434	213
2012-2016	2,199	1,034

#### NOTE 18: OTHER POSTRETIREMENT BENEFITS

The Company provides healthcare, dental and life insurance benefits to U.S. eligible retirees and eligible survivors of retirees. Generally, to be eligible for the plan, individuals retiring prior to January 1, 1996 were required to be 55 years of age with ten years of service or their age plus years of service must have equaled or exceeded 75. For those retiring after December 31, 1995, the individuals must be 55 years of age with ten years of service or have been eligible as of December 31, 1995. Based on the eligibility requirements, these benefits are provided to U.S. retirees who are covered by the Company's KRIP plan and are funded from the general assets of the Company as they are incurred. However, those under the Cash Balance Plus portion of the KRIP plan would be required to pay the full cost of their benefits under the plan. The Company's subsidiaries in the United Kingdom and Canada offer similar healthcare benefits.

The measurement date used to determine the net benefit obligation for the Company's other postretirement benefit plans is December 31.

PAGE 129

See Note 1, "Significant Accounting Policies" for information regarding the Company's adoption of SFAS No. 158 as of December 31, 2006. SFAS No. 158 requires recognition of the overfunded or underfunded status of postretirement benefit plans as an asset or liability. Accordingly, the underfunded status of the Company's postretirement benefit plans is recognized as a liability in the Consolidated Statement of Financial Position as of December 31, 2006. Changes in the Company's benefit obligation and funded status for the U.S., United Kingdom and Canada other postretirement benefit plans are as follows:

(in millions)	2006	2005
Net benefit obligation at beginning of year	\$ 3,061	\$ 3,270
Service cost	11	14
Interest cost	166	170
Plan participants' contributions	23	20
	)	

Plan amendments	(15	—
	)	)
Actuarial loss (gain)	18	(121
	)	)
Curtailments	(14	(29
	)	)
Benefit payments	(247	(260
	)	)
Currency adjustments	6	(3
Net benefit obligation at end of year	<u>\$ 3,009</u>	<u>\$ 3,061</u>
	<u>\$ )</u>	<u>)</u>
Underfunded status at end of year	<u>(3,009</u>	<u>\$ (3,061</u>
Unamortized net actuarial loss		\$ 968
		)
Unamortized prior service credit		<u>(172</u>
		)
Net amount recognized and recorded at December 31, 2005		<u>\$ (2,265</u>

Amounts recognized in the Consolidated Statement of Financial Position for the Company's U.S., United Kingdom, and Canada plans consist of:

(in millions)	2006
Current liabilities	\$ (253)
Pension and other postretirement liabilities	(2,756)
	<u>\$ (3,009)</u>

Amounts recognized in accumulated other comprehensive loss, as a result of the adoption of SFAS No. 158, for the Company's U.S., United Kingdom, and Canada plans consist of:

(in millions)	2006
	)
Prior service credit	\$ (123
Net actuarial loss	923
Total	<u>\$ 800</u>

Other postretirement benefit cost for the Company's U.S., United Kingdom and Canada plans included:

(in millions)	2006	2005	2004
Components of net postretirement benefit cost			
Service cost	\$ 11	\$ 14	\$ 15
Interest cost	166	170	189
Amortization of:			
	)	)	)
Prior service cost	(46	(52	(59
Actuarial loss	50	68	85
Other postretirement benefit cost before curtailment and settlement gains	181	200	230
	)	)	)
Curtailment gains	(17	(28	(63
	)	)	)
Settlement gains	—	—	(64
Net other postretirement benefit cost from continuing operations	<u>\$ 164</u>	<u>\$ 172</u>	<u>\$ 103</u>

The estimated prior service credit and net actuarial loss that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is \$44 million and \$59 million, respectively.

During the quarter ended June 30, 2004, the Company adopted the provisions of FSP 106-2 with respect to its U.S. Other Postretirement Plan, which resulted in a remeasurement of the Plan's accumulated projected benefit obligation (APBO) as of April 1, 2004. This remeasurement takes into account the impact of the subsidy the Company will receive under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) and certain actuarial assumption changes including: (1) changes in participation rates, (2) a decrease in the Company's Medicare plan premiums, and (3) a decrease in the discount rate from 6.00% to 5.75%. The actuarially determined impact of the subsidy reduced the APBO by approximately \$228 million. The effect of the subsidy on the measurement of the net periodic other postretirement benefit cost in 2004 was to reduce the cost by approximately \$52 million as follows:

(in millions)	12 months ended December 31, 2004		
	Effect of Subsidy	Effect of Assumption Changes	Total
Service cost	\$ —	\$ 1	\$ 1
Interest cost	13	13	26
Amortization of actuarial gain	17	8	25
	<u>\$ 30</u>	<u>\$ 22</u>	<u>\$ 52</u>

The effect of the subsidy has been included in the measurement of the net periodic other postretirement cost subsequent to 2004.

The U.S. plan represents approximately 97% of the total other postretirement net benefit obligation as of both December 31, 2006 and 2005 and, therefore, the weighted-average assumptions used to compute the other postretirement benefit amounts approximate the U.S. assumptions.

The weighted-average assumptions used to determine the net benefit obligations were as follows:

	2006	2005
Discount rate	5.73%	5.50%
Salary increase rate	4.22%	4.60%

The weighted-average assumptions used to determine the net postretirement benefit cost were as follows:

	2006	2005
Discount rate	5.79%	5.50%
Salary increase rate	4.26%	4.34%

The weighted-average assumed healthcare cost trend rates used to compute the other postretirement amounts were as follows:

	2006	2005
Healthcare cost trend	9.00%	10.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2011	2011

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage point change in assumed healthcare cost trend rates would have the following effects:

(in millions)	1% increase	1% decrease
Effect on total service and interest cost	\$ 1	\$ (5)
Effect on postretirement benefit obligation	18	(79)

The Company expects to contribute \$273 million to its other postretirement benefit plans in 2007.

The following other postretirement benefits, which reflect expected future service, are expected to be paid.

(in millions)		Medicare Part D (U.S.)
2007	\$ 273	\$ (20)
2008	277	(22)
2009	282	(24)
2010	286	(26)
2011	285	(27)
2012-2016	1,306	(143)

#### NOTE 19: ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The components of accumulated other comprehensive (loss) income, net of tax, at December 31, 2006, 2005 and 2004 were as follows:

(in millions)	2006	2005	2004
Accumulated unrealized holding (losses) gains related to available-for-sale securities	\$ (10)	\$ (8)	\$ —
Accumulated unrealized gains (losses) related to hedging activity	—	4	(2)
Accumulated translation adjustments	197	109	328
Accumulated minimum pension liability adjustments	(436)	(572)	(416)
Adjustment to initially apply SFAS No. 158 for pension and other postretirement benefits	(386)	—	—
Total	<u>\$(635)</u>	<u>\$(467)</u>	<u>\$ (90)</u>

#### NOTE 20: STOCK OPTION AND COMPENSATION PLANS

The Company's stock incentive plans consist of the 2005 Omnibus Long-Term Compensation Plan (the 2005 Plan), the 2000 Omnibus Long-Term Compensation Plan (the 2000 Plan), and the 1995 Omnibus Long-Term Compensation Plan (the 1995 Plan). The Plans are administered by the Executive Compensation and Development Committee of the Board of Directors.

PAGE 132

Under the 2005 Plan, 11 million shares of the Company's common stock may be granted to employees between January 1, 2005 and December 31, 2014. This share reserve may be increased by: shares that are forfeited pursuant to awards made under the 1995 and 2000 Plans; shares retained for payment of tax withholding; shares issued in connection with reinvestments of dividends and dividend equivalents; shares delivered for payment or satisfaction of tax withholding; shares reacquired on the open market using option exercise price cash proceeds; and awards that otherwise do not result in the issuance of shares. The 2005 Plan is substantially similar to and is intended to replace the 2000 Plan, which expired on January 18, 2005. Stock options are generally non-qualified and are issued at prices not less than 100% of the per share fair market value on the date of grant. Options granted under the 2005 Plan generally expire seven years from the date of grant, but may be forfeited or canceled earlier if the optionee's employment terminates prior to the end of the contractual term. The 2005 Plan also provides for Stock Appreciation Rights (SARs) to be granted, either in tandem with options or freestanding. SARs allow optionees to receive payment equal to the increase in the market price of the Company's stock from the grant date to the exercise date. At December 31, 2006, 8,000 freestanding SARs were outstanding under the 2005 Plan at option prices ranging from \$24.59 to \$25.58. Compensation expense recognized in 2006 on those freestanding SARs was not material.

Under the 2000 Plan, 22 million shares of the Company's common stock were eligible for grant to a variety of employees between January 1, 2000 and December 31, 2004. The 2000 Plan is substantially similar to, and was intended to replace, the 1995 Plan, which expired on December 31, 1999. Stock options are generally non-qualified and are at prices not less than 100% of the per share fair market value on the date of grant, and the options generally expire ten years from the date of grant, but may expire sooner if the optionee's employment terminates. The 2000 Plan also provides for SARs to be granted, either in tandem with options or freestanding. At December 31, 2006, 47,138 freestanding SARs were outstanding under the 2000 Plan at option prices ranging from \$23.25 to \$60.50. Compensation expense recognized in 2006 on those freestanding SARs was not material.

Under the 1995 Plan, 22 million shares of the Company's common stock were eligible for grant to a variety of employees between February 1, 1995 and December 31, 1999. Stock options are generally non-qualified and are at prices not less than 100% of the per share fair market value on the date of grant, and the options generally expire ten years from the date of grant, but may expire sooner if the optionee's employment terminates. The 1995 Plan also provides for SARs to be granted, either in tandem with options or freestanding. At December 31, 2006, 144,399 freestanding

SARs were outstanding under the 1995 Plan at option prices ranging from \$31.30 to \$90.63. Compensation expense recognized in 2006 on those freestanding SARs was not material.

In addition, the 2005 Plan, the 2000 Plan, and the 1995 Plan provide for, but are not limited to, grants of unvested stock and performance awards. Compensation expense recognized in 2006 for these awards, based on their fair value, was not material.

PAGE 133

Further information relating to stock options is as follows: (Amounts in thousands, except per share amounts)

	Shares Under Option	Range of Price Per Share	Weighted- Average Exercise Price Per Share
Outstanding on December 31, 2003	39,549	\$ 22.58 - \$92.31	\$ 48.30
Granted	800	\$ 24.92 - \$33.32	\$ 30.18
Exercised	157	\$ 22.58 - \$31.30	\$ 30.84
Terminated, Canceled or Surrendered	2,982	\$ 22.58 - \$75.66	\$ 41.70
Outstanding on December 31, 2004	37,210	\$ 22.58 - \$92.31	\$ 48.51
Granted	1,852	\$ 22.03 - \$31.57	\$ 25.89
Exercised	389	\$ 22.58 - \$31.88	\$ 30.68
Terminated, Canceled or Surrendered	2,630	\$ 23.25 - \$83.19	\$ 48.53
Outstanding on December 31, 2005	36,043	\$ 22.03 - \$92.31	\$ 47.54
Granted	1,605	\$ 20.12 - \$27.70	\$ 25.48
Exercised	20	\$ 22.58 - \$26.71	\$ 24.97
Terminated, Canceled or Surrendered	3,017	\$ 22.03 - \$83.19	\$ 58.46
Outstanding on December 31, 2006	34,611	\$ 20.12 - \$92.31	\$ 45.57
Exercisable on December 31, 2004	33,196	\$ 22.58 - \$92.31	\$ 50.32
Exercisable on December 31, 2005	32,330	\$ 22.58 - \$92.31	\$ 49.69
Exercisable on December 31, 2006	31,548	\$ 22.58 - \$92.31	\$ 47.44

The table above excludes approximately 68 (in thousands) options granted by the Company in 2001 at an exercise price of \$.05-\$21.91 as part of an acquisition. At December 31, 2006, approximately 4 (in thousands) stock options were outstanding in relation to this acquisition.

The following table summarizes information about stock options at December 31, 2006:

(Number of options in thousands)		Options Outstanding		Options Exercisable	
Range of Exercise Prices	At Least	Less Than	Options	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price
			4,871		26.05
\$20 - \$30				5.26	\$ 26.60
			16,514		32.46
\$30 - \$40				3.79	\$ 32.46
					41.71
\$40 - \$50			578	4.08	\$ 41.70
			1,666		54.77
\$50 - \$60				3.21	\$ 54.77
			5,974		65.43
\$60 - \$70				1.53	\$ 65.44
			2,684		74.20
\$70 - \$80				0.61	\$ 74.20
			2,324		89.96
Over \$ 80				0.17	\$ 89.96

The weighted-average remaining contractual term and aggregate intrinsic value of all options outstanding at December 31, 2006 was 3.10 years and negative \$684,407 thousand, respectively. The weighted-average remaining contractual term and aggregate intrinsic value of all options exercisable at December 31, 2006 was 2.85 years and negative \$682,611 thousand, respectively. The negative aggregate intrinsic value of all options outstanding and exercisable, respectively, reflects the fact that the market price of the Company's common stock as of December 31, 2006 was below the weighted-average exercise price of options. The total intrinsic value of options exercised during years ended December 31, 2006, 2005 and 2004 was (in thousands) \$61, \$1,238, and \$417, respectively.

As of December 31, 2006, there was \$12.7 million of total unrecognized compensation cost related to unvested options. The cost is expected to be recognized over a weighted-average period of 2.2 years.

The total fair value of shares vested during the years ended December 31, 2006, 2005 and 2004 was \$8 million, \$16 million and \$15 million, respectively.

Cash received for option exercises for the years ended December 31, 2006, 2005 and 2004 was \$1 million, \$12 million and \$5 million, respectively. The actual tax benefit realized for the tax deductions from option exercises was not material for 2006, 2005 or 2004.

## NOTE 21: ACQUISITIONS

### 2006

There were no significant acquisitions in 2006.

### 2005

#### *Creo Inc.*

On June 15, 2005, the Company completed the acquisition of Creo Inc. (Creo), a premier supplier of prepress and workflow systems used by commercial printers around the world. The acquisition of Creo uniquely positions the Company to be the preferred partner for its customers, helping them improve efficiency, expand their offerings and grow their businesses. The Company paid \$954 million (excluding approximately \$13 million in transaction related costs), or \$16.50 per share, for all of the outstanding shares of Creo. The Company used its bank lines to initially fund the acquisition, which has been refinanced with a term loan under the Company's Secured Credit Agreement. Creo's extensive solutions portfolio is now part of the Company's Graphic Communications Group segment.

The following represents the total purchase price of the acquisition (in millions):

Cash paid at closing	\$ 954
Transaction costs	13
Total purchase price	<u>\$ 967</u>

Upon closing of an acquisition, the Company estimates the fair values of assets and liabilities acquired in order to consolidate the acquired balance sheet. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition and represents the final allocation of the purchase price.

#### At June 15, 2005 – (in millions):

Current assets	\$ 352
Intangible assets (including in-process R&D)	292
Other non-current assets (including PP&E)	180
Goodwill	445
Total assets acquired	<u>\$ 1,269</u>
Current liabilities	\$ 241
Non-current liabilities	61
Total liabilities assumed	<u>\$ 302</u>
Net assets acquired	<u>\$ 967</u>

Of the \$292 million of acquired intangible assets, approximately \$36 million was assigned to in-process research and development assets that were written off at the date of acquisition. Approximately \$48 million was initially assigned to in-process research and development assets during the second quarter of 2005, which was offset by a \$12 million adjustment during the third quarter of 2005 due to a change in the third party valuation. These amounts were determined by identifying research and development projects that had not yet reached technological feasibility and for which no alternative future use existed. The value of the projects identified to be in progress was determined by estimating the future cash flows from the projects once commercialized, less costs to complete development and discounting these net cash flows back to their present value. The discount rate used for these research and development projects was 23%. The charges for the write-off were included as research and development costs in the Company's Consolidated Statement of Operations for the year ended December 31, 2005.

The remaining \$256 million of intangible assets, which relate to developed technology, trademarks and customer relationships, have useful lives ranging from six to eight years. The \$445 million of goodwill is assigned to the Company's Graphic Communications Group segment.

As of the acquisition date, management began to assess and formulate restructuring plans at Creo. As of June 30, 2006, management has completed its assessment and approved actions on these plans. Accordingly, the Company recorded a related liability of approximately \$38 million. This liability is included in the current liabilities amount reported above and represents restructuring charges related to Creo net assets acquired. Refer to Note 16, "Restructuring Costs and Other," for further discussion of these restructuring charges.

#### ***Kodak Polychrome Graphics***

Through April 1, 2005, the Company held a 50% interest in Kodak Polychrome Graphics (KPG). This joint venture between the Company and Sun Chemical Corporation was accounted for using the equity method of accounting. Summarized unaudited income statement information for KPG for the three months ended March 31, 2005 is as follows:

(in millions)	
Net sales	\$ 439
Gross profit	149
Income from continuing operations	34
Net income	34

On April 1, 2005, the Company completed its acquisition of Kodak Polychrome Graphics (KPG) through the redemption of Sun Chemical Corporation's 50 percent interest in the joint venture. The transaction further established the Company as a leader in the graphic communications industry and will complement the Company's existing business in this market. Under the terms of the transaction, the Company redeemed all of Sun Chemical Corporation's shares in KPG by providing \$317 million in cash (excluding \$8 million in transaction costs) at closing and by entering into two notes payable arrangements, one that will be payable within the U.S. (the U.S. note) and one that will be payable outside of the U.S. (the non-U.S. note), that will require principal and interest payments of \$200 million in the third quarter of 2006 (which has been paid during the third quarter 2006), and \$50 million annually from 2008 through 2013. The total payments due under the U.S. note and the non-U.S. note are \$100 million and \$400 million, respectively. The aggregate fair value of these note payable arrangements of approximately \$395 million was recorded in the Company's Consolidated Statement of Financial Position as of the acquisition date and was presented as a non-cash investing activity in the Consolidated Statement of Cash Flows. KPG now operates within the Company's Graphic Communications Group segment.

The following represents the total purchase price of the acquisition (in millions):

Cash paid at closing	\$ 317
Transaction costs	8
Notes payable	395
Total purchase price	<u>\$ 720</u>

Upon closing of an acquisition, the Company estimates the fair values of assets and liabilities acquired in order to consolidate the acquired balance sheet. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition and represents the final allocation of the purchase price.

#### **At April 1, 2005 – (in millions):**

Current assets	\$ 487
Intangible assets (including in-process R&D)	160
Other non-current assets (including PP&E)	179
Goodwill	237
Total assets acquired	<u>\$ 1,063</u>
Current liabilities	<u>\$ 262</u>



Non-current liabilities	81
Total liabilities assumed	\$ 343
Net assets acquired	\$ 720

Of the \$160 million of acquired intangible assets, approximately \$16 million was assigned to research and development assets that were written off at the date of acquisition. This amount was determined by identifying research and development projects that had not yet reached technological feasibility and for which no alternative future uses exist. The value of the projects identified to be in progress was determined by estimating the future cash flows from the projects once commercialized, less costs to complete development and discounting these net cash flows back to their present value. The discount rate used for these research and development projects was 22%. The charges for the write-off were included as research and development costs in the Company's Consolidated Statement of Operations for the year ended December 31, 2005.

The remaining \$144 million of intangible assets, which relate to developed technology, trademarks and customer relationships, have useful lives ranging from three to sixteen years. The \$237 million of goodwill is assigned to the Company's Graphic Communications Group segment.

As of the acquisition date, management began to assess and formulate restructuring plans at KPG. As of March 31, 2006, management completed its assessment and approved actions on these plans. Accordingly, the Company recorded a related liability of approximately \$8 million on these approved actions. This liability is included in the current liabilities amount reported above and represents restructuring charges related to the net assets acquired. To the extent such actions related to the Company's historical ownership in the KPG joint venture, the restructuring charges were reflected in the Company's Consolidated Statement of Operations. Refer to Note 16, "Restructuring Costs and Other," for further discussion of these restructuring charges.

The unaudited pro forma combined historical results, as if KPG had been acquired at the beginning of 2005 and 2004, respectively, are estimated to be:

(in millions, except per share data)	2005	2004
Net sales	\$ 14,707	\$15,232
(Loss) earnings from continuing operations	\$ (1,336)	\$ 86
Basic net (loss) earnings per share from continuing operations	\$ (4.64)	\$ .30
Diluted net (loss) earnings per share from continuing operations	\$ (4.64)	\$ .30
Number of common shares used in:		
Basic net (loss) earnings per share	287.9	286.6
Diluted net (loss) earnings per share	287.9	286.8

PAGE 137

The pro forma results include amortization of the intangible assets presented above, depreciation related to the fixed asset step-up, and the interest expense related to acquisition-related debt, and exclude the write-off of research and development assets that were acquired.

### ***Pro-forma Financial Information***

The following unaudited pro forma financial information presents the combined results of operations of the Company and the Company's significant acquisitions since January 1, 2005, KPG and Creo, as if the acquisitions had occurred as of the beginning of the periods presented. The unaudited pro forma financial information is not intended to represent or be indicative of the consolidated results of operations or financial condition of the Company that would have been reported had the acquisitions been completed as of the beginning of the periods presented, and should not be taken as representative of the future consolidated results of operations or financial condition of the Company. Pro forma results were as follows for years ended December 31, 2005 and 2004:

(in millions, except per share data)	2005	2004
Net sales	\$ 14,992	\$ 15,987
(Loss) earnings from continuing operations	\$ (1,391)	\$ 4
Basic net (loss) earnings per share from continuing operations	\$ (4.83)	\$ .01
Diluted net (loss) earnings per share from continuing operations	\$ (4.83)	\$ .01
Number of common shares used in:		
Basic net (loss) earnings per share	287.9	286.6
Diluted net (loss) earnings per share	287.9	286.8

The pro forma results include amortization of the intangible assets, depreciation related to the fixed asset step-up, and the interest expense related to acquisition-related debt, and exclude the write-off of research and development assets that were acquired.

## 2004

### *NexPress-Related Entities*

On May 1, 2004, the Company completed the purchase of Heidelberger Druckmaschinen AG's (Heidelberg) 50 percent interest in NexPress Solutions LLC, a 50/50 joint venture of Kodak and Heidelberg that makes high-end, on-demand digital color printing systems, and the equity of Heidelberg Digital LLC, a leading maker of digital black-and-white variable-data printing systems. Kodak also announced the acquisition of NexPress GmbH, a German subsidiary of Heidelberg that provides engineering and development support, and certain inventory, assets and employees of Heidelberg's regional operations or market centers. There was no cash consideration paid to Heidelberg at closing. Under the terms of the acquisition, Kodak and Heidelberg agreed to use a performance-based earn-out formula whereby Kodak will make periodic payments to Heidelberg over a two-year period, if certain sales goals are met. If all sales goals are met during the two calendar years ended December 31, 2005, the Company will pay a maximum of \$150 million in cash. None of these sales goals were met during the two calendar years ended December 31, 2005 and therefore, no amounts were paid. Additional payments may also be made relating to the incremental sales of certain products in excess of a stated minimum number of units sold during a five-year period following the closing of the transaction. This acquisition advances the Company's strategy of diversifying its business portfolio, and accelerates its participation in the digital commercial printing industry.

PAGE 138

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation is as follows:

#### **At May 1, 2004 – (in millions)**

Current assets	\$	88
Intangible assets (including in-process R&D)		9
Other non-current assets (including PP&E)		37
Total assets acquired	\$	134
Current liabilities	\$	65
Other non-current liabilities		6
Deferred taxes		33
Total liabilities assumed	\$	104
Net assets acquired	\$	<u>30</u>

The excess of fair value of acquired net assets over cost of \$30 million represents negative goodwill and was recorded as a component of other long-term liabilities in the Company's Consolidated Statement of Financial Position.

As of the acquisition date, management began to assess and formulate plans to restructure the NexPress-related entities. As of December 31, 2005, management had completed its assessment and approved actions on the plans. Accordingly, as of December 31, 2005, the related liability was \$6 million. This liability is included in the current liabilities amount reported above and represents restructuring charges related to the entities and net assets acquired. To the extent such actions related to the Company's historical ownership in the NexPress Solutions LLC joint venture, the restructuring charges will be reflected in the Company's Consolidated Statement of Operations. This amount was \$1 million as of December 31, 2005.

### *China Lucky Film Co. Ltd.*

On October 22, 2003, the Company announced that it signed a twenty-year agreement with China Lucky Film Corp. On February 10, 2004, the Chinese government approved the Company's acquisition of 20 percent of Lucky Film Co. Ltd. (Lucky Film), the largest maker of photographic film in China, in exchange for total consideration of approximately \$174 million. The total consideration of \$174 million was composed of \$90 million in cash, \$47 million in additional net cash to build and upgrade manufacturing assets, \$30 million of contributed assets consisting of a building and equipment, and \$7 million for technical support and training that the Company will provide to Lucky Film. Under the twenty-year agreement, Lucky Film will pay Kodak a royalty fee for the use of certain of the Company's technologies as well as dividends on the Lucky Film shares that Kodak will acquire. In addition, Kodak has obtained a twenty-year manufacturing exclusivity arrangement with Lucky Film as well as access to Lucky Film's distribution network.

As the total consideration of \$174 million will be paid through 2007, the amount was discounted to \$171 million for purposes of the purchase price allocation.

The preliminary purchase price allocation is as follows: (in millions)

Intangible assets	\$	145
-------------------	----	-----

Investment in Lucky Film	42
Deferred tax liability	(16)
	<u>\$ 171</u>

PAGE 139

The acquired intangible assets consist of the manufacturing exclusivity agreement and the distribution rights agreement. In accordance with the terms of the twenty-year agreement, the Company had acquired a 13 percent interest in Lucky Film as of March 31, 2004 and, therefore, \$26 million of the \$42 million of value allocated to the 20 percent interest was recorded as of March 31, 2004. During 2005, the Company recorded an impairment charge of \$19 million related to the investment in Lucky Film. The impairment was recognized as a result of an other-than-temporary decline in the market value of Lucky Film's stock. As a result, the value allocated to the 20 percent interest in Lucky Film has been adjusted to \$23 million and the corresponding value of the 13 percent interest has been adjusted to \$14 million. The Company will record the \$9 million of value associated with the additional 7 percent interest in Lucky Film when it completes the acquisition of those shares in 2007. The Company's interest in Lucky Film is accounted for under the equity method of accounting, as the Company has the ability to exercise significant influence over Lucky Film's operating and financial policies.

#### ***Scitex Digital Printing (Renamed Versamark)***

On January 5, 2004, the Company completed its acquisition of Scitex Digital Printing (SDP) from its parent for \$252 million, inclusive of cash on hand at closing which totaled approximately \$13 million. This resulted in a net cash price of approximately \$239 million, inclusive of transaction costs. SDP is the leading supplier of high-speed, continuous inkjet printing systems, primarily serving the commercial and transactional printing sectors. Customers use SDP's products to print utility bills, banking and credit card statements, direct mail materials, as well as invoices, financial statements and other transactional documents. SDP now operates under the name Kodak Versamark, Inc. The acquisition will provide the Company with additional capabilities in the transactional printing and direct mail sectors while creating another path to commercialize proprietary inkjet technology.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The final purchase price allocation is as follows:

#### **At January 5, 2004 – (in millions)**

Current assets	\$ 125
Intangible assets (including in-process R&D)	95
Other non-current assets (including PP&E)	47
Goodwill	17
<b>Total assets acquired</b>	<b>\$ 284</b>
Current liabilities	\$ 23
Other non-current liabilities	9
<b>Total liabilities assumed</b>	<b>\$ 32</b>
<b>Net assets acquired</b>	<b><u>\$ 252</u></b>

Of the \$95 million of acquired intangible assets, \$9 million was assigned to research and development assets that were written off at the date of acquisition. This amount was determined by identifying research and development projects that had not yet reached technological feasibility and for which no alternative future uses exist. The value of the projects identified to be in progress was determined by estimating the future cash flows from the projects once commercialized, less costs to complete development and discounting these net cash flows back to their present value. The discount rate used for these three research and development projects was 17%. The charges for the write-off were included as research and development costs in the Company's Consolidated Statement of Operations for the year ended December 31, 2004.

The remaining \$86 million of intangible assets, which relate to developed technology, customer relationships, and trade names, have useful lives ranging from two to fourteen years. The \$17 million of goodwill was assigned to the Graphic Communications Group segment.

PAGE 140

#### **NOTE 22: DISCONTINUED OPERATIONS**

The significant components of earnings from discontinued operations, net of income taxes, for 2006, 2005 and 2004 are as follows:

(dollar amounts in millions)	2006	2005	2004
------------------------------	------	------	------

Remote Sensing Systems (RSS) earnings, net of tax	\$ —	\$ —	\$ 38
(Loss) gain on sale of RSS, net of tax	—	(55	439
Tax reserve reversals related to audit settlement for tax years 1993-1998	—	203	—
All other items, net	(1	2	(2
(Loss) earnings from discontinued operations, net of income taxes	\$ (1	\$ 150	\$ 475

## 2006

The loss from discontinued operations for the year ended December 31, 2006 of approximately \$1 million was due to a pension liability true-up related to the 1994 sale of Sterling Winthrop Inc., the Company's pharmaceutical, consumer health, and household products businesses.

## 2005

Earnings from discontinued operations for the year ended December 31, 2005 of approximately \$150 million was due to the items discussed below.

During the fourth quarter of 2005, the Company was informed that the United States Congress Joint Committee on Taxation had approved, and the Internal Revenue Service had signed, a settlement between the Company and the Internal Revenue Service concerning the audit of the tax years 1993-1998. As a result of the settlement, the Company was able to reverse certain tax accruals relating to the aforementioned years under audit. The reversal of the tax accruals of approximately \$203 million, which primarily relates to and which was established in 1994 in connection with the sale of Sterling Winthrop Inc., the Company's pharmaceutical, consumer health, and household products businesses during that year, was recognized in earnings from discontinued operations for the year ended December 31, 2005.

On August 13, 2004 the Company completed the sale of the assets and business of the Remote Sensing Systems operation, including the stock of Kodak's wholly owned subsidiary, Research Systems, Inc. (collectively known as RSS), to ITT Industries for \$725 million in cash. As a result of the sale of RSS, the Company transferred the related employees' plan assets of the Company's pension plan. This transfer was subject to a true-up provision, which was completed in the fourth quarter of 2005 and resulted in a settlement loss of \$54 million being recognized in earnings from discontinued operations for the year ended December 31, 2005.

PAGE 141

The contract with ITT also included a provision under which Kodak could receive up to \$35 million in cash (the "Cash Amount") from ITT depending on the amount of pension plan assets that were ultimately transferred from Kodak's defined benefit pension plan trust in the U.S. to ITT. The total amount of assets that Kodak transferred to ITT was actuarially determined in accordance with the applicable sections under the Treasury Regulations and ERISA (the "Transferred Assets"). The Cash Amount was equal to 50% of the amount by which the Transferred Assets exceed the maximum amount of assets that would be required to be transferred in accordance with the applicable U.S. Government Cost Accounting Standards (the "CAS Assets"), up to \$35 million. Based on preliminary actuarial valuations, the estimated Cash Amount was approximately \$30 million. Accordingly, the after-tax gain from the sale of RSS included an estimated pre-tax amount of \$30 million, representing the Company's estimate of the Cash Amount that would be received following the transfer of the pension plan assets to ITT. This amount was recorded in assets of discontinued operations in the Company's Consolidated Statement of Financial Position as of December 31, 2004. The actual Cash Amount received during the fourth quarter of 2005 was approximately \$29 million. Accordingly, the difference in the estimated Cash Amount and the actual Cash Amount received of approximately \$1 million was recorded in earnings from discontinued operations for the year ended December 31, 2005.

## 2004

On August 13, 2004, the Company completed the sale of the assets and business of the Remote Sensing Systems operation, including the stock of Kodak's wholly owned subsidiary, Research Systems, Inc. (collectively known as RSS), to ITT Industries for \$725 million in cash. RSS, a leading provider of specialized imaging solutions to the aerospace and defense community, was part of the Company's commercial and government systems' operation within the Digital & Film Imaging Systems segment. Its customers include NASA, other U.S. government agencies, and aerospace and defense companies. The sale was completed on August 13, 2004. RSS had net sales for the years ended December 31, 2004 and 2003 of approximately \$312 million and \$424 million, respectively. RSS had earnings before taxes for the years ended December 31, 2004 and 2003 of approximately \$44 million and \$66 million, respectively.

The sale of RSS resulted in an after-tax gain of approximately \$439 million. The after-tax gain excluded the ultimate impact from the settlement loss that was incurred in connection with the Company's pension plan of approximately \$55 million, as this amount was not recognizable until the final transfer of plan assets occurred, which was in the fourth quarter of 2005.

Earnings from discontinued operations for the years ended December 31, 2004 and 2003 of approximately \$36 million (excluding the \$439 million RSS after-tax gain) and \$64 million, respectively, were net of provisions for income taxes of \$6 million and \$10 million, respectively.

## NOTE 23: SEGMENT INFORMATION

### Current Segment Reporting Structure

As of and for the year ended December 31, 2006, the Company had four reportable segments aligned based on aggregation of similar products and services: Consumer Digital Imaging Group (CDG); Film and Photofinishing Systems Group (FPG); Graphic Communications Group (GCG); and Health Group (KHG). 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. A description of the segments is as follows:

**Consumer Digital Imaging Group Segment (CDG):** The Consumer Digital Imaging Group segment encompasses digital capture, kiosks, home printing systems, digital imaging services and imaging sensors. This segment provides consumers and professionals with digital products and services, and includes the licensing activities related to the Company's intellectual property in this product category.

**Film and Photofinishing Systems Group Segment (FPG):** The Film and Photofinishing Systems Group segment encompasses consumer and professional film, photographic paper and photofinishing, aerial and industrial film, and entertainment products and services. This segment provides consumers, professionals and cinematographers with traditional products and services.

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PAGE 142

**Graphic Communications Group Segment (GCG):** 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 consumables, including plates, chemistry, and media; workflow and proofing software; color and black and white electrophotographic equipment and consumables; high-speed, high-volume continuous inkjet printing systems; wide-format inkjet printers; high-speed production document scanners; micrographic peripherals; and media (including micrographic films). The Company also provides maintenance and professional services for Kodak and other manufacturers' products, as well as providing imaging services to customers.

**Health Group Segment (KHG):** The Health Group segment provides digital medical imaging and information products, and systems and solutions, which are key components of sales and earnings growth. These include laser imagers, digital print films, computed and digital radiography systems, dental radiographic imaging systems, dental practice management software (DPMS), advanced picture-archiving and communications systems (PACS), and healthcare information solutions (HCIS). Products of the Health Group segment also include traditional analog medical and dental films, chemicals, and processing equipment and related services. The Company's history in traditional analog imaging has made it a worldwide leader in this area and has served as the foundation for building its important digital imaging business. The Health Group segment serves the general radiology market and specialty health markets, including dental, mammography, orthopedics and oncology. The segment also provides molecular imaging for the biotechnology research market.

**All Other:** All Other is composed of the Company's display business, business development and other small, miscellaneous businesses. The development initiatives in consumer inkjet technologies continue to be reported in All Other through the end of 2006.

Transactions between segments, which are immaterial, are made on a basis intended to reflect the market value of the products, recognizing prevailing market prices and distributor discounts. Differences between the reportable segments' operating results and assets and the Company's consolidated financial statements relate primarily to items held at the corporate level, and to other items excluded from segment operating measurements.

No single customer represented 10% or more of the Company's total net sales in any period presented.

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PAGE 143

Effective January 1, 2006, the Company changed its cost allocation methodologies related to distribution costs, indirect selling, general and administrative expenses, and corporate research and development costs.

The changes in cost allocation methodologies referred to above increased (decreased) segment earnings (losses) from continuing operations before interest, other income (charges), net and income taxes for the years ended December 31, 2005 and 2004 as follows:

Year Ended December 31,
----------------------------

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(in millions)	2005	2004
	)	)
Consumer Digital Imaging Group	\$ (15	\$ (133
Film and Photofinishing Systems Group	93	220
	)	)
Graphic Communications Group	(41	(51
Health Group	21	34
	)	)
All Other	(58	(70
Consolidated impact	<u>\$ —</u>	<u>\$ —</u>

Further, as described in Note 3, "Inventories, Net," on January 1, 2006, the Company elected to change its method of costing its U.S. inventories from the LIFO method to the average cost method. This change increased cost of goods sold for the years ended December 31, 2005 and 2004 for each of the segments as follows:

(in millions)	Year Ended December 31,	
	2005	2004
Consumer Digital Imaging Group	\$ 14	\$ 3
Film and Photofinishing Systems Group	12	12
Graphic Communications Group	1	1
Health Group	5	2
All Other	1	1
Consolidated impact	<u>\$ 33</u>	<u>\$ 19</u>

Prior period results have been adjusted to reflect the changes in segment reporting structure, the changes in cost allocation methodologies outlined above, and the change in inventory costing method.

PAGE 144

Segment financial information is shown below. Prior period results have been restated to conform to the current period segment reporting structure.

(in millions)	2006	2005	2004
Net sales from continuing operations:			
	\$	\$	\$
Consumer Digital Imaging Group	2,920	3,215	2,366
Film and Photofinishing Systems Group	4,156	5,325	7,051
Graphic Communications Group	3,632	2,990	1,344
Health Group	2,497	2,655	2,686
All Other	69	83	70
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Consolidated total	<u>13,274</u>	<u>14,268</u>	<u>13,517</u>
Earnings (losses) from continuing operations before interest, other income (charges), net, and income taxes:			
	\$	\$	)
Consumer Digital Imaging Group	1	(131	\$ (189
Film and Photofinishing Systems Group	358	540	854
		)	)
Graphic Communications Group	141	(41	(91
Health Group	278	370	484
	)	)	)
All Other	(214	(231	(257
Total of segments	564	507	801
	)	)	)
Restructuring costs and other	(768	(1,118	(901
		)	)

Adjustments to legal reserves/(settlements)	2	(21)	(6)
	)	)	)
Interest expense	(262)	(211)	(168)
Other income (charges), net	118	44	161
Consolidated loss from continuing operations			
	\$ )	)	)
before income taxes	<u>(346)</u>	<u>\$ (799)</u>	<u>\$ (113)</u>
Segment total assets:			
	\$		
Consumer Digital Imaging Group	2,076	\$ 1,964	\$ 1,750
Film and Photofinishing Systems Group	4,374	5,346	6,859
Graphic Communications Group	3,406	3,416	1,594
Health Group	2,266	2,331	2,548
All Other	119	123	90
Total of segments	<u>12,241</u>	<u>13,180</u>	<u>12,841</u>
Cash and marketable securities	1,487	1,680	1,258
Deferred income tax assets	750	550	944
Assets of discontinued operations	—	—	30
	)	)	)
Other corporate reserves	(158)	(174)	(139)
	\$		\$
Consolidated total assets	<u>14,320</u>	<u>\$ 15,236</u>	<u>14,934</u>

PAGE 145

(in millions)	2006	2005	2004
Intangible asset amortization expense from continuing operations:			
	\$	\$	\$
Consumer Digital Imaging Group	6	6	4
Film and Photofinishing Systems Group	32	31	23
Graphic Communications Group	81	62	16
Health Group	26	25	24
All Other	1	1	—
	\$	\$	\$
Consolidated total	<u>146</u>	<u>125</u>	<u>67</u>
Depreciation expense from continuing operations:			
	\$		\$
Consumer Digital Imaging Group	82	\$ 77	50
Film and Photofinishing Systems Group	461	524	524
Graphic Communications Group	177	151	74
Health Group	160	120	121
All Other	20	18	12
Sub-total	<u>900</u>	<u>890</u>	<u>781</u>
Restructuring-related depreciation	285	391	183
	\$		\$
Consolidated total	<u>1,185</u>	<u>\$ 1,281</u>	<u>964</u>
Capital additions from continuing operations:			



	\$		\$
Consumer Digital Imaging Group	80	\$ 73	45
Film and Photofinishing Systems Group	51	177	262
Graphic Communications Group	141	122	50
Health Group	56	58	75
All Other	51	42	28
	\$		\$
Consolidated total	379	\$ 472	460

Net sales to external customers attributed to (1):

	\$		\$
The United States	5,634	\$ 6,156	5,756
	\$		\$
Europe, Middle East and Africa	3,995	\$ 4,148	3,926
Asia Pacific	2,333	2,554	2,482
Canada and Latin America	1,312	1,410	1,353
	\$		\$
Foreign countries total	7,640	\$ 8,112	7,761
	\$		\$
Consolidated total	13,274	\$ 14,268	13,517

(1) Sales are reported in the geographic area in which they originate.

PAGE 146

(in millions)	2006	2005	2004
Property, plant and equipment, net located in:			
	\$	\$	\$
The United States	1,730	2,343	2,838
	\$	\$	\$
Europe, Middle East and Africa	382	564	641
Asia Pacific	575	685	822
Canada and Latin America	155	186	211
	\$	\$	\$
Foreign countries total	1,112	1,435	1,674
	\$	\$	\$
Consolidated total	2,842	3,778	4,512

### New Kodak Operating Model and Change in Reporting Structure

In December 2006, the Company announced that effective January 1, 2007 the Film and Photofinishing Systems Group would be called the Film Products Group, and that certain SPG's previously included in FPG would become part of CDG. Also effective January 1, 2007, consumer inkjet systems, formerly reported in All Other would become part of CDG. 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, 2007. The most significant change, the transfer of photographic paper and photofinishing services to CDG from FPG, reflects the increasing manner in which images captured or generated by CDG products and services are printed and shared. CDG will be the Company's primary point of contact for the digital picture-taking consumer, providing a full range of products and services for capturing, storing, printing and sharing images. Additionally, the new structure will concentrate FPG's portfolio exclusively on film-related and entertainment imaging businesses. The following indicates the changes from the old reporting structure to the new reporting structure that will be implemented beginning in the first quarter of 2007:

**Consumer Digital Imaging Group Segment (CDG):** This segment will include photographic paper and photofinishing services, formerly part of FPG, and consumer inkjet systems, formerly part of All Other.

**Film Products Group Segment (FPG):** The Film Products Group segment will no longer include photographic paper and photofinishing services, since they will become part of CDG. Additionally, the non-destructive testing business, formerly included in the FPG segment, will be



included in the Health Group segment.

**Graphic Communications Group Segment (GCG):** There are no changes to the composition of the GCG segment from 2006. However, as the GCG segment completes its integration process and further aligns the discrete businesses, starting in the first quarter of 2007, the GCG segment results will be reported using its new organizational structure, as described in Item 7, “Management’s Discussion and Analysis of Financial Condition and Report of Operations.”

**Health Group Segment (KHG):** The Company announced on January 10, 2007 that it has reached an agreement to sell the Health Group to Onex Corporation for as much as \$2.55 billion. The transaction is expected to close in the first half of 2007. As a result, the results of operations and assets, net of liabilities, to be sold, inclusive of the non-destructive testing business formerly included in FPG, will be reported as a discontinued operation beginning in the first quarter of 2007.

**All Other:** In February 2007, the Company announced its entry into the consumer inkjet business. Beginning with the first quarter of 2007, the results of the consumer inkjet business, formerly included in All Other, will be reported within the CDG segment. There are no other changes to the composition of All Other.

PAGE 147

## NOTE 24: QUARTERLY SALES AND EARNINGS DATA - UNAUDITED

(in millions, except per share data)	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
<b>2006</b>				
	\$	\$	\$	\$
Net sales from continuing operations	3,821	3,204	3,360	2,889
Gross profit from continuing operations	1,007	874	809	678
	(4)			
Earnings (loss) from continuing operations	17	(37)(3)	(282)(2)	(298)(1)
Loss from discontinued operations (10)	(1)	—	—	—
Net earnings (loss)	16	(37)	(282)	(298)
Basic and diluted net earnings (loss) per share (11)				
Continuing operations	.06	(.13)	(.98)	(1.04)
Discontinued operations	—	—	—	—
Cumulative effect of accounting change, net	—	—	—	—
Total	.06	(.13)	(.98)	(1.04)
<b>2005</b>				
	\$	\$	\$	\$
Net sales from continuing operations	4,197	3,553	3,686	2,832
Gross profit from continuing operations (5)	967	922	1,038	691
Loss from continuing operations	(137)(9)	(915)(8)	(155)(7)	(147)(6)
Earnings from discontinued operations (10)	148	1	—	1
Cumulative effect of accounting change (12)	(57)	—	—	—
Net loss	(46)	(914)	(155)	(146)
Basic and diluted net (loss) earnings per share (11)				
Continuing operations	(.48)	(3.19)	(.54)	(.51)
Discontinued operations	.52	.01	—	—
Cumulative effect of accounting change, net	(.20)	—	—	—
Total	(.16)	(3.18)	(.54)	(.51)

- (1) Includes \$228 million (\$83 million included in cost of goods sold and \$145 million included in restructuring costs and other) of restructuring charges, which increased net loss by \$197 million; and \$4 million of asset impairment charges, which increased net loss by \$3 million.
- (2) Includes \$246 million (\$77 million included in cost of goods sold and \$169 million included in restructuring costs and other) of restructuring charges, which increased net loss by \$214 million; \$4 million (included in SG&A) related to charges for an unfavorable legal settlement, which increased net loss by \$4 million; and \$9 million of asset impairment charges, which increased net loss by \$9 million.
- (3) Includes \$212 million (\$75 million included in cost of goods sold and \$137 million included in restructuring costs and other) of restructuring charges, which increased net loss by \$202 million; a gain of \$43 million related to property and asset sales, which reduced net

loss by \$33 million; and a \$2 million gain related to the reversal of certain asset impairment charges previously recorded in the second quarter, which reduced net loss by \$2 million.

- (4) Includes \$82 million (\$62 million included in cost of goods sold and \$20 million included in restructuring costs and other) of restructuring charges, which decreased net earnings by \$105 million; a \$3 million gain on the sale of assets, which decreased net earnings by \$1 million; and a \$6 million gain related to the reduction of legal reserves, which increased net earnings by \$6 million. Also included is a valuation allowance of \$90 million recorded against the Company's net deferred tax assets in certain jurisdictions outside the U.S., portions of which are reflected in the aforementioned restructuring amount.
- (5) Gross profit amounts for 2005 have been adjusted to reflect the change in the inventory costing method from LIFO to average cost. See Note 3, "Inventories, Net" for further information.
- (6) Includes \$206 million (\$91 million included in cost of goods sold and \$115 million included in restructuring costs and other) of restructuring charges, which increased net loss by \$149 million.
- (7) Includes \$339 million (\$86 million included in cost of goods sold and \$253 million included in restructuring costs and other) of restructuring charges, which reduced net earnings by \$240 million; \$64 million of purchased R&D, which increased net loss by \$39 million; \$19 million of strategic asset impairment charges related to Lucky Film, which increased net loss by \$19 million; and a \$13 million gain on the sale of properties, which reduced net loss by \$11 million.

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PAGE 148

- (8) Includes \$278 million (\$115 million included in cost of goods sold and \$163 million included in restructuring costs and other) of restructuring charges, as well as the reversal of tax benefits recognized earlier in the year resulting from the valuation allowance on deferred tax assets in the U.S. established in the third quarter, which increased net loss by \$363 million; \$12 million of credits related to purchased R&D recorded in the second quarter, which reduced net loss by \$2 million; \$21 million of asset impairment charges, which increased net loss by \$12 million; and a gain of \$28 million related to a sale of property in the UK, which reduced net loss by \$28 million. Also included is a valuation allowance of \$778 million recorded against the Company's net deferred tax assets in the U.S., portions of which are reflected in the aforementioned restructuring amount.
- (9) Includes \$295 million (\$136 million included in cost of goods sold and \$159 million included in restructuring costs and other) of restructuring charges, which increased net loss by \$268 million; \$4 million of asset impairment charges, which increased net loss by \$4 million; and \$21 million (included in SG&A) related to charges for unfavorable legal settlements, which increased net loss by \$21 million. Also included is a valuation allowance of \$183 million recorded against the Company's net deferred tax assets in the U.S., portions of which are reflected in the aforementioned restructuring amount.
- (10) Refer to Note 22, "Discontinued Operations" for a discussion regarding earnings (loss) from discontinued operations.
- (11) Each quarter is calculated as a discrete period and the sum of the four quarters may not equal the full year amount. The Company's diluted net (loss) earnings per share in the above table includes the effect of contingent convertible debt instruments, which had no material impact on the Company's diluted earnings per share.
- (12) Refer to Note 1, "Significant Accounting Policies" for a discussion regarding a change in accounting principle relating to the adoption of FIN 47 during the fourth quarter of 2005.

#### **Changes in Estimates Recorded During the Fourth Quarter December 31, 2006**

During the fourth quarter ended December 31, 2006, the Company recorded a charge of approximately \$17 million, net of tax, related to changes in estimate with respect to certain of its employee benefit and compensation accruals. These changes in estimates negatively impacted the results for the fourth quarter by \$.06 per share.

#### **Changes in Estimates Recorded During the Fourth Quarter December 31, 2005**

During the fourth quarter ended December 31, 2005, the Company recorded a charge of approximately \$25 million, net of tax, related to changes in estimate with respect to certain of its employee benefit and compensation accruals. These changes in estimates negatively impacted the results for the fourth quarter by \$.09 per share.

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PAGE 149

#### **NOTE 25: SUBSEQUENT EVENT - PENDING SALE OF THE COMPANY'S HEALTH GROUP**

On January 8, 2007, the Company's Board of Directors authorized management to enter into a definitive agreement to sell all of the assets and business operations of the Health Group to Onex Healthcare Holdings, Inc. ("Onex"), a subsidiary of Onex Corporation, for up to \$2.55 billion. This definitive agreement was signed on January 9, 2007. The price is composed of \$2.35 billion in cash at closing and \$200 million in additional future payments if Onex achieves certain returns with respect to its investment. If Onex investors realize an internal rate of return in excess of 25% on their investment, the Company will receive payment equal to 25% of the excess return, up to \$200 million.

About 8,100 employees of the Company associated with the Health Group will transition to Onex as part of the transaction. Also included in the sale are manufacturing operations focused on the production of health imaging products, as well as an office building in Rochester, NY. The sale is expected to close in the first half of 2007.

The following table summarizes the major classes of assets and liabilities to be sold as of December 31, 2006 (in millions):

	\$	
Receivables, net		598
Inventories, net		201
Other current assets		13
Total current assets		812
Property, plant and equipment, net		268
Goodwill		596
Other long-term assets		217
	\$	
Total assets		1,893
	\$	
Accounts payable and other current liabilities		483
Total current liabilities		483
Pension and other postretirement liabilities		30
Other long-term liabilities		14
	\$	
Total liabilities		527

These assets and liabilities are classified as held and used in the Company's Consolidated Statements of Financial Position. The Company will reflect the operations associated with this transaction as discontinued operations beginning in the first quarter of 2007 and will report the assets and liabilities as held for sale.

PAGE 150

## Eastman Kodak Company

### SUMMARY OF OPERATING DATA (in millions, except per share data, shareholders, and employees)

	2006	2005	2004	2003	2002
	\$	\$	\$	\$	\$
Net sales from continuing operations	13,274	14,268	13,517	12,909	12,549
(Loss) earnings from continuing operations before interest, other income (charges), net, and income taxes	(202)	(632)	(106)	260	1,111
(Loss) earnings from:					
			(3)	(4)	(5)
Continuing operations	(600)(1)	(1,354)(2)	69	163	726
Discontinued operations	(1)	150(6)	(6)475	(6)64	9
Cumulative effect of accounting change	—	(57)	—	—	—
<b>NET (LOSS) EARNINGS</b>	<b>(601)</b>	<b>(1,261)</b>	<b>544</b>	<b>227</b>	<b>735</b>

### EARNINGS AND DIVIDENDS

(Loss) earnings from continuing operations			%	%	%
- % of net sales from continuing operations	(4.5)%	(9.5)%	0.5	1.3	5.8

Net (loss) earnings					
			%	%	%
- % return on average shareholders' equity	(32.8)%	(39.9)%	14.5	7.0	23.7
Basic and diluted (loss) earnings per share:					
Continuing operations	(2.09)	(4.70)	.24	.57	2.49
Discontinued operations	—	.52	1.66	.22	.03
Cumulative effect of accounting change	—	(.20)	—	—	—
Total	(2.09)	(4.38)	1.90	.79	2.52
Cash dividends declared and paid					
- on common shares	144	144	143	330	525
- per common share	.50	.50	.50	1.15	1.80
Common shares outstanding at year end	287.3	287.2	286.7	286.6	285.9
Shareholders at year end	63,193	75,619	80,426	85,712	89,988

#### STATEMENT OF FINANCIAL POSITION DATA

Working capital	586	607	872	423	(716)
Property, plant and equipment, net	2,842	3,778	4,512	5,051	5,378
Total assets	14,320	15,236	15,084	15,213	13,903
Short-term borrowings and current portion of long-term debt	64	819	469	946	1,442
Long-term debt, net of current portion	2,714	2,764	1,852	2,302	1,164
Total shareholders' equity	1,388	2,282	4,034	3,471	3,029

#### SUPPLEMENTAL INFORMATION (all amounts are from continuing operations)

Net sales from continuing operations					
	\$	\$	\$	\$	\$
- CDG	2,920	3,215	2,366	1,516	949
- FPG	4,156	5,325	7,051	7,941	8,242
- Graphic Communications Group	3,632	2,990	1,344	967	724
- Health Group	2,497	2,655	2,686	2,431	2,274
- All Other	69	83	70	54	360
Research and development costs	710	892	836	760	757
Depreciation	1,185	1,281	964	839	813
Taxes (excludes payroll, sales and excise taxes)	327	798	(100)	4	268
Wages, salaries and employee benefits	3,097	3,941	4,188	3,960	3,906
Employees at yearend					
- in the U.S.	20,600	25,500	29,200	33,800	37,900
- worldwide	40,900	51,100	54,800	62,300	68,900

(see footnotes on next page)

PAGE 151

#### SUMMARY OF OPERATING DATA

##### Eastman Kodak Company

(footnotes for previous page)

- (1) Includes \$768 million of restructuring charges, net of reversals; \$2 million of income related to legal settlements; \$46 million of income related to property and asset sales; and \$11 million of charges related to asset impairments. These items increased net loss by \$692 million. Also included is a valuation allowance of \$90 million recorded against the Company's net deferred assets in certain jurisdictions outside the U.S., portions of which are reflected in the aforementioned net loss impact.
- (2) Includes \$1,118 million of restructuring charges; \$52 million of purchased R&D; \$44 million for charges related to asset impairments; \$41 million of income related to the gain on the sale of properties in connection with restructuring actions; \$21 million for unfavorable legal settlements and a \$6 million tax charge related to a change in estimate with respect to a tax benefit recorded in connection with a land donation in a prior period. These items increased net loss by \$1,080 million. Also included is a valuation allowance of \$961 million recorded against the Company's net deferred tax assets in the U.S., portions of which are reflected in the aforementioned net loss impact.

- (3) Includes \$889 million of restructuring charges; \$16 million of purchased R&D; \$12 million for a charge related to asset impairments and other asset write-offs; and a \$6 million charge for a legal settlement. Also includes the benefit of two legal settlements of \$101 million. These items reduced net earnings by \$609 million.
- (4) Includes \$552 million of restructuring charges; \$31 million of purchased R&D; \$7 million for a charge related to asset impairments and other asset write-offs; a \$12 million charge related to an intellectual property settlement; \$14 million for a charge connected with the settlement of a patent infringement claim; \$14 million for a charge connected with a prior-year acquisition; \$9 million for a charge to write down certain assets held for sale following the acquisition of the Burrell Companies; \$8 million for a donation to a technology enterprise; an \$8 million charge for legal settlements; a \$9 million reversal for an environmental reserve; and a \$13 million tax benefit related to patent donations. These items reduced net earnings by \$441 million.
- (5) Includes \$143 million of restructuring charges; \$29 million reversal of restructuring charges; \$50 million for a charge related to asset impairments and other asset write-offs; and a \$121 million tax benefit relating to the closure of the Company's PictureVision subsidiary, the consolidation of the Company's photofinishing operations in Japan, asset write-offs and a change in the corporate tax rate. These items improved net earnings by \$7 million.
- (6) Refer to Note 22, "Discontinued Operations" for a discussion regarding the earnings from discontinued operations.

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PAGE 152

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports filed and submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company's management, with participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the fiscal year covered by this Annual Report on Form 10-K. The Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Annual Report on Form 10-K, the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective.

### **Management's Report on Internal Control Over Financial Reporting**

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

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment or breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override.

Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this

assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in “Internal Control-Integrated Framework.”

Based on management’s assessment using the COSO criteria, and in consideration of the results of the Company’s remediation efforts with respect to internal controls surrounding the deferred income tax valuation allowance account as discussed within *Changes in Internal Control over Financial Reporting* below, management has concluded that the Company’s internal control over financial reporting was effective as of December 31, 2006.

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PAGE 153

Management’s assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, as stated in their report which appears on page 74 of this Form 10-K under the heading, *Report of Independent Registered Public Accounting Firm* .

### **Changes in Internal Control over Financial Reporting**

As disclosed in the Company’s 2005 Annual Report on Form 10-K, and in its Quarterly Reports on Form 10-Q for each of the first three quarters of 2006, the Company reported a material weakness in its internal control over financial reporting related to the completeness and accuracy of the Company’s deferred income tax valuation allowance account. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

As of December 31, 2006, the Company has remediated the previously reported material weakness in its internal control over financial reporting related to the completeness and accuracy of the Company’s deferred income tax valuation allowance account. The following remedial actions have been undertaken:

- With the help of external advisors (other than the Company’s independent registered public accounting firm), standard controls were enhanced for evaluating world-wide positions with respect to valuation allowances, including quarterly tax packages with standardized documentation to identify and quantify potential issues;
- Organizational structure changes were made to enhance efficiencies, effectiveness and accountability by aligning the global tax enterprise structure with the tax processes and controls. Specifically, the Company identified and established key tax positions to ensure tax processes and key controls are monitored and sustainable over time;
- The Company provided training and education efforts in tax areas, including the deferred income tax valuation allowance account.

In the third and fourth quarters of 2006, the Company has undertaken and completed, as appropriate, its testing to validate compliance with the enhanced policies, procedures and controls. The Company has undertaken this testing over these two quarters so as to be able to demonstrate operating effectiveness over a period of time that is sufficient to support its conclusion. In reviewing the results from this testing, management has concluded that the internal controls related to the completeness and accuracy of the Company’s deferred income tax valuation allowance account have been significantly improved and that the above referenced material weakness in internal controls has been remediated as of December 31, 2006.

### **ITEM 9B. OTHER INFORMATION**

None.

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PAGE 154

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by Item 10 regarding directors is incorporated by reference from the information under the caption “Board Structure and Corporate Governance - Board of Directors” in the Company’s Notice of 2007 Annual Meeting and Proxy Statement (the Proxy Statement), which will be filed within 120 days after December 31, 2006. The information required by Item 10 regarding audit committee financial expert disclosure is incorporated by reference from the information under the caption “Board Structure and Corporate Governance - Audit Committee Financial Qualifications” in the Proxy Statement. The information required by Item 10 regarding executive officers is contained in Part I under the caption “Executive Officers of the Registrant” on page 20. The information required by Item 10 regarding the Company’s written code of ethics is incorporated by reference from the information under the captions “Board Structure and Corporate Governance - Corporate Governance

Guidelines” and “Board Structure and Corporate Governance - Business Conduct Guide and Directors’ Code of Conduct” in the Proxy Statement. The information required by Item 10 regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from the information under the caption “Reporting Compliance - Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement.

## ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from the information under the following captions in the Proxy Statement: “Board Structure and Corporate Governance” and “Compensation Discussion and Analysis.”

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Most of the information required by Item 12 is incorporated by reference from the information under the captions “Beneficial Ownership” in the Proxy Statement. “Stock Options and SARs Outstanding under Shareholder and Non-Shareholder Approved Plans” is shown below:

PAGE 155

### STOCK OPTIONS AND SARs OUTSTANDING UNDER SHAREHOLDER- AND NON-SHAREHOLDER-APPROVED PLANS

As required by Item 201(d) of Regulation S-K, the Company’s total options outstanding of 35,050,758, including total SARs outstanding of 440,008, have been granted under equity compensation plans that have been approved by security holders and that have not been approved by security holders as follows:

Plan Category	Number of Securities to be issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders (1)	25,173,255	\$41.54	11,659,741
Equity compensation plans not approved by security holders (2)	9,877,503	55.86	0
Total	35,050,758	\$45.58	11,659,741

- (1) The Company’s equity compensation plans approved by security holders include the 2005 Omnibus Long-Term Compensation Plan, the 2000 Omnibus Long-Term Compensation Plan, the Eastman Kodak Company 1995 Omnibus Long-Term Compensation Plan, the Eastman Kodak Company 1990 Omnibus Long-Term Compensation Plan and the Wage Dividend Plan.
- (2) The Company’s equity compensation plans not approved by security holders include the Eastman Kodak Company 1997 Stock Option Plan and the Kodak Stock Option Plan. The 1997 Stock Option Plan, a plan formerly maintained by the Company for the purpose of attracting and retaining senior executive officers, became effective on February 13, 1997, and expired on December 31, 2003. The Compensation Committee administered the Plan and continues to administer those Plan awards that remain outstanding. The Plan permitted awards to be granted in the form of stock options, shares of common stock and restricted shares of common stock. The maximum number of shares that were available for grant under the Plan was 3,380,000. The Plan required all stock option awards to be non-qualified, have an exercise price not less than 100% of fair market value of the Company’s stock on the date of the option’s grant and expire on the tenth anniversary of the date of grant. Awards issued in the form of shares of common stock or restricted shares of common stock were subject to such terms, conditions and restrictions as the Compensation Committee deemed appropriate.

The Kodak Stock Option Plan, an “all employee stock option plan” which the Company formerly maintained, became effective on March 13, 1998, and terminated on March 12, 2003. The Plan was used in 1998 to grant an award of 100 non-qualified stock options or, in those countries where the grant of stock options was not possible, 100 freestanding stock appreciation rights, to almost all full-time and part-time employees of the Company and many of its domestic and foreign subsidiaries. In March of 2000, the Company made essentially an identical grant under the Plan to generally the same category of employees. The Compensation Committee administered the Plan and continues to administer those Plan awards that remain outstanding. A total of 16,600,000 shares were available for grant under the Plan. All awards granted under the Plan generally contained the following features: 1) a grant price equal to the fair market value of the Company’s

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by Item 13 is incorporated by reference from the information under the captions “Compensation Discussion and Analysis - Employment Contracts and Arrangements” and “Board Structure and Corporate Governance - Board Independence” in the Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by Item 14 regarding principal auditor fees and services is incorporated by reference from the information under the caption “Committee Reports - Report of the Audit Committee” in the Proxy Statement.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

	<u>Page No.</u>
(a) 1. Consolidated financial statements:	
Report of independent registered public accounting firm	74
Consolidated statement of operations	76
Consolidated statement of financial position	77
Consolidated statement of shareholders' equity	78-80
Consolidated statement of cash flows	81-82
Notes to financial statements	83-149
2. Financial statement schedules:	
II - Valuation and qualifying accounts	158
All other schedules have been omitted because they are not applicable or the information required is shown in the financial statements or notes thereto.	
3. Additional data required to be furnished:	
Exhibits required as part of this report are listed in the index appearing on pages 159 through 165.	

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**EASTMAN KODAK COMPANY**  
(Registrant)

By:

/s/ Antonio M. Perez

By:

/s/ Frank S. Sklarsky



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Antonio M. Perez  
Chairman & Chief Executive Officer

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Frank S. Sklarsky  
Chief Financial Officer, and  
Executive Vice President

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/s/ Diane E. Wilfong

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Diane E. Wilfong  
Chief Accounting Officer, and  
Corporate Controller

Date: March 1, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

/s/ Richard S. Braddock

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Richard S. Braddock, Director

/s/ Debra L. Lee

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Debra L. Lee, Director

/s/ Martha Layne Collins

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Martha Layne Collins, Director

/s/ Delano E. Lewis

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Delano E. Lewis, Director

/s/ Timothy M. Donahue

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Timothy M. Donahue, Director

/s/ Antonio M. Perez

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Antonio M. Perez, Director

/s/ Michael Hawley

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Michael Hawley, Director

/s/ Hector de J. Ruiz

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Hector de J. Ruiz, Director

/s/ William H. Hernandez

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William H. Hernandez, Director

/s/ Laura D'Andrea Tyson

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Laura D'Andrea Tyson

/s/ Durk I. Jager

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Durk I. Jager, Director

Date: March 1, 2007

	Balance at Beginning of Period	Charges to Earnings and Equity	Amounts Written Off	Balance at End of Period
<b>Year ended December 31, 2006</b>				
<b>Deducted in the Statement of Financial Position:</b>				
From Current Receivables:				
	\$	\$	\$	\$
Reserve for doubtful accounts	124	56	64	116
Reserve for loss on returns and allowances	38	26	23	41
	\$	\$	\$	\$
TOTAL	162	82	87	157
From Long-Term Receivables and Other Noncurrent Assets:				
	\$	\$	\$	\$
Reserve for doubtful accounts	9	(1)	—	8
From Deferred Tax Assets:				
	\$	\$	\$	\$
Valuation Allowance	1,328	675	149	1,854
<b>Year ended December 31, 2005</b>				
<b>Deducted in the Statement of Financial Position:</b>				
From Current Receivables:				
	\$	\$	\$	\$
Reserve for doubtful accounts	92	108	76	124
Reserve for loss on returns and allowances	35	28	25	38
	\$	\$	\$	\$
TOTAL	127	136	101	162
From Long-Term Receivables and Other Noncurrent Assets:				
	\$	\$	\$	\$
Reserve for doubtful accounts	19	7	17	9
From Deferred Tax Assets:				
	\$	\$	\$	\$
Valuation allowance	284	1,190	146	1,328
<b>Year ended December 31, 2004</b>				
<b>Deducted in the Statement of Financial Position:</b>				
From Current Receivables:				
	\$	\$	\$	\$
Reserve for doubtful accounts	76	50	34	92
Reserve for loss on returns and allowances	36	16	17	35
	\$	\$	\$	\$
TOTAL	112	66	51	127
From Long-Term Receivables and Other Noncurrent Assets:				
	\$	\$	\$	\$
Reserve for doubtful accounts	16	8	5	19
From Deferred Tax Assets:				
	\$	\$	\$	\$
Valuation Allowance	287	75	78	284

- (3) A. Certificate of Incorporation, as amended and restated May 11, 2005.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005, Exhibit 3.)
- B. By-laws, as amended and restated May 11, 2005.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005, Exhibit 3.)
- (4) A. Indenture dated as of January 1, 1988 between Eastman Kodak Company and The Bank of New York as Trustee.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 25, 1988, Exhibit 4.)
- B. First Supplemental Indenture dated as of September 6, 1991 and Second Supplemental Indenture dated as of September 20, 1991, each between Eastman Kodak Company and The Bank of New York as Trustee, supplementing the Indenture described in A.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1991, Exhibit 4.)
- C. Third Supplemental Indenture dated as of January 26, 1993, between Eastman Kodak Company and The Bank of New York as Trustee, supplementing the Indenture described in A.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1992, Exhibit 4.)
- D. Fourth Supplemental Indenture dated as of March 1, 1993, between Eastman Kodak Company and The Bank of New York as Trustee, supplementing the Indenture described in A.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1993, Exhibit 4.)
- H. Form of the 7.25% Senior Notes due 2013.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K for the date October 10, 2003 as filed on October 10, 2003, Exhibit 4.)
- I. Resolutions of the Committee of the Board of Directors of Eastman Kodak Company, adopted on October 7, 2003, establishing the terms of the Securities.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K for the date October 10, 2003 as filed on October 10, 2003, Exhibit 4.)
- J. Fifth Supplemental Indenture, dated October 10, 2003, between Eastman Kodak Company and The Bank of New York, as Trustee.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K for the date October 10, 2003 as filed on October 10, 2003, Exhibit 4.)

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PAGE 160

**Eastman Kodak Company**  
**Index to Exhibits (continued)**

**Exhibit  
Number**

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- K. Secured Credit Agreement, dated as of October 18, 2005, among Eastman Kodak Company and Kodak Graphic Communications Canada Company, the banks named therein, Citigroup Global Markets Inc., as lead arranger and bookrunner, Lloyds TSB Bank PLC, as syndication agent, Credit Suisse, Cayman Islands Branch, Bank of America, N. A. and The CIT Group/Business Credit, Inc., as co-documentation agents, and Citicorp USA, Inc., as agent for the lenders.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K, filed on October 24, 2005, Exhibit 4.1.)
- L. Security Agreement, dated as of October 18, 2005, among Eastman Kodak Company, the subsidiary grantors identified therein and Citicorp USA, Inc., as agent, relating to the Secured Credit Agreement.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K, filed on October 24, 2005, Exhibit 4.2.)

- M. Canadian Security Agreement, dated as of October 18, 2005, among Kodak Graphic Communications Canada Company and Citicorp USA, Inc., as agent, relating to the Secured Credit Agreement.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K, filed on October 24, 2005, Exhibit 4.3.)

Eastman Kodak Company and certain subsidiaries are parties to instruments defining the rights of holders of long-term debt that was not registered under the Securities Act of 1933. Eastman Kodak Company has undertaken to furnish a copy of these instruments to the Securities and Exchange Commission upon request.

- (10) A. Philip J. Faraci Agreement dated November 3, 2004.
- B. Eastman Kodak Company Insurance Plan for Directors.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 29, 1985, Exhibit 10.)
- C. Eastman Kodak Company Deferred Compensation Plan for Directors, as amended February 11, 2000.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999, and the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1999, Exhibit 10.)
- D. Eastman Kodak Company Non-Employee Director Annual Compensation Plan, effective June 1, 2004.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, Exhibit 10.)
- E. 1982 Eastman Kodak Company Executive Deferred Compensation Plan, as amended effective December 9, 1999.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1996, and the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999, and the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1999, Exhibit 10.)

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PAGE 161

**Eastman Kodak Company  
Index to Exhibits (continued)**

**Exhibit  
Number**

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- F. Eastman Kodak Company 2005 Omnibus Long-Term Compensation Plan, effective January 1, 2005.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K, filed on May 11, 2005.)

Form of Notice of Award of Non-Qualified Stock Options pursuant to the 2005 Omnibus Long-Term Compensation Plan.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K, filed on May 11, 2005.)

Form of Notice of Award of Restricted Stock, pursuant to the 2005 Omnibus Long-Term Compensation Plan.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K, filed on May 11, 2005.)

Form of Notice of Award of Restricted Stock with a Deferral Feature, pursuant to the 2005 Omnibus Long-Term Compensation Plan.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005, Exhibit 10.)

Form of Administrative Guide for Annual Officer Stock Options Grant under the 2005 Omnibus Long-Term Compensation Plan.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005, Exhibit 10.)

Form of Award Notice for Annual Director Stock Option Grant under the 2005 Omnibus Long-Term Compensation Plan.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended

Form of Award Notice for Annual Director Restricted Stock Grant under the 2005 Omnibus Long-Term Compensation Plan. (Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005, Exhibit 10.)

- G. Frank S. Sklarsky Agreement dated September 19, 2006.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, Exhibit 10.1.)

Amendment, dated September 26, 2006, to Frank S. Sklarsky Agreement dated September 19, 2006.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, Exhibit 10.2.)

- H. Stock and Asset Purchase Agreement by and between Eastman Kodak Company and ITT Industries, Inc. dated February 8, 2004.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the period ended September 30, 2004, Exhibit 10.)

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PAGE 162

**Eastman Kodak Company  
Index to Exhibits (continued)**

**Exhibit  
Number**

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- I. Eastman Kodak Company 1995 Omnibus Long-Term Compensation Plan, as amended effective as of November 12, 2001.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1996, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998, the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998, the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998, the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999, the Annual Report on Form 10-K for the fiscal year ended December 31, 1999, and the Annual Report on Form 10-K for the fiscal year ended December 31, 2001, Exhibit 10.)
- J. Kodak Executive Financial Counseling Program.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1992, Exhibit 10.)
- K. Personal Umbrella Liability Insurance Coverage. Eastman Kodak Company provides \$5,000,000 personal umbrella liability insurance coverage to its directors and approximately 160 key executives. The coverage, which is insured through The Mayflower Insurance Company, Ltd., supplements participants' personal coverage. The Company pays the cost of this insurance. Income is imputed to participants.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1995, Exhibit 10.)
- L. Kodak Executive Health Management Plan, as amended effective January 1, 1995.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1995 and the Annual Report on Form 10-K for the fiscal year ended December 31, 2001, Exhibit 10.)
- M. James Langley Agreement dated August 12, 2003.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 2004, Exhibit 10.)
- N. Kodak Stock Option Plan, as amended and restated August 26, 2002.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Exhibit 10.)
- O. Eastman Kodak Company 1997 Stock Option Plan, as amended effective as of March 13, 2001 .  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1999 and the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001, Exhibit 10.)
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**Eastman Kodak Company  
Index to Exhibits (continued)**

**Exhibit  
Number**

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- P. Bernard Masson Agreement dated August 13, 2003.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 2004, Exhibit 10.)
- Amendment to Letter Agreement, effective May 5, 2005, between Eastman Kodak Company and Bernard Masson.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K, filed on May 6, 2005.)
- Letter Agreement, dated September 30, 2005, between Eastman Kodak Company and Bernard Masson.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K, filed on October 6, 2005.)
- Q. Eastman Kodak Company 2001 Short-Term Variable Pay to Named Executive Officers.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002, Exhibit 10.)
- R. Eastman Kodak Company 2000 Omnibus Long-Term Compensation Plan, as amended effective January 1, 2004.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999, the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999, the Annual Report on Form 10-K for the fiscal year ended December 31, 1999, the Annual Report on Form 10-K for the fiscal year ended December 31, 2001, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004, and the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004, Exhibit 10.)
- Form of Notice of Award of Non-Qualified Stock Options Granted To \_\_\_\_\_, Pursuant to the 2000 Omnibus Long-Term Compensation Plan; and Form of Notice of Award of Restricted Stock Granted To \_\_\_\_\_, Pursuant to the 2000 Omnibus Long-Term Compensation Plan.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 2004, Exhibit 10.)
- S. Eastman Kodak Company Executive Compensation for Excellence and Leadership Plan, amended and restated as of January 1, 2005.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K, filed on May 11, 2005, Exhibit 10.4.)
- Amendment effective January 1, 2006.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, Exhibit 10.)
- T. Eastman Kodak Company Executive Protection Plan, effective July 25, 2001.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K

**Eastman Kodak Company  
Index to Exhibits (continued)**

**Exhibit  
Number**

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- U. Eastman Kodak Company Estate Enhancement Plan, as adopted effective March 6, 2000.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1999, Exhibit 10.)
- V. Antonio M. Perez Agreement dated March 3, 2003.

(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003, Exhibit 10 Z.)

Letter dated May 10, 2005, from the Chair, Executive Compensation and Development Committee, to Antonio M. Perez.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K, filed on May 11, 2005, Exhibit 10 DD.).

Notice of Award of Restricted Stock with a Deferral Feature Granted to Antonio M. Perez, effective June 1, 2005, pursuant to the 2005 Omnibus Long-Term Compensation Plan.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005, Exhibit 10 CC.)

- W. Daniel A. Carp Agreement dated November 22, 1999.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1999, Exhibit 10.)

\$1,000,000 Promissory Note dated March 2, 2001.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 2000, Exhibit 10.)

Letter dated May 10, 2005, from the Chair, Executive Compensation and Development Committee, to Daniel A. Carp.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K, filed on May 11, 2005, Exhibit 10 F.)

- X. Robert H. Brust Agreement dated December 20, 1999.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1999, Exhibit 10.)

Amendment, dated February 8, 2001, to Agreement dated December 20, 1999.  
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001, Exhibit 10.)

Amendment, dated November 12, 2001, to Agreement dated December 20, 1999.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 2001, Exhibit 10.)

Amendment, dated October 2, 2003, to Agreement dated December 20, 1999.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 2003, Exhibit 10.)

Amendment, dated March 7, 2005, to Agreement dated December 20, 1999.  
(Incorporated by reference to the Eastman Kodak Company Current Report on Form 8-K, filed on March 10, 2005.)

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PAGE 165

**Eastman Kodak Company  
Index to Exhibits (continued)**

**Exhibit  
Number**

- Y. Redemption Agreement among Sun Chemical Corporation and Sun Chemical Group B.V. and Eastman Kodak Company and Kodak Graphics Holdings, Inc., dated as of January 11, 2005.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 2004, Exhibit 10.)
- Z. Arrangement Agreement among Eastman Kodak Company, 4284488 Canada Inc. and Creo Inc., dated January 30, 2005.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 2004, Exhibit 10.)
- AA1. Dan Meek Hire Agreement dated July 31, 1998.
- AA2. Dan Meek Retention Agreement dated June 25, 2001.
- AA3. Dan Meek Retention Agreement dated January 9, 2006.

AA4. Dan Meek Termination Agreement dated May 2, 2006.

BB. Mary Jane Hellyar Retention Agreement dated August 14, 2006.

(12) Statement Re Computation of Ratio of Earnings to Fixed Charges.

(18) Letter Re Change in Accounting Principles.

(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, Exhibit 18.)

(21) Subsidiaries of Eastman Kodak Company.

(23) Consent of Independent Registered Public Accounting Firm.

(31.1) Certification.

(31.2) Certification.

(32.1) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(32.2) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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July 31, 1998

Mr. Daniel Meek  
(address intentionally omitted)

Dear Dan:

We would like to extend you an offer to be reemployed by Eastman Kodak Company (Kodak) as Director, Worldwide Manufacturing Services Organization. This letter outlines the compensation and benefits arrangements of your offer of reemployment with Kodak.

### **1. Position**

Your position will be Director, Worldwide Manufacturing Services Organization, initially reporting directly to Dick Bourns in his capacity as Director, Worldwide Sensitized Goods Manufacturing.

Subject to approval by Kodak's Board of Directors, you will be appointed a corporate Vice President of Kodak upon the commencement of your reemployment. As I believe you are aware, we have already had discussions with the Board regarding your appointment.

You will be located in the Rochester, New York area.

### **2. Reemployment Date**

You will commence your reemployment with Kodak on or before August 31, 1998.

### **3. Base Salary**

Your base salary will be at the rate of \$233,000 per year.

### **4. Management Variable Compensation Plan**

You will be eligible to participate in Kodak's Management Variable Compensation Plan ("MVCP") with an annual target award of 50% of your base salary, making your total targeted annual compensation \$337,000. For 1998 plan year, you will be paid at least your targeted annual compensation pro-rated based on the number of months worked in 1998.

### **5. Signing Bonus-Cash Award**

Upon your reemployment by Kodak, we will pay you a gross cash hiring bonus of \$125,000. Payment of this amount will be made in two equal payments of \$62,500. The first payment will be paid within 30 days of your reemployment date. The second and final payment will be made after you have completed 6 continuous months of service with Kodak. Both payments will be made subject to withholding for all applicable income and payroll taxes. In no event will any of this bonus be "benefits bearing." In other words, the amount will not be taken into account or considered for any reasons for purposes of determining any company provided benefits or compensation to which you may become eligible, including by way of illustration and not by way of limitation, the wage dividend or any pension or other retirement benefit.

You agree to repay to Kodak the total amount of the gross cash signing bonus if within two years of your reemployment either (i) you voluntarily terminate your employment with Kodak; or (ii) Kodak terminates your employment for "Prohibited Conduct." Such amount will be due immediately upon either: (i) your notification to Kodak that you intend to terminate your employment; or (ii) Kodak's notification to you that your employment is being terminated for Prohibited Conduct. As used in this letter agreement, the term "Prohibited Conduct" means criminal conduct, an act of dishonesty, an act contrary to your duty of loyalty to Kodak, or a violation of the terms of Kodak's Business Conduct Guide or the Eastman Kodak Company Employees' Agreement.

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Mr. Daniel Meek  
July 31, 1998

### **6. Signing Bonus-Stock Option Award**

Upon your reemployment, Kodak will propose that the Executive Compensation and Development Committee of the Board (the "Compensation Committee") grant to you as a signing bonus, a one-time grant of 15,000 non-qualified stock options to acquire Eastman Kodak Company Common Stock (NQSOs). The NQSOs will be issued to you under the terms of the Eastman Kodak Company 1995 Omnibus Long-Term Compensation Plan (the "Omnibus Plan"). The NQSOs will vest 33 1/3% on each of the first three anniversaries of the date of grant. If your

employment terminates for any reason, other than a "Permitted Reason" as determined by the CEO in the exercise of his sole discretion, during the one year period following the date of grant, you will immediately forfeit all of the NQSOs. Thereafter, so long as the NQSOs remain unvested, they will be subject to forfeiture in the event of your termination of employment for any reason other than for death or for "Disability" or an "Approved Reason," as those terms are defined under the terms of the Omnibus Plan. The NQSOs will be granted for a term of 10 years and have an exercise price equal to the mean between the high and low at which Eastman Kodak Company Common Stock trades on the New York Stock Exchange on the later of the date the award is approved by the Compensation Committee or the date of your reemployment. Article 18 of the Omnibus Plan describes the treatment that is afforded to a participant's stock option awards in the event of a change in control.

## **7. Signing Bonus-Restricted Stock Award**

Upon your reemployment, Kodak will propose that the Compensation Committee grant to you as a signing bonus, a one-time grant under the Omnibus Plan of 3,500 shares of restricted Kodak Common Stock. Thirty-three 1/3 percent (33 1/3%) of such shares will vest upon the first anniversary of the date of their grant, thirty-three 1/3 percent (33 1/3%) of such shares will vest upon the second anniversary of the date of their grant and the balance (i.e., 33 1/3%) will vest on the third anniversary. If your employment terminates for any reason, other than a "Permitted Reason" as determined by the CEO in the exercise of his sole discretion, during the one year period following the date of grant, you will immediately forfeit all of the shares. Thereafter, so long as these share remain unvested, they will be subject to forfeiture in the event of your termination of employment for any reason other than for death or for "Disability" or an "Approved Reason," as those terms are defined under the terms of the Omnibus Plan.

## **8. Stock Option Program**

Beginning with the annual grant for 1999, you will be eligible to participate in our annual Stock Option Program under the Omnibus Plan. Grants are typically made in the spring of each year. In the annual grant for 1998, which was made on April 2, 1998, the target grant for an employee in your wage grade was 15,300 NQSOs. This number may be subject to change in the future. Furthermore, individual awards under the program are wholly within the discretion of the Compensation Committee, and, if made, are a function of a participant's attainment of established performance criteria which shall include business unit performance as well as individual performance. Article 18 of the Omnibus Plan describes the treatment that is afforded to a participant's stock option awards in the event of a change in control.

## **9. KRIP**

You will be eligible to participate in the Kodak Retirement Income Plan ("KRIP"), Kodak's pension plan, in accordance with the terms and conditions of such plan as they may be amended from time to time. KRIP is funded entirely by Kodak without any employee contributions. Your participation in KRIP is automatic and recommences on your first day of reemployment.

Since you have not received a distribution of your Accrued Benefit under KRIP, all of the Vesting Service, Total Service and Accrued Service credited to you prior to your termination of employment in 1990 will be restored upon your reemployment. Our records indicate that you presently have 17 years of Accrued Service and 16 years and 11 months of Total Service.

Kodak also maintains two unfunded supplemental retirement plans, the Kodak Excess Retirement Income Plan ("KERIP") and the Kodak Unfunded Retirement Income Plan ("KURIP"). KERIP is an excess benefit plan and is designed to provide retirement benefits payable out of Kodak's general assets where benefits cannot be paid under KRIP because of the provisions of Section 415 of the Internal Revenue Code of 1986, as amended (the "Code"). KURIP is designed to provide retirement benefits payable out of Kodak's general assets where benefits cannot be paid under KRIP because of the compensation limitations of Section 401(a)(17) of the Code and/or because deferred compensation is ignored in defining compensation for purposes of calculating benefits under KRIP. You will be eligible to participate in both KERIP and KURIP.

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Mr. Daniel Meek  
July 31, 1998

## **10. Pension Benefits**

- A. In General. Subject to the provisions of this Section 10, Kodak will enhance the retirement benefits you may become entitled to under the Kodak Retirement Income Plan ("KRIP"), the Kodak Unfunded Retirement Income Plan ("KURIP"), and the Kodak Excess Retirement Income Plan ("KERIP"). The purpose of this enhanced retirement benefit is to bridge the time period that you have not been employed by Kodak by providing you with service under KRIP for the approximately 8 year period commencing in May of 1990 and ending upon the date of your reemployment by Kodak. More specifically, assuming you satisfy the conditions of Section 10(B) below and subject to the offset provisions contained in Section 10(E) below, Kodak agrees to pay you the retirement income benefit you accrue under KRIP, KURIP and KERIP: (1) in accordance with the terms of KRIP, KURIP and KERIP as in effect on the date of this letter agreement; and (2) based on crediting you with an additional 8 years and 2 months of deemed service under each of these plans. This crediting of deemed service shall apply for purposes of establishing: (i) the total amount of "Accrued Service" used to calculate your KRIP, KURIP and KERIP retirement benefits; and (ii) your "Total Service" for purposes of determining the applicability of any early retirement reduction factor contained in KRIP, KURIP and KERIP.

- B. Continuous Employment. In order to receive the enhanced retirement benefit described above, you must remain continuously employed with Kodak during the 5 year period commencing on the date of your reemployment. Except as provided in Section 10(C) below, if your employment terminates for any reason, whether voluntarily or involuntarily, prior to the fifth anniversary of your employment with Kodak, you will not be entitled to receive any of the enhanced retirement benefits described above.
- C. Termination For Other Than Cause or Disability. Notwithstanding Section 10(B) above, if during the 5 year period commencing on the date of your reemployment, Kodak terminates your employment for other than "Cause" or "Disability," as those terms are defined in Section 12 below, you will be entitled to the total amount of deemed service as set forth in A above.
- D. Payment. The amount of the enhanced retirement benefit, if any, payable to you under this Section 10 will: (i) be paid in such form(s) as Kodak, in its discretion, determines; (ii) be paid out of Kodak's general assets, not under KRIP; (iii) not be funded in any manner; (iv) be included in your gross income as ordinary income, subject to all income and payroll tax withholding required to be made under all applicable laws; and (v) not be grossed up or be given any other special tax treatment by Kodak.
- E. Offset. The amount of the retirement income benefit, if any, provided to you under this Section 10 will be offset by the following:
- i. KRIP, KURIP and KERIP. The retirement income benefit payable to you under the terms of KRIP, KURIP and KERIP, and any successor plan(s) thereto; and
  - ii. Prior Employer Plan. Any other retirement benefit provided to you pursuant to the retirement plan or program of any employer, other than Kodak.
- For purposes of determining the amount of any offset under this Section 10, the amount of any retirement benefit payable to you under any plan shall be calculated pursuant to the same actuarial assumptions that are used to calculate your KRIP benefit and assuming the same frequency of payment, form of benefit and commencement date of payment as the benefits payable to you under KRIP.
- F. Employee Benefit Plan. To the extent the terms of this letter constitute an "employee benefit plan" under Section 3(3) of the Employee Retirement Income Security Act of 1974 ("ERISA"), the Senior Vice President, Eastman Kodak Company and Director, Human Resources shall be the plan administrator of the plan. The plan administrator shall have total and exclusive responsibility to control, operate, manage and administer the plan in accordance with its terms and all the authority that may be necessary or helpful to enable him/her to discharge his/her responsibilities with respect to the plan. Without limiting the generality of the preceding sentence, the plan administrator shall have the exclusive right to: interpret the plan, decide all questions concerning eligibility for and the amount of benefits payable under the plan, construe any ambiguous provision of the plan, correct any default, supply any omission, reconcile any inconsistency, and decide all questions arising in the administration, interpretation and application of the plan. The plan administrator shall have full discretionary authority in all matters related to the discharge of his/her responsibilities and the exercise of his/her authority under the plan, including, without limitation, his/her construction of the terms of the plan and his/her determination of eligibility for benefits under the plan. It is the intent of the plan, as well as both parties hereto, that the decisions of the plan administrator and his/her action with respect to the plan shall be final and binding upon all persons having or claiming to have any right or interest in or under the plan and that no such decision or actions shall be modified upon judicial review unless such decision or action is proven to be arbitrary or capricious.
- G. Definition. Any defined term used in this Section 10 or in Sections 9 and 11, other than those specifically defined therein, shall have the same meaning for purposes of this document as that ascribed to it under KRIP.

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Mr. Daniel Meek  
July 31, 1998

## **11. Survivor Benefits**

- A. Pre-Retirement Survivor Income Benefit
- i. In General. Kodak agrees to supplement your Pre-Retirement Survivor Income Benefit ("Pre-Retirement SIB") coverage under KRIP, KURIP and KERIP. The amount of your Pre-Retirement SIB coverage will be determined pursuant to Section 10.02(f) of KRIP, as in effect on the date of this letter; except your "Accrued Benefit" will be calculated by taking into account any deemed service credited to you under Section 10 of this letter.
  - ii. Offset. The benefit calculated under Section 11(A)(i) above will be offset by: (a) your Pre-Retirement SIB coverage under KRIP, KURIP and KERIP, and any successor plan(s) thereto; and (b) any pre-retirement survivor income benefit provided to you pursuant to the retirement plan or program of any employer, other than Kodak.
- B. Qualified Pre-Retirement Survivor Annuity

- i. In General. Kodak agrees to supplement your Qualified Pre-Retirement Survivor Annuity coverage under KRIP, KURIP and KERIP. The amount of your Qualified Pre-Retirement Survivor Annuity coverage will be determined pursuant to Section 10.02(h) of KRIP, as in effect upon the date of this letter; except, however, your "Accrued Benefit" will be calculated by taking into account any deemed service credited to you under Section 10 of this letter.
- ii. Offset. The benefit calculated under Section 11(B)(ii) above will be offset by: (a) your Qualified Pre-Retirement Survivor Annuity under KRIP, KURIP and KERIP, and any successor plan(s) thereto; and (b) any pre-retirement survivor income benefit provided to you pursuant to the retirement plan or program of any employer, other than Kodak.

Page 4 of 11

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Mr. Daniel Meek  
July 31, 1998

## **12. Severance Benefits**

- A. In General. If prior to the fifth anniversary of the date of your reemployment, Kodak terminates your employment for reasons other than "Cause" or "Disability," as those terms are defined below, Kodak will pay you, subject to your satisfaction of the terms of this Section 12, the benefits described in this Section 12.
- B. Severance Allowance. Kodak will pay you a severance allowance equal to two (2) times your then-current annual base salary plus your then-current target annual incentive award under MVCP. The severance allowance will be paid in equal consecutive bi-monthly payments over the two (2) year period commencing on the date of your termination of employment.

This severance allowance shall be paid to you in lieu of any other severance benefit, payment or allowance that you would otherwise be eligible for, except any benefits payable to you under Kodak's Termination Allowance Plan ("TAP") or any successor plan thereto. To the extent, however, you are eligible for a severance benefit under TAP (or any successor plan), the severance allowance payable to you under this Section 12(B) will be reduced by the amount of such severance benefit. In no event shall any of this severance allowance be "benefits bearing." Kodak shall withhold from the severance allowance all income, payroll and employment taxes required by applicable law or regulation to be withheld.

- C. Retraining Allowance. You will be eligible for a retraining allowance benefit of up to \$5,000. To the extent this benefit cannot be provided under the term of TAP, it will be provided to you in the same manner, and on the same terms and conditions, as if you were eligible to receive a retraining allowance benefit pursuant to Article 7 of TAP. All retraining allowance benefits will be subject to all income, payroll and employment tax withholdings required by applicable law or regulation to be withheld.
- D. Outplacement Services. You will be eligible for outplacement services. To the extent this benefit cannot be provided under the terms of TAP, it will be provided to you in the same manner, and on the same terms and conditions, as if you were eligible for "Outplacement Services" pursuant to Article 8 of TAP.
- E. Continuation of Existing Health, Dental and Life Insurance Coverages. Your existing elections under the Kodak Medical Assistance Plan ("Kmed"), the Kodak Dental Assistance Plan ("Kdent") and the Kodak Life Insurance Plan ("KLife") will be continued, and fully paid by Kodak, until the last day of the fourth month immediately following the month of your termination of employment.
- F. Stock Options. Kodak management will recommend to the CEO that your termination of employment be for a "Permitted Reason" for purposes of any non-qualified stock options held by you on the date of your termination of employment. Your termination of employment will be an "Approved Reason" for purposes of any non-qualified stock options held by you on the date of your termination of employment.

Page 5 of 11

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Mr. Daniel Meek  
July 31, 1998

- G. Restricted Stock Award. In the event your termination of employment occurs within the one year period beginning on the date of grant of the restricted stock award described in Section 7 above, Kodak management will recommend to the CEO that your termination of employment be for a "permitted reason" for purposes of such restricted stock. Should your termination of employment occur after such one year period, it will be for an "Approved Reason" for purposes of such restricted stock.
- H. Wage Dividend. To the extent you are eligible for a Wage Dividend for the Performance Period in which your termination of employment

occurs, any Wage Dividend earned by you will be based on your participating compensation for such period. If earned, the Wage Dividend will be paid in cash, subject to withholding for all applicable income and payroll taxes, at the same time that other participants of the Plan receive their awards.

- I. Management Variable Compensation Plan. To the extent you are eligible for an award under the Management Variable Compensation Plan ("MVCP") for the Performance Period in which termination of employment occurs, any MVCP award earned by you for such period will be pro-rated based upon your length of service during the performance period. If earned, the MVCP award will be paid, subject to withholding for all applicable income and payroll taxes, at the same time that other participants of the Plan receive their awards.

You hereby acknowledge and agree that Kodak's determination with regard to size and payment of any MVCP award for such Performance Period will be final and binding upon you, and any other person having or claiming to have any right or interest on your behalf in or under the plan, and that the failure of Kodak to award you a MVCP award for such Performance Period will not give rise to any claim against Kodak or its directors, officers or employees.

- J. Breach. In the event you breach any of the terms of the Eastman Kodak Company Employees' Agreement described in Section 21 below or the Agreement, Waiver and Release described in Section 12(K) below, in addition to and not in lieu of, any other remedies that Kodak may pursue against you, no further payments will be made to you pursuant to this Section, you agree to immediately repay to Kodak all moneys previously paid to you pursuant to this Section, and you will immediately forfeit the non-qualified stock options referred to in Section 12 (F) above and the restricted stock referred to in Section 12 (G) above.
- K. Agreement, Waiver and Release. In order to receive the benefits described in this Section 12, you must execute immediately prior to your termination of employment a waiver, general release and covenant not to sue in favor of Kodak (the "Agreement, Waiver and Release"), in a form satisfactory to the Senior Vice President and Director, Human Resources, of Kodak.

Page 6 of 11

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Mr. Daniel Meek  
July 31, 1998

- L. Cause. For purposes of this letter, "Cause" shall mean:
- i your willful failure (for a period of at least 30 calendar days following delivery to you of a written notification from your supervisor informing you of your performance deficiencies) or your continued non-willful failure (for a period of at least 90 calendar days following delivery to you of a written notification from your supervisor informing you of your performance deficiencies) to perform your regularly assigned duties or the specific and reasonable directives of your supervisor; or
  - ii your willful or negligent failure to follow a lawful written directive of Kodak's Chief Operating Office or of your supervisor; or
  - iii your willful violation of any material rule, regulation, or policy that may be established from time to time for the conduct of the Kodak's business; or
  - iv your unlawful possession, use or sale of narcotics or other controlled substances, or performing job duties while illegally used controlled substances are present in your system; or
  - v any willful act of omission or commission by you in the scope of our employment (a) which results in the assessment of a civil or criminal penalty against you or Kodak, or (b) which in the reasonable judgment of your supervisor could result in a material violation of any foreign or U.S. federal, state or local law or regulation having the force of law; or
  - vi your conviction of or plea of guilty or no contest to any crime involving moral turpitude; or
  - vii any misrepresentation of a material fact to, or concealment of a material fact from, your supervisor or any other person in Kodak to whom you have a reporting relationship in any capacity; or
  - viii your breach of Kodak's Business Conduct Guide or the Eastman Kodak Company Employees' Agreement.
- M. Disability. For purposes of this letter, the term "Disability" means disability under the terms of the Kodak Long-Term Disability Plan.

Page 7 of 11

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### **13. Wage Dividend Plan**

You will be eligible to participate in Kodak's Wage Dividend Plan. If any award is earned for 1998, it will be paid in March 1999, and pro-rated based upon your 1998 participating earnings. Awards earned under the Wage Dividend Plan by management level employees are paid in the form of stock options to acquire Eastman Kodak Company Common Stock pursuant to the terms of the Wage Dividend Plan.

### **14. Vacation**

You will be entitled to six (6) weeks vacation per calendar year, beginning in 1999, with three (3) weeks in 1998.

### **15. Benefits**

You will be eligible to participate immediately in Kodak's Flexible Benefits Plan, which includes health and dental coverage, long-term disability coverage, group life insurance and eligibility for long-term care insurance. In addition, you will be able to participate in Kodak's Short-Term Disability Plan and will be eligible for up to 52 weeks of benefits under the terms of such plan.

Our executives also qualify for company-paid coverage of \$5 million of personal umbrella liability insurance ("PULI").

In addition, you will be eligible to participate in the 1982 Eastman Kodak Company Executive Deferred Compensation Plan ("EDCP"). This is a non-qualified/unfunded plan in which you may elect to defer a portion of your base salary and MVCP award. You may enroll within the first ten (10) business days after joining Kodak or in the Fall 1997 enrollment period for 1998.

Immediately upon your reemployment, you will also be eligible to participate in the Eastman Kodak Employees' Savings and Investment Plan ("SIP"). You will be eligible to make rollover deferrals to SIP from other qualified plans within two years from the date of your hire.

Our executives are provided with individual financial counseling services through one of three companies. You will be immediately eligible for this benefit.

For purposes of any termination allowance benefit that you may become entitled to under the terms of TAP, you will be treated as having 8 years and 2 months of deemed service in addition to your actual service. To the extent this additional deemed service produces a benefit which cannot be paid under the terms of TAP, it will be paid outside of TAP on the same terms and conditions as if it were payable under TAP.

### **16. Relocation Benefits**

You will be eligible to participate in the Company's Enhanced New Hire Relocation Program. Your relocation expenses to Rochester within two years of your reemployment date will be eligible for coverage under the program. One of the features of the Program is a Mortgage Interest Subsidy ("MIS") whereby Kodak will protect you for two (2) years if your new first mortgage interest rate is at least 1% higher than the rate on your existing first mortgage. The MIS will be calculated based on the difference, if any, between, (x) the rate of your new first mortgage, and (y) the rate of your existing first mortgage plus one percent. MIS is paid annually in the form of a lump sum payment subject to all applicable income and payroll tax withholdings.

### **17. Temporary Housing/Commuting Expenses**

To assist you in finding a permanent residence in the Rochester, New York area, Kodak agrees to reimburse you for your temporary housing expenses. In addition, Kodak agrees to reimburse you for the expenses you incur in commuting back and forth between Rochester and Boston. More specifically, for up to a twenty four (24) month period commencing on your reemployment date, Kodak agrees to reimburse you for your temporary housing expenses to a maximum dollar amount of \$1,500 per month and in addition, reasonable commuting expenses between Rochester, New York and Hopkington, Massachusetts. These expenses must be incurred for temporary housing in the Rochester, New York area and/or for your traveling expenses between Rochester and Hopkington. In order to be eligible for reimbursement, any air travel expenses you incur must be coach class. Proper documentation of these expenses will be required in accordance with the terms of Kodak's relocation program. To the extent you are subject to Federal or state income tax on these expense reimbursements, Kodak will "gross-up" the reimbursements so that after such taxes are incurred by you, you shall receive a net payment equal to the amount of the expense.

### **18. Confidential Information**

It is important that the relationship between you and Kodak be established at the outset so as to enable you to properly safeguard confidential information, which you may have acquired from your previous employer(s). "Confidential Information" is defined as information proprietary to a previous employer which is generally secret, and which you learned while employed with that employer.

By accepting this conditional offer, you represent to Kodak that your obligations regarding the Confidential Information will not impede your ability to perform the duties and responsibilities required by virtue of your position with Kodak. You further represent that the performance of these duties and responsibilities will not violate any agreement between you and any other person, firm, entity or organization or violate any Federal, state or local law, executive order or regulation.

During your reemployment with Kodak, we would expect that you will keep in mind the Confidential Information and inform us if you believe that any duties or responsibilities to which you are assigned will involve its use or disclosure. I am available at any time to discuss questions which might arise in this regard. All such discussions you may have with me or anyone at Kodak in this regard should refer to the Confidential Information only in general terms so as to avoid disclosure of the information you believe to be confidential.

#### **19. No Conflicts of Interest**

By signing this letter, you represent that you are not subject to any restrictions, particularly, but without limitation, in connection with any previous employment, which now or hereafter prevent you from entering into and performing your obligations under this letter or which materially and adversely affect (or may in the future, so far as you can reasonably foresee, materially affect), your rights to participate in the affairs of Kodak.

#### **20. Employment Preconditions**

This conditional offer of reemployment is subject to the following conditions and may be withdrawn by Kodak due to your inability to satisfy any one or more of these conditions. By signing this letter, you agree and acknowledge that Kodak may perform the activities contemplated below in order to verify the stated conditions.

- A. **Physical Exam and Drug Test.** You are required to complete a physical examination and drug screen before this offer becomes final. This will be at Kodak's expense. This offer is contingent upon a negative drug screen urinalysis test result. Additional information will be sent to you under separate cover from our Medical Department.
- B. **INS.** All employers are now required by Federal law to verify identity and authorization to work for all prospective employees. Enclosed is an Immigration and Naturalization Service I-9 form that outlines the details of these requirements. Inability to comply with these requirements will cause rescission of this conditional offer.
- C. **Check of Past Employment, Education, Credit History, etc.** Kodak will conduct a check of your past employment, education, credit history and criminal convictions records. This offer is contingent upon such check being acceptable to Kodak. Informed Directions International of 110 15<sup>th</sup> Street NE, Canton, Ohio 44714, has been engaged by Kodak to conduct this check. Enclosed is a disclosure letter required by Federal Law concerning our request to obtain a copy of your credit report. You will also find enclosed a consent form authorizing Kodak to obtain such credit report. Please sign and date the consent form and enclose it along with this letter.

Page 9 of 11

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Mr. Daniel Meek  
July 31, 1998

#### **21. Employee's Agreement**

Attached is a copy of the Kodak Employees' Agreement, which you must sign and return to Dick Bourns upon your acceptance of this conditional offer.

#### **22. Miscellaneous**

By accepting this conditional offer of reemployment, you agree and acknowledge that this letter contains the entire understanding between Kodak and yourself with respect to your reemployment and supersedes all previous written or oral negotiations, commitments, and agreements with respect to such subject matter.

You are expected to devote your best efforts and all of your business time to the affairs of Kodak. You may, however, engage in any charitable, civic and community activities, provided, however, such activity(ies) do not materially interfere with your duties and responsibilities.

Please also keep in mind that, regardless of any provision contained in this letter to the contrary, your employment at Kodak is "at will." That is, you will be free to terminate your employment at any time, for any reason, and Kodak is free to do the same.

You agree to keep the existence of this letter confidential except that you may review it with your financial advisor, attorney and/or spouse and with me or my designee.

If any portion of this letter is deemed to be void or unenforceable by a court of competent jurisdiction, the remaining portions will remain in full force and effect to the maximum extent allowed by law. The parties intend and desire that each portion of this letter be given the maximum possible effect by law.

You agree that except as prohibited by law, your repayment obligations to Kodak under Section 5 above may be satisfied by Kodak, at its option and without prior notice to you, by its set-off against any amounts payable by Kodak to you at the time of your termination of employment for or on account of any reason including compensation or severance benefits. Kodak will advise you of any set-off effected under this paragraph. This paragraph shall be without prejudice and in addition to any right of set-off, combination of accounts, lien or other right to which Kodak is at any time otherwise entitled (whether by operation of law, contract or otherwise).

This letter, and its interpretation and application, will be governed and controlled by the laws of the State of New York.

Mr. Daniel Meek  
July 31, 1998

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Please respond to this conditional offer of reemployment prior to August 7, 1998. If you find the conditional offer acceptable, please acknowledge this by signing your name on the signature line provided below and returning the signed original of this letter, along with the executed copy of the enclosed Employees' Agreement and the signed consent form authorizing Kodak to obtain a copy of your credit report, directly to Dick Bourns.

Please feel free to contact Dick Bourns at (716) 724-7550 or me at (716) 724-4573 if you have any questions.

Sincerely,

Michael P. Morley

MPM:llh  
Enclosures

cc: Richard T. Bourns

Signature \_\_\_\_\_  
Daniel Meek

Date \_\_\_\_\_

Social Security No. \_\_\_\_\_

Birthdate \_\_\_\_\_



June 25, 2001

Daniel T. Meek  
(address intentionally omitted)

Re: Compensation Adjustment

Dear Dan:

I pleased to inform you of several changes to your Kodak compensation. In brief, these changes include an increase to your base salary and the grant of an award of restricted stock. This letter outlines the terms and conditions of these changes.

Once signed by both parties, this letter will constitute an agreement between Eastman Kodak Company ("Kodak") and you.

### 1. Base Salary

Effective June 18, 2001, your new base salary will be at the rate of \$320,000 per year.

### 2. Restricted Stock Award

You will receive an award of 5,000 shares of restricted Kodak Common Stock. These restricted shares will be issued to you under the terms of the 2000 Omnibus Long-Term Compensation Plan. The restrictions on one-half of the shares will lapse on the second anniversary of the date the shares are granted; the restrictions on the balance will lapse on the fourth anniversary of this date. If your employment terminates for any reason, other than a "Permitted Reason" as determined by the CEO in the exercise of his sole discretion, during the one-year period following the date of the grant, you will immediately forfeit the shares. Thereafter, so long as the shares remain restricted, they will be subject to forfeiture in the event of your termination of employment for any reason other than for death or for "Disability" or an "Approved Reason," as those terms are defined under the terms of the Omnibus Plan.

The specific terms, conditions and restrictions of your restricted stock grant will be contained in an award notice delivered to you shortly after your execution of this letter agreement.

### 3. Miscellaneous

- A. Confidentiality** . You agree to keep the content and existence of this letter confidential except that you may review it with your attorney, financial advisor or spouse/partner. Prior to any such disclosure, you agree to advise these individuals of the confidential nature of this letter agreement and the facts giving rise to it as well as their obligations to maintain the confidentiality of this letter agreement and the facts giving rise to it.
- B. Unenforceability** . If any portion of this letter agreement is deemed to be void or unenforceable by a court of competent jurisdiction, the remaining portions will remain in full force and effect to the maximum extent allowed by law. The parties intend and desire that each portion of this letter agreement be given the maximum possible effect allowed by law.
- C. Headings** . The heading of the several sections of this letter agreement have been prepared for convenience and reference only and will not control, affect the meaning, or be taken as the interpretation of any provision of this letter agreement.
- D. Applicable Law** . This letter agreement, and its interpretation and application, will be governed and controlled by the laws of the State of New York, applicable as though to a contract made in New York by residents of New York and wholly to be performed in New York without giving effect to principles of conflicts of laws.
- E. Amendment** . This letter agreement may not be changed, modified, or amended, except in a writing signed by both you and Kodak which expressly acknowledges that it is changing, modifying or amending this letter agreement.
- F. At Will** . Please also keep in mind that, regardless of any provision contained in this letter agreement to the contrary, your employment at Kodak is "at will". That is, you are free to terminate your employment at any time, for any reason, and Kodak is free to do the same.

*Michael P. Morley, Chief Administrative Officer and Executive Vice President*  
EASTMAN KODAK COMPANY • 343 STATE STREET • ROCHESTER, NEW YORK 14650-0232  
TEL (716) 724-4573 • FAX (716) 724-1655, E-Mail: morley@kodak.com

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Mr. Daniel T. Meek  
June 25, 2001

Your signature below means that:

1. You have had ample opportunity to discuss the terms and conditions of this letter agreement with an attorney and/or financial advisor of your choice and as a result fully understand its terms and conditions; and
2. You accept the terms and conditions set forth in this letter agreement; and
3. This letter agreement supersedes and replaces any and all agreements or understandings whether written or oral that you may have with Kodak concerning the subject matter hereof; this letter agreement does not, however, supersede or replace your Eastman Kodak Company Employee's Agreement or your July 31, 1998 letter agreement with Kodak.

If you find the foregoing acceptable, please sign your name on the signature line provided below. Once signed, please return this letter agreement directly to my attention.

Very truly yours,

Michael P. Morley

MPM:llh  
Enclosure

I accept the terms and conditions of this letter agreement.

Signed: \_\_\_\_\_  
Daniel T. Meek

Dated: \_\_\_\_\_

January 9, 2006

Mr. Daniel T. Meek  
(address intentionally omitted)

Dear Dan:

By way of letter agreements dated July 31, 1998 (the "1998 Agreement") and June 25, 2001 (the "2001 Agreement"), Eastman Kodak Company ("Kodak") and you agreed to certain terms regarding your employment. The purpose of this letter (the "2005 Agreement"), which will become an agreement once both you and Kodak sign it, is to supplement the 1998 and 2001 Agreements as set forth herein. The 2005 Agreement supersedes the 1998 and 2001 Agreements to the extent inconsistent therewith.

## 1. Base Salary and Wage Grade

Effective July 19, 2005, your base salary will be at the rate of \$500,000 per year and your wage grade will be 64.

## 2. Long-Term Incentive and Retention Plan

- A. In General** . Subject to the terms of this Section 2, you will be eligible to participate in a long-term incentive and retention plan (the "Plan") based on the development and execution of significant direct controllable cost reductions associated with the restructuring of Global Manufacturing & Logistics ("GM&L") during the three-year period commencing January 1, 2005 and ending December 31, 2007. The purpose of this Plan is to incent you to achieve certain long-term pre-established goals with respect to GM&L during these three years and to remain in your current role through December 2007. The Plan will be performance-based and, therefore, any payment under the Plan will be contingent upon satisfaction of the Plan's performance goals.
- B. Target Awards and Performance Goals** . The target awards and performance goals are described in the materials presented at the July 19, 2005 meeting of the Executive Compensation and Development Committee of the Board of Directors (the "Compensation Committee"). The Oversight Committee (as defined in Subsection (G) below), in its sole discretion, will determine which costs are direct controllable costs, the amount of reduction with respect to such costs, and the amount of the award with respect to reduction amounts that fall between the amounts presented to the Compensation Committee.
- C. Continued Employment** . Except as provided in Subsection (D) below, in order to receive an award under the Plan, it will be necessary for you to remain continuously employed by Kodak through the Retention Date (as defined in Section 3(C)(ii) below). If, prior to such date, your employment terminates for any reason, other than as set forth in Subsection (D) below, you will forfeit in entirety any award under the Plan.

Mr. Daniel T. Meek  
January 9, 2006

- D. Termination of Employment** . Notwithstanding Subsection (C) above to the contrary, if, prior to the Retention Date (as defined in Section 3(C)(ii) below), you die or terminate employment as a result of a Disability (as defined in Section 3(D)), you will receive a pro-rated award under the Plan. The amount of the pro- rated award will be determined from the award you would have otherwise received had you remained employed through the Retention Date (as defined in Section 3(C)(ii) below) and be based on the savings generated as of the date you die or terminate employment as a result of a Disability and the savings generated over the 12 months immediately following such date resulting from the direct controllable cost reduction actions taken as of such date. If Kodak terminates your employment without Cause (as defined in Section 3(C)) or you terminate employment for Good Reason (as defined in this Subsection (D)), you will receive the maximum award available under the Plan. For purposes of this letter, the term "Good Reason" shall mean, without your consent:
- i. Any action by Kodak or its employees which results in a material diminution in your position, authority, duties, or responsibilities (other than any diminution contemplated under Section 2), excluding any action which is remedied by Kodak within fifteen (15) days after receipt of written notice given by you specifying the nature of the material diminution of your position, authority, duties or responsibilities;
  - ii. Kodak requiring you to relocate to a principal place of employment outside of the continental United States; or
  - iii. Any failure by Kodak to comply with any of the provisions in this agreement other than a failure which is remedied by Kodak with ten (10) days after receipt of written notice given by you specifying the nature of the failure.
- E. Payment** . By February 15, 2008, or as soon thereafter as is administratively practicable, the Oversight Committee (as defined in Subsection (G) below) will determine the amount of the award, if any, you have earned under the Plan. The award will be paid in a single, lump-sum

payment in shares of Kodak common stock on or before March 15, 2008.

- F. Benefits Bearing.** In no event will any award under the Plan be “benefits bearing.” In other words, the amount will not be taken into account, or considered for any reason, for purposes of determining any company provided benefits or compensation to which you become eligible, including, by way of illustration and not by way of limitation, any pension or other retirement benefit.
- G. Administration.** The award will be administered by a committee consisting of the Kodak employees with the following titles: Chief Executive Officer, Director of Human Resources, and Director of Corporate Finance, Planning and Analysis (the “Oversight Committee”), with the Director of Worldwide Compensation as secretary, in accordance with the terms of this letter agreement. The Oversight Committee will have total and exclusive responsibility to control, operate, manage and administer the Plan in accordance with its terms and all the authority that may be necessary or helpful to enable it to discharge its responsibilities with respect to the Plan. Without limiting the generality of the preceding sentence, the Oversight Committee will have the exclusive right to: interpret the Plan, decide all questions concerning eligibility for and the amount of awards payable under the Plan, construe any ambiguous provision of the Plan, correct any default, supply any omission, reconcile any inconsistency, and decide all questions arising in the administration, interpretation and application of the Plan. The Oversight Committee will have full discretionary authority in all matters related to the discharge of its responsibilities and the exercise of its authority under the Plan, including, without limitation, its construction of the terms of the Plan and its determination of eligibility for awards under the Plan. It is the intent of the Plan, as well as both parties hereto, that the decisions of the Oversight Committee and its actions with respect to the Plan will be final and binding upon all persons having or claiming to have any right or interest in or under the plan and that no such decision or actions shall be modified upon judicial review unless such decision or action is proven to be arbitrary or capricious; provided, however, that while you are employed by Kodak you can, within 10 days of the Oversight Committee’s decision with respect to actual performance against the Plan’s performance goals, request that the Committee reconsider such decision, which the Committee must do in good faith within 30 days of such request.

Page 2 of 8

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Mr. Daniel T. Meek  
January 9, 2006

### 3. Severance Benefits

- A. In General .** If, on or before the Retention Date (as defined in Subsection (C)(ii) below), Kodak terminates your employment for reasons other than “Cause” (as defined in Subsection (D) below), your employment terminates because of a “Disability” (as defined in Subsection (E) below), or Kodak is unable to offer you a reasonably comparable position commensurate with your experience and background, Kodak will provide you with the following severance benefits, subject to your satisfaction of the terms of this Section 3:
- i. Severance Allowance .** Kodak will pay you a severance allowance equal to two (2) times your then-current annual total target compensation (base salary plus target award under the Executive Compensation for Excellence and Leadership plan (“EXCEL”)). This amount will be paid in equal monthly installments over the twelve-month period commencing on the six-month anniversary of your last day of work. Kodak will withhold from the severance allowance all income, payroll and employment taxes required by applicable law or regulation to be withheld. This severance allowance will be paid to you in lieu of any other severance benefit, payment or allowance for which you would otherwise be eligible, except any benefits payable to you under Kodak’s Termination Allowance Plan (“TAP”) or any successor plan thereto. To the extent, however, you are eligible for a severance benefit under TAP (or any successor plan), the benefits payable to you under this section shall be reduced by (a) the amount of such severance benefit, and (b) any enhancement to such severance benefit by reason of the 1998 Agreement. In no event will any of this severance allowance be “benefits bearing,” as defined in Section 2(F) above. Kodak will withhold from this severance allowance all income, payroll and employment taxes required by applicable law or regulation to be withheld.
  - ii. Continuation of Existing Health, Dental and Basic Life Insurance Coverages.** Your elections under the Kodak Medical Assistance Plan (“Kmed”) and the Kodak Dental Assistance Plan (“Kdent”) and for Basic Coverage under the Kodak Life Insurance Plus Plan at the time you terminate employment will be continued, and fully paid by Kodak, until the last day of the fourth month immediately following the month of your termination from employment; provided, however, that you will receive the benefits described in this Subsection 3(A)(ii) only if, at the time you terminate, Kodak-paid continuation of benefits under these plans is provided to similarly situated employees who become eligible for benefits under TAP.
  - iii. Outplacement Services.** You will receive outplacement services similar to, and subject to the same terms and conditions as, such services, if any, provided under TAP to similarly situated employees at the time of your termination of employment.
  - iv. Financial Counseling Services.** You will receive executive financial counseling services similar to, and subject to the same terms and conditions as, such services, if any, provided by Kodak to similarly situated employees at the time of your termination of employment; provided, however, that such services will end on the earlier of (a) the date provided in any applicable governing documents with respect to these services, or (b) March 15 of the year immediately following the year in which you terminate employment.
- C. Additional Conditions.** In order to receive the severance allowance and other benefits described in this Section 3, you must satisfy the

following conditions in addition to any others set forth in this Section.

- i. **Agreement, Waiver and Release.** You must execute immediately prior to your termination of employment a waiver, general release and covenant not to sue in favor of Kodak (the "Agreement, Waiver and Release"), in a form satisfactory to the Senior Vice President and Director, Human Resources, of Kodak. In the event you breach any of the terms of the Eastman Kodak Company Employees' Agreement or the Agreement, Waiver and Release, in addition to and not in lieu of, any other remedies that Kodak may pursue against you, no further severance allowance payments will be made to you pursuant to this section and you agree to immediately repay to Kodak all moneys previously paid to you pursuant to this section.
- ii. **Continued Employment .** You must remain continuously employed by Kodak until the Retention Date. If, prior to the Retention Date, your employment terminates for any reason, other than as set forth in the next sentence, you will forfeit in entirety any benefits provided under this Section 3. Notwithstanding the immediately preceding sentence to the contrary, if, prior to the Retention Date (as defined in the next sentence), you terminate employment as a result of a Disability (as defined in Subsection (E) below), you terminate employment for Good Reason (as defined in Section 2(D)), or Kodak terminates your employment without Cause (as defined in Subsection (D) below), you will still receive the benefits described in this Section 3. For purposes of this letter, "Retention Date" shall mean a date determined by the Administrator (as defined in Subsection (F) below), which shall not be later than March 31, 2008.

Page 3 of 8

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Mr. Daniel T. Meek  
January 9, 2006

**D. Cause .** For purposes of this letter, "Cause" shall mean:

- i. your continued failure, for a period of at least 30 calendar days following a written warning, to perform your duties in a manner deemed satisfactory by your supervisor, in the exercise of his/her sole discretion; or
- ii. your failure to follow a lawful written directive of the Chief Executive Officer or your supervisor; or
- iii. your willful violation of any material rule, regulation, or policy that may be established from time to time for the conduct of Kodak's business; provided, however, that for the purposes of determining whether conduct constitutes willful violation, no act on your part shall be considered "willful" unless it is done by you in bad faith and without reasonable belief that your action was in the best interests of Kodak;; or
- iv. your unlawful possession, use or sale of narcotics or other controlled substances, or, performing job duties while illegally used controlled substances are present in your system; or
- v. any act of omission or commission by you in the scope of your employment (a) which results in the assessment of a civil or criminal penalty against you or Kodak, or (b) which in the reasonable judgment of your supervisor could result in a material violation of any foreign or U.S. federal, state or local law or regulation having the force of law; or
- vi. your conviction of or plea of guilty or no contest to any crime involving moral turpitude; or
- vii. any willful misrepresentation of a material fact to, or willful concealment of a material fact from, your supervisor or any other person in Kodak to whom you have a reporting relationship in any capacity; provided, however, that for the purposes of determining whether conduct constitutes willful misrepresentation or concealment, no act on your part shall be considered "willful" unless it is done by you in bad faith and without reasonable belief that your action was in the best interests of Kodak; or
- viii. your breach of Kodak's Business Conduct Guide, the Eastman Kodak Company Employee's Agreement or similar guide or agreement of a prior employer.

Page 4 of 8

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Mr. Daniel T. Meek  
January 9, 2006

**E. Disability .** For purposes of this letter, the term "Disability" means disability under the terms of the Kodak Long-Term Disability Plan.

- F. Administration** . The benefit described in this Section 3 will be administered by the Kodak employee with the title Director of Human Resources ("Administrator"), who will have the same authority with respect to the benefits provided in this Section 3 as the Oversight Committee has with respect to the benefits provided in Section 2, as described in Section 2(G) above; provided, however, that the Kodak employee with the title Chief Executive Officer will have the exclusive right to determine whether Kodak has offered you a reasonably comparable position for purposes of this Section 3.

#### **4. Pension Benefits**

- A. In General** . Subject to the terms of this Section 4, Kodak agrees to calculate your retirement and survivor benefits under the Kodak Retirement Income Plan ("KRIP"), Kodak Unfunded Retirement Income Plan (KURIP) and Kodak Excess Retirement Income Plan ("KERIP") by adding 3 years to your age, and crediting you with an additional 3 years of service for purposes of determining your Accrued and Total Service (as those terms are defined in KRIP). This enhancement is in addition to the deemed service described in Section 10 of the 1998 Agreement. The benefits payable as a result of this enhancement will be offset by the benefits payable to you under KRIP, KURIP, KERIP and Section 10 of the 1998 Agreement. The amount of the offset shall be determined by the Administrator (as defined in Subsection (E) below), using whatever assumptions he or she deems reasonable, in his or her sole discretion. In no event will any benefits paid under this Section 4 be "benefits bearing," as defined in Section 2(F) above.
- B. Continued Employment** . Except as provided in Subsection (C) below, in order to receive the benefits described in this Section 4, it will be necessary for you to remain continuously employed by Kodak through the Retention Date (as defined in Section 3(C)(ii) above). If, prior to such date, your employment terminates for any reason, other than as set forth in Subsection (C) below, you will not be entitled to the benefits described in this Section 4.
- C. Termination of Employment** . Notwithstanding Subsection (B) above to the contrary, if, prior to the Retention Date (as defined in Section 3(C)(ii)), (i) you die, (ii) terminate employment as a result of a Disability (as defined in Section 3(D)), (iii) terminate employment for Good Reason (as defined in Section 2(D)), or (iv) Kodak terminates your employment without Cause (as defined in Section 3(C)), you will still receive the benefits described in this Section 4.
- D. Payment**. The amount of the benefits, if any, payable to you pursuant to this Section 4 will: (i) be paid in the form of a lump sum payment within 60 days after your termination of employment; (ii) be paid out of Kodak's general assets, not under KRIP; (iii) not be funded in any manner; and (iv) be included in your gross income as ordinary income, subject to all income, payroll and employment tax withholdings required to be made under all applicable federal, state and local law or regulation.
- E. Administration** . The benefit described in this Section 4 will be administered by the Kodak employee with the title Director of Human Resources ("Administrator"), who will have the same authority with respect to the benefits provided in this Section 4 as the Oversight Committee has with respect to the benefits provided in Section 2, as described in Section 2(G) above.

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Mr. Daniel T. Meek  
January 9, 2006

#### **5. Miscellaneous**

- A. Confidentiality** . You agree to keep the content and existence of this letter agreement confidential except that you may review it with your supervisor, attorney, financial advisor, and/or with me or my designee. Prior to any such disclosure, you agree to advise these individuals of the confidential nature of this letter agreement and the facts giving rise to it as well as their obligations to maintain the confidentiality of this letter agreement and the facts giving rise to it.
- B. Tax Liability**. By signing this letter agreement you agree that the Company has not provided you with advice regarding the tax treatment of any of the benefits or payments provided hereunder. You hereby acknowledge that Kodak will not report any such amounts as taxable (or make any related withholding of tax) under Section 409A of the Internal Revenue Code of 1986, as amended, or administrative guidance thereunder, and you agree to indemnify and hold the Company harmless for any liability associated with such reporting and withholding treatment.
- C. Section 409A of the Internal Revenue Code**. The arrangements described in this letter agreement are intended to comply with Section 409A of the Internal Revenue Code to the extent such arrangements are subject to that law. The parties agree that they will negotiate in good faith regarding amendments necessary to bring the arrangements into compliance with the terms of that Section or an exemption therefrom as interpreted by guidance issued by the Internal Revenue Service; provided, however, that Kodak may unilaterally amend this agreement for purposes of compliance if, in its sole discretion, Kodak determines that such amendment would not have a material adverse effect with respect to your rights under the agreement. The parties further agree that to the extent an arrangement described in this letter fails to qualify for exemption from or satisfy the requirements of Section 409A, the affected arrangement may be operated in compliance with Section 409A pending amendment to the extent authorized by the Internal Revenue Service. In such circumstances Kodak will administer the letter in a manner which adheres as closely as possible to the existing terms and intent of the letter while complying with Section 409A. This

paragraph does not restrict Kodak's rights (including, without limitation, the right to amend or terminate) with respect to arrangements described in this letter to the extent such rights are reserved under the terms of such arrangements.

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Mr. Daniel T. Meek  
January 9, 2006

- D. Unenforceability** . If any portion of this letter agreement is deemed to be void or unenforceable by a court of competent jurisdiction, the remaining portions will remain in full force and effect to the maximum extent allowed by law. The parties intend and desire that each portion of this letter agreement be given the maximum possible effect allowed by law.
- E. Headings** . The heading of the several sections of this letter agreement have been prepared for convenience and reference only and shall not control, affect the meaning, or be taken as the interpretation of any provision of this letter agreement.
- F. Applicable Law**. This letter agreement, and its interpretation and application, will be governed and controlled by the laws of the State of New York, applicable as though to a contract made in New York by residents of New York and wholly to be performed in New York without giving effect to principles of conflicts of law. Disputes arising under this letter agreement shall be adjudicated within the exclusive jurisdiction of a state or federal court located in Monroe County, New York. Neither party waives any right it may have to remove such an action to the United States Federal District Court located in Monroe County, New York.
- G. Amendment**. Except as provided in Subsection (C), this letter agreement may not be changed, modified, or amended, other than in a writing signed by both you and Kodak which expressly acknowledges that it is changing, modifying or amending this letter agreement.
- H. Forfeiture**. In the event that you violate any provision of this letter agreement, in addition to, and not in lieu of, any other remedies that Kodak may pursue against you, no further severance benefits will be made to you hereunder and you agree to immediately repay all severance benefits previously paid to you pursuant to this letter agreement. In such event all other provisions of this letter agreement will remain in full force and effect as though the breach had not occurred.
- I. Plan Documents Control**. To extent that the terms of this letter agreement relate to a compensation or benefit plan (including, without limitation, Kmed, EXCEL, stock options, Leadership Stock, restricted stock and restricted stock units), such terms are subject to the provisions of the applicable governing documents (such as plan documents, administrative guides and award notices), which are subject to change.

Your signature below means that:

1. You have had ample opportunity to discuss the terms and conditions of this letter agreement with an attorney and/or financial advisor of your choice and as a result fully understand its terms and conditions; and
2. You accept the terms and conditions set forth in this letter agreement; and
3. This letter agreement supersedes and replaces any and all agreements or understandings, whether written or oral, that you may have had with the Company concerning the matters discussed herein.

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Mr. Daniel T. Meek  
January 9, 2006

If you find the foregoing acceptable, please sign your name on the signature line provided below. Once the letter agreement is executed, please return it directly to my attention.

Very truly yours,

Robert L. Berman

I accept the terms and conditions of this letter agreement.

Signed: \_\_\_\_\_  
Daniel T. Meek

Dated: \_\_\_\_\_



**Personal & Confidential**

May 2, 2006

Mr. Daniel T. Meek  
(address intentionally omitted)

Dear Dan:

By way of letter agreements dated July 31, 1998 (the "1998 Agreement"), June 25, 2001 (the "2001 Agreement") and January 9, 2006 (the "2006 Retention Agreement"), Eastman Kodak Company ("Kodak") and you agreed to certain terms regarding your employment. The purpose of this letter (the "2006 Termination Agreement"), which will become an agreement once both you and Kodak sign it, is to supplement the 1998, 2001 and 2006 Retention Agreements (collectively, the "Prior Agreements") as set forth herein. The 2006 Termination Agreement supersedes the Prior Agreements to the extent inconsistent therewith.

**1. Last Day of Work**

It is hereby agreed that your last day of employment by Kodak will be on June 30, 2006 (the "Last Day of Work"), or such other date to which the parties hereto mutually agree, unless you resign or are terminated at an earlier date under the terms of this letter agreement.

**2. Responsibilities**

During the remainder of your employment by Kodak, you will perform such duties and responsibilities as are identified by or on behalf of the person to whom you report, and be responsible for performing those transition expectations identified by such person. It is expected that you will perform these duties, responsibilities and expectations in a timely and satisfactory manner, and your receipt of the benefits described in this letter agreement is contingent on your satisfaction of this condition.

**3. Long-Term Incentive and Retention Plan**

Pursuant to Section 2 of the 2006 Retention Agreement, because your termination is involuntary without cause, you will receive the maximum award available under the Plan, \$1,395,000.00, which will be paid in a single, lump-sum payment in shares of Kodak common stock in 2008, on or before March 15, 2008, and is subject to any and all conditions in the 2006 Retention Agreement.

**4. Severance Benefits**

Pursuant to Section 3 of the 2006 Retention Agreement, You will receive a severance allowance in an amount equal to \$1,620,000.00, which will be paid over the twelve-month period commencing on the six-month anniversary of your Last Day of Work, and is subject to any and all conditions in the 2006 Retention Agreement. Payments will be substantially equivalent and generally made consistently with Kodak's normal payroll cycles (currently bi-weekly), but no less frequently than monthly. You will also receive the other benefits discussed in Section 3 of the 2006 Retention Agreement (continuation of health, dental and basic life insurance coverages, outplacement services and financial counseling services), as described therein. In order to receive the severance allowance and other benefits described in this Section 4 and Section 3 of the 2006 Retention Agreement, you must execute prior to your termination of employment the Agreement, Waiver and Release annexed hereto as Addendum A. In the event you either fail to sign or, once signed, make an effective revocation of Addendum A, you will not be entitled to any of these severance benefits.

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Mr. Daniel T. Meek  
May 2, 2006

**5. Pension Benefits**

Pursuant to Section 4 of the 2006 Retention Agreement and Section 10 of the 1998 Agreement, you will receive an enhanced pension payment as a result of the deemed service granted under the 2006 Retention and 1998 Agreements, subject to any and all conditions in such Agreements. This amount will be paid in the form of a single lump sum cash payment within 60 days after your Last Day of Work.

**6. Executive Compensation for Excellence and Leadership**

You will be eligible for a pro-rated award under the Executive Compensation for Excellence and Leadership ("EXCEL") plan for the 2006 performance period in accordance with the terms of EXCEL. Any award made to you will be paid at the normal time of payout.

You hereby acknowledge and agree that individual performance is but one factor that is taken into account in determining awards under EXCEL. Other factors that are taken into account include company performance, unit performance, and discretion by the Executive Compensation and Development Committee of the Board of Directors (the "Compensation Committee"), Kodak's CEO and the participant's supervisor. Given this, you further acknowledge and agree that the Compensation Committee's determination with regard to the amount and payment of any EXCEL award paid to you for 2006 will be final and binding upon you, and any other person having or claiming to have any right or interest on your behalf in or under the plan.

## **7. Stock Options**

Subject to your satisfaction of the terms of this letter agreement, your termination of employment will, for purposes of any stock options held by you on your termination of employment, be treated as an "Approved Reason" under the terms of the applicable governing documents. Thus, you will not forfeit any stock options you hold on the Last Day of Work as a result of your termination of employment under this letter agreement; rather, they will vest and expire in accordance with, and are otherwise subject in all respects to, the terms of the applicable governing documents.

## **8. Leadership Stock Program**

Subject to your satisfaction of the terms of this letter agreement, your termination of employment will be treated as for an "Approved Reason" pursuant to the terms of Kodak's Leadership Stock Program. You therefore will be eligible for a full award for the program's 2004-2005 performance cycle, and a prorated award for the program's 2005-2006 performance cycle. Any award made to you with respect to either of these cycles will be paid following certification by the Compensation Committee of the Company's performance for the entire performance cycle, pursuant to the terms of the Leadership Stock Program. With respect to the 2006-2007 performance cycle, since you will be terminating your employment during the first year of this two-year performance cycle, you will not be eligible for any award under the Leadership Stock Program for such cycle, and thereby forfeit any and all rights to receive an award therefor.

Page 2 of 11

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Mr. Daniel T. Meek  
May 2, 2006

## **9. Employee's Agreement**

During your employment by Kodak, you signed an "Eastman Kodak Company Executive Employee's Agreement (the "Employee's Agreement")" in which you affirmed your obligation not to disclose Company trade secrets or confidential or proprietary information. Further, you agreed not to engage in work or activities on behalf of a competitor of the Company in the field in which you were employed by Kodak for a period following termination of your employment by Kodak equal to the total number of months you were employed by Kodak, but in no event less than six (6) months or more than eighteen (18) months. By signing this letter agreement, you reaffirm your Employee's Agreement and agree that it is in full force and effect, without amendment or modification.

## **10. Cooperation**

You agree to cooperate fully with Kodak from now to the date of your termination of employment and thereafter during the two (2) year period following your termination, taking into account the demands of any subsequent employment by you with a third party after the Last Day of Work, on all matters relating to your employment and termination of employment, the transition of your duties and responsibilities to your successor(s), and the conduct of Kodak's business. You further agree during such periods to cooperate fully with Kodak regarding, and conduct all of your actions, statements and communications in a manner consistent with, the announcement by Kodak of your termination of employment.

In partial consideration for the severance benefits described above, you also agree that during the period commencing on the date of this letter and ending on the second anniversary of the Last Day of Work, you will not in any way disparage, make any statement, or take any action which is adverse, inimical or otherwise detrimental to the interests of the Company or any of its current or former officers, directors, and employees or cause any of such persons embarrassment or humiliation or otherwise cause or contribute to such persons being held in disrepute by the public or the Company's shareholders, clients, customers, employees or competitors. Kodak also agrees that during such period of time, its officers and directors will not in any way disparage, make any statement, or take any action which is adverse, inimical or otherwise detrimental to you or cause you embarrassment or humiliation or otherwise cause or contribute to your being held in disrepute by the public or the Company's shareholders, clients, customers, employees or competitors.

## **11. Injunctive Relief**

You acknowledge by accepting the benefits under this letter agreement and the Prior Agreements that any breach or threatened breach by you of any term of Sections 9 or 10 hereof cannot be remedied solely by the recovery of damages or the withholding of benefits and the Company will therefore be entitled to an injunction against such breach or threatened breach without posting any bond or other security. Nothing herein, however, will prohibit the Company from pursuing, in connection with an injunction or otherwise, any other remedies available at law or in equity for such breach or threatened breach, including the recovery of damages.

## 12. Vacation

Upon your termination of employment, you will receive payment in lieu of all your earned and unused available carried-over and then-current vacation.

Page 3 of 11

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Mr. Daniel T. Meek  
May 2, 2006

## 13. Miscellaneous

- A. Confidentiality .** You agree to keep the content and existence of this letter agreement confidential except that you may review it with your supervisor, attorney, financial advisor, and/or with me or my designee. Prior to any such disclosure, you agree to advise these individuals of the confidential nature of this letter agreement and the facts giving rise to it as well as their obligations to maintain the confidentiality of this letter agreement and the facts giving rise to it.
- B. Tax Liability.** By signing this letter agreement you agree that the Company has not provided you with advice regarding the tax treatment of any of the benefits or payments provided hereunder, including without limitation those benefits set forth in Section 3. You hereby acknowledge that Kodak will not report any such amounts as taxable (or make any related withholding of tax) under Section 409A of the Internal Revenue Code of 1986, as amended, or administrative guidance thereunder, and you agree to indemnify and hold the Company harmless for any liability associated with such reporting and withholding treatment.
- C. Section 409A of the Internal Revenue Code.** The arrangements described in this letter agreement are intended to comply with Section 409A of the Internal Revenue Code to the extent such arrangements are subject to that law. The parties agree that they will negotiate in good faith regarding amendments necessary to bring the arrangements into compliance with the terms of that Section or an exemption therefrom as interpreted by guidance issued by the Internal Revenue Service; provided, however, that Kodak may unilaterally amend this agreement for purposes of compliance if, in its sole discretion, Kodak determines that such amendment would not have a material adverse effect with respect to your rights under the agreement. The parties further agree that to the extent an arrangement described in this letter fails to qualify for exemption from or satisfy the requirements of Section 409A, the affected arrangement may be operated in compliance with Section 409A pending amendment to the extent authorized by the Internal Revenue Service. In such circumstances Kodak will administer the letter in a manner which adheres as closely as possible to the existing terms and intent of the letter while complying with Section 409A. This paragraph does not restrict Kodak's rights (including, without limitation, the right to amend or terminate) with respect to arrangements described in this letter to the extent such rights are reserved under the terms of such arrangements.
- D. Unenforceability .** If any portion of this letter agreement is deemed to be void or unenforceable by a court of competent jurisdiction, the remaining portions will remain in full force and effect to the maximum extent allowed by law. The parties intend and desire that each portion of this letter agreement be given the maximum possible effect allowed by law.
- E. Headings .** The heading of the several sections of this letter agreement have been prepared for convenience and reference only and shall not control, affect the meaning, or be taken as the interpretation of any provision of this letter agreement.
- F. Applicable Law.** This letter agreement, and its interpretation and application, will be governed and controlled by the laws of the State of New York, applicable as though to a contract made in New York by residents of New York and wholly to be performed in New York without giving effect to principles of conflicts of law. Disputes arising under this letter agreement shall be adjudicated within the exclusive jurisdiction of a state or federal court located in Monroe County, New York. Neither party waives any right it may have to remove such an action to the United States Federal District Court located in Monroe County, New York.

Page 4 of 11

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Mr. Daniel T. Meek  
May 2, 2006

- G. Amendment.** This letter agreement may not be changed, modified, or amended, except in a writing signed by both you and Kodak which expressly acknowledges that it is changing, modifying or amending this letter agreement.
- H. Forfeiture.** In the event that you violate any provision of this letter agreement, including Addendum "A", or your Employee's Agreement, in addition to, and not in lieu of, any other remedies that Kodak may pursue against you, no further severance benefits will be made to you hereunder and you agree to immediately repay all severance benefits previously paid to you pursuant to this letter agreement. In such event all other provisions of this letter agreement will remain in full force and effect as though the breach had not occurred.

- I. Plan Documents Control.** To extent that the terms of this letter agreement relate to a compensation or benefit plan (including, without limitation, EXCEL, stock options, Leadership Stock, restricted stock and restricted stock units), such terms are subject to the provisions of the applicable governing documents (such as plan documents, administrative guides and award notices), which are subject to change.

Your signature below means that:

1. You have had ample opportunity to discuss the terms and conditions of this letter agreement with an attorney and/or financial advisor of your choice and as a result fully understand its terms and conditions; and
2. You accept the terms and conditions set forth in this letter agreement; and
3. This letter agreement, including in particular its reference regarding the continuing effectiveness of your Employee's Agreement, supersedes and replaces any and all agreements or understandings, whether written or oral, that you may have with the Company concerning your termination of employment and any special or other separation, termination, retirement or compensation arrangement.

If you find the foregoing acceptable, please sign your name on the signature line provided below. Once the letter agreement is executed, please return it directly to my attention.

Very truly yours,

Robert L. Berman

Enclosure

I accept the terms and conditions of this letter agreement.

Signed: \_\_\_\_\_  
Daniel T. Meek

Dated: \_\_\_\_\_

Page 5 of 11

Mr. Daniel T. Meek  
May 2, 2006

## **ADDENDUM A**

### AGREEMENT, WAIVER AND RELEASE

#### **NOTICE: YOU ARE ADVISED TO CONSULT WITH AN ATTORNEY PRIOR TO EXECUTING THIS AGREEMENT.**

This Agreement, Waiver and Release (the "Agreement") is a contract between the undersigned employee ("you") and your employer, Eastman Kodak Company ("Kodak"), dated \_\_\_\_\_. Your Last Day of Work is defined in the letter agreement between yourself and Kodak to which this Agreement is attached as Addendum A ("Letter Agreement").

#### **1. Benefits**

In consideration for signing this Agreement, you will receive the benefits (the "Termination Benefits") described in the Letter Agreement.

#### **2. Release**

In consideration for the Termination Benefits, you hereby release and discharge Kodak, its parent corporations, subsidiaries, affiliates, benefit plans and their plan administrators, successors and assigns and their respective directors, officers, employees and agents (hereinafter collectively referred to as the "Releasees"), both individually and in their official capacity, from all claims, actions and causes of action of any kind, which you, or your agents, executors, heirs, or assigns ever had, now have, or may have, whether known or unknown, as a result of your employment by or termination of employment from Kodak.

Page 6 of 11

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Mr. Daniel T. Meek  
May 2, 2006

As a result, you will be prevented from suing Kodak under any law, rule, regulation, or common law theory, including, but not limited to, the following:

- any federal, state or local law, regulation or executive order prohibiting discrimination on account of age, race, sex, sexual orientation, national origin, religion, disability, marital status, citizenship, color, or veteran status;
- the Age Discrimination In Employment Act of 1967, as amended;
- Title VII of the Civil Rights Act of 1964, as amended;
- the Civil Rights Act of 1866, as amended;
- the Employee Retirement Income Security Act, as amended;
- the Americans with Disabilities Act, as amended;
- the Family and Medical Leave Act, as amended;
- the National Labor Relations Act, as amended;
- the Equal Pay Act; as amended;
- claims for wrongful discharge, unjust dismissal, or constructive discharge;
- claims for breach of any alleged oral, written or implied contract of employment;
- claims for salary, severance payments, bonuses or other compensation of any kind (except as permitted under Section 3 below);
- claims for benefits (except as permitted under Section 3 below);
- claims for libel, slander, defamation and attorneys' fees; and
- any other claims under federal, state or local statute, law, rule or regulation, as amended, or under common law.

Page 7 of 11

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Mr. Daniel T. Meek  
May 2, 2006

### **3. Release Exclusions**

Excluded from the scope of this Release are claims for the following compensation and benefits:

- Claims for benefits to which you may be eligible under the terms of the following benefit plans, as such plans may be amended from time to time: Kodak Retirement Income Plan, Kodak Unfunded Retirement Income Plan, Kodak Excess Retirement Income Plan, Eastman Kodak Employees' Savings and Investment Plan, and Kodak Employee Stock Ownership Plan;
- Claims for retiree health care or dental services rendered after your termination, or life insurance benefits to which you may become entitled after your termination under any Company health care, dental, or life insurance plan, as such plans may be amended from time to time;
- Claims for expenses incurred by you or your covered family members prior to your termination of employment under the Kodak Medical Assistance Plan or the Kodak Dental Plan;
- Claims for accrued, but unpaid and unused, benefits under the Vacation Plan;

- Any claims that may arise after the date this Agreement is executed unrelated to your employment or the termination of your employment;
- Claims for any amounts or awards due you under the Eastman Kodak Company 1982 Executive Deferred Compensation Plan;
- Claims with respect to any injury compensable under applicable Workers' Compensation statutes;
- Claims under the Fair Labor Standards Act; and
- Claims for benefits and compensation owing to you under the Letter Agreement.

#### **4. No Future Lawsuits**

In addition to any and all other obligations you may have under the terms of this Agreement, you also separately and independently covenant and agree that, to the extent allowed by law, you will not sue Releasees upon any of the claims that you have released in Section 2 of this Agreement or assist any other person or entity in bringing any lawsuit against Kodak in any state or federal court with the exception of lawsuits based upon claims listed in Section 3.

#### **5. Cooperation**

You understand that Kodak may need your continued cooperation and involvement with various pieces of litigation and other legal matters which are pending at the time of your termination of employment or which may arise thereafter. In further consideration of the Termination Benefits, you agree, at Kodak's request from time to time, to cooperate with Kodak in its efforts to defend and/or pursue any such litigation or other legal matters. You will provide this assistance to Kodak at no additional remuneration beyond the Termination Benefits. When performing these services at Kodak's request, except where prohibited by law, Kodak will consider reimbursing you for reasonable travel and lodging expenses that you incur upon submission of documentation acceptable to Kodak. By way of illustration and not by way of limitation, the types of services that may be requested of you under this Section 5 include: attending strategy sessions, attending preparations for trial, appearing at depositions, executing affidavits and testifying at trials.

#### **6. Return of Kodak Property**

Whether or not you sign this Agreement, you, as a terminating employee, are reminded that prior to your termination of employment you must return to Kodak, (i) all documents, and other tangible items, and any copies, that are in your possession or control and which contain confidential information in written, magnetic or other form and shall have not given such documents, items, or copies to anyone other than another Kodak employee; and (ii) all other Kodak property within your possession including, but not limited to, office keys, identification badges or passes, Kodak credit cards, automobiles, and computer equipment and software. You understand and acknowledge your continuing obligation regarding the disclosure of confidential, proprietary and trade secret information which you have obtained during your employment with Kodak.

Page 8 of 11

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Mr. Daniel T. Meek  
May 2, 2006

#### **7. Eastman Kodak Company Executive Employee's Agreement**

Whether or not you sign this Agreement, you, as a terminating employee, are reminded that the Eastman Kodak Company Executive Employee's Agreement (the "Executive Employee's Agreement") entered into between Kodak and yourself remains in full force and effect after termination of your employment. Under the Executive Employee's Agreement, you reaffirmed your obligation not to disclose Kodak trade secrets, confidential or proprietary information. Also, under the terms of the Executive Employee's Agreement, you agreed not to engage in work or activities on behalf of any competitor of Kodak in the field in which you were employed by Kodak for a period following termination of your employment equal to the total number of months you were employed by Kodak, but in no event less than six (6) months or more than eighteen (18) months.

#### **8. Breach**

You agree that if you violate any part of this Agreement or the Executive Employee's Agreement described in Section 7 above, you will be responsible for all costs incurred by Kodak that flow from that violation, including Kodak's legal fees and other costs associated with any legal action that arises from that violation. You also agree that if you violate any part of this Agreement or the Executive Employee's Agreement, you will not be entitled to the Termination Benefits.

You further agree that any breach or threatened breach by you of this Agreement cannot be remedied solely by the recovery of damages and Kodak shall therefore be entitled to any injunction against such breach or threatened breach without posting any bond or other security. Nothing herein, however, shall be construed as prohibiting Kodak from pursuing, in connection with an injunction or otherwise, any other remedies available at law or equity for such breach or threatened breach, including the recovery of damages.

## 9. Confidentiality

In further consideration of the Termination Benefits, you agree that the content of Letter Agreement, any other agreements between you and Kodak and this Agreement will be kept confidential and will not be disclosed to any person or entity, except to your attorney, financial advisor/planner or spouse, or except as required by law. Nonetheless, either party to this Agreement (that is, you and Kodak) may disclose to any and all persons, without limitation of any kind the tax treatment and tax structure of this transaction and all materials of any kind (including opinions or other tax analyses) that may be provided to the party relating to tax treatment and tax structure.

Page 9 of 11

Mr. Daniel T. Meek  
May 2, 2006

## 10. Period of Review and Other Considerations

- a. **Date of Receipt** . You acknowledge that you received this Agreement on or prior to \_\_\_\_\_.
- b. **Attorney Consultation** . You acknowledge that you have had the opportunity to consult with an attorney of your choice concerning this Agreement.
- c. **Period of Review** . You acknowledge that you have been given at least 21 days in which to consider signing this Agreement. You understand that in the event you execute this Agreement within less than 21 days of the date of its delivery to you, you acknowledge that such decision was entirely voluntary and that you have had the opportunity to consider this Agreement for the entire 21 day period.
- d. **Entire Agreement** . This Agreement, including in particular its reference regarding the continuing effectiveness of the Executive Employee's Agreement and the Letter Agreement to which this Agreement is attached, sets forth the entire agreement between Kodak and yourself and supersedes and renders null and void any and all prior or contemporaneous oral or written understandings, statements, representations or promises regarding the subject matter hereof. This Agreement does not, however, supersede the Letter Agreement to which this Agreement is attached and the Executive Employee's Agreement which remain in full force and effect.
- e. **Governing Law** . This Agreement shall be construed and governed by the laws of the State of New York without giving effect to principles of conflicts of laws. Disputes arising under this Agreement shall be adjudicated within the exclusive jurisdiction of a state or federal court located in Monroe County, New York. Neither party waives any right it may have to remove such an action to the United States Federal District Court located in Monroe County, New York. If any provision of this Agreement including, but not limited to, the waiver of claims under any particular statute, should be deemed unenforceable, the remaining provisions shall, to the extent possible, be carried into effect, taking into account the general purpose and spirit of this Agreement.
- f. **Revocation of Agreement** . You understand that you have the right to revoke this Agreement within 7 days of your signing it, and that this Agreement shall not become effective or enforceable until this 7 day period has expired. To revoke this Agreement, you agree to notify in writing: Director, Human Resources and Senior Vice President, Eastman Kodak Company, 343 State Street, Rochester, NY 14650. Unless so revoked, this Agreement will be effective at 5:00 p.m. on such seventh day. You agree that if you exercise your right to revoke this Agreement within 7 days, your termination of employment will nevertheless occur, you will not be entitled to the Termination Benefits, and you will immediately return to Kodak any consideration you have already received.

Page 10 of 11

Mr. Daniel T. Meek  
May 2, 2006

**YOU HAVE CAREFULLY READ AND FULLY UNDERSTAND ALL THE PROVISIONS OF THIS AGREEMENT, AND YOU ARE ENTERING INTO THIS AGREEMENT VOLUNTARILY. YOU ACKNOWLEDGE THAT THE CONSIDERATION YOU ARE RECEIVING IN EXCHANGE FOR EXECUTING THIS AGREEMENT IS GREATER THAN THAT WHICH YOU WOULD BE ENTITLED TO IN THE ABSENCE OF THIS AGREEMENT. YOU HAVE NOT RELIED UPON ANY REPRESENTATION OR STATEMENT, WRITTEN OR ORAL, NOT SET FORTH IN THIS AGREEMENT.**

WITNESS MY SIGNATURE, THIS \_\_\_\_ DAY OF \_\_\_\_\_, 2006.

Sworn to before me this \_\_\_\_ day of \_\_\_\_\_, 2006.

---

Notary Public

WITNESS MY SIGNATURE, THIS \_\_\_\_ DAY OF \_\_\_\_\_, 2006

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Corporate Officer  
Eastman Kodak Company

Sworn to before me this \_\_\_\_ day of \_\_\_\_\_, 2006

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Notary Public



August 14, 2006

Ms. Mary Jane Hellyar  
(address intentionally omitted)

Dear Mary Jane:

The purpose of this letter, which will become an agreement once both you and Eastman Kodak Company ("Kodak") sign it, is to describe certain benefits for which you are eligible under the conditions described below.

## 1. Restricted Stock Retention Grant

The Executive Compensation and Development Committee of the Board ("Compensation Committee") has made a one-time grant to you of 15,000 shares of restricted Kodak common stock under, and subject to, the terms of the 2005 Omnibus Long-Term Compensation Plan. The restrictions on 7,500 shares will lapse on the third anniversary of the date of grant, and the restrictions on the remaining 7,500 shares will lapse on the fifth anniversary of the date of grant. The specific terms, conditions and restrictions of your restricted stock grant will be contained in an award notice delivered to you shortly after the grant date ("Award Notice"). This Letter Agreement is subject to the terms of the Award Notice. If your employment is terminated by Kodak without Cause (defined below), Kodak will recommend to the Compensation Committee that your termination be treated as for an "Approved Reason" under the Award Notice, which, if the Compensation Committee approves Kodak's recommendation, would permit you to retain any shares that had not vested as of your termination date.

## 2. Severance Benefits

**A. In General.** If (i) your employment terminates because of a "Disability" (as defined below), or (ii) Kodak terminates your employment for reasons other than "Cause" without offering you a reasonably comparable position commensurate with your experience and background, Kodak will pay you a severance allowance equal to two (2) times your then-current annual total target compensation (base salary plus target award under the Executive Compensation for Excellence and Leadership plan ("EXCEL")), subject to your satisfaction of the terms of this Section 2. This amount will be paid over the twelve-month period commencing on the six-month anniversary of your last day of work. Payments will be substantially equivalent and generally made consistently with Kodak's normal payroll cycles (currently bi-weekly), but no less frequently than monthly. Kodak will withhold from the severance allowance all income, payroll and employment taxes required by applicable law or regulation to be withheld. This severance allowance will be paid to you in lieu of any other severance benefit, payment or allowance for which you would otherwise be eligible, except any benefits payable to you under Kodak's Termination Allowance Plan ("TAP") or any successor plan thereto. To the extent, however, you are eligible for a severance benefit under TAP (or any successor plan), the benefits payable to you under this Section shall be reduced by the amount of such severance benefit. In no event will any of this severance allowance be "benefits bearing." In other words, the amount of these benefits will not be taken into account, nor considered for any reason, for purposes of determining any Kodak provided benefits or compensation to which you are or may become eligible.

Ms. Mary Jane Hellyar  
August 14, 2006

- B. Continuation of Existing Health, Dental and Basic Life Insurance Coverages.** Your existing elections under the Kodak Medical Assistance Plan ("Kmed") and the Kodak Dental Assistance Plan ("Kdent") and for Basic Coverage under the Kodak Life Insurance Plus Plan will be continued, and fully paid by Kodak, until the last day of the fourth month immediately following the month of your termination from employment.
- C. Outplacement Services.** Outplacement services will be provided to you in the same manner, and on the same terms and conditions, as if you were eligible for "Outplacement Services" pursuant to Article 8 of TAP.
- D. Agreement, Waiver and Release.** In order to receive the severance allowance and other benefits described in this Section 2, you must execute immediately prior to your termination of employment a waiver, general release and covenant not to sue in favor of Kodak (the "Agreement, Waiver and Release"), in a form satisfactory to the Senior Vice President and Director, Human Resources, of Kodak. In the event you breach any of the terms of the Eastman Kodak Company Employees' Agreement or the Agreement, Waiver and Release, in addition to and not in lieu of, any other remedies that Kodak may pursue against you, no further severance allowance payments will be made to you pursuant to this Section and you agree to immediately repay to Kodak all moneys previously paid to you pursuant to this Section.
- E. Cause.** For purposes of this letter, "Cause" shall mean:
- i. your continued failure, for a period of at least 30 calendar days following a written warning, to perform your duties in a manner deemed satisfactory by your supervisor, in the exercise of his/her sole discretion; or

- ii. your failure to follow a lawful written directive of the Chief Executive Officer or your supervisor; or
- iii. your willful violation of any material rule, regulation, or policy that may be established from time to time for the conduct of Kodak's business; provided, however, that for the purposes of determining whether conduct constitutes willful violation, no act on your part shall be considered "willful" unless it is done by you in bad faith and without reasonable belief that your action was in the best interests of Kodak;; or
- iv. your unlawful possession, use or sale of narcotics or other controlled substances, or, performing job duties while illegally used controlled substances are present in your system; or
- v. any act of omission or commission by you in the scope of your employment (a) which results in the assessment of a civil or criminal penalty against you or Kodak, or (b) which in the reasonable judgment of your supervisor could result in a material violation of any foreign or U.S. federal, state or local law or regulation having the force of law; or
- vi. your conviction of or plea of guilty or no contest to any crime involving moral turpitude; or
- vii. any willful misrepresentation of a material fact to, or willful concealment of a material fact from, your supervisor or any other person in Kodak to whom you have a reporting relationship in any capacity; provided, however, that for the purposes of determining whether conduct constitutes willful misrepresentation or concealment, no act on your part shall be considered "willful" unless it is done by you in bad faith and without reasonable belief that your action was in the best interests of Kodak; or
- viii. your breach of Kodak's Business Conduct Guide, the Eastman Kodak Company Employee's Agreement or similar guide or agreement of a prior employer.

**F. Disability** . For purposes of this letter, the term "Disability" means disability under the terms of the Kodak Long-Term Disability Plan.

Page 2 of 6

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Ms. Mary Jane Hellyar  
August 14, 2006

### **3. Other Benefits**

**A. In General** . Kodak will provide you with the following benefits, subject to your satisfaction of the terms of this Section 3:

- i. if, before June 1, 2007, you terminate employment as a result of a Disability (as defined above) or Kodak terminates your employment for reasons other than "Cause" (as defined above) without offering you a reasonably comparable position commensurate with your experience and background, Kodak will pay you \$680,000;
- ii. if, on or after June 1, 2007 and before June 1, 2008, you terminate employment as a result of a Disability (as defined above) or Kodak terminates your employment for reasons other than "Cause" (as defined above) without offering you a reasonably comparable position commensurate with your experience and background, Kodak will pay you \$320,000;
- iii. if your employment terminates on or after June 1, 2008 for any reason, Kodak will not make any payment to you under this Section 3.

In no event will any benefits paid under this Section 3 be "benefits bearing," as defined above.

**B. Payment.** The amount of the benefits, if any, payable to you pursuant to this Section 3 will: (i) be paid in the form of a lump sum payment within 60 days after your termination of employment; (ii) be paid out of Kodak's general assets; (iii) not be funded in any manner; and (iv) be included in your gross income as ordinary income, subject to all income, payroll and employment tax withholdings required to be made under all applicable federal, state and local law or regulation.

Page 3 of 6

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Ms. Mary Jane Hellyar  
August 14, 2006

### **4. Miscellaneous**

**A. Confidentiality** . You agree to keep the content and existence of this letter agreement confidential except that you may review it with your

supervisor, attorney, financial advisor, and/or with me or my designee. Prior to any such disclosure, you agree to advise these individuals of the confidential nature of this letter agreement and the facts giving rise to it as well as their obligations to maintain the confidentiality of this letter agreement and the facts giving rise to it.

- B. Tax Liability.** By signing this letter agreement you agree that the Company has not provided you with advice regarding the tax treatment of any of the benefits or payments provided hereunder. You hereby acknowledge that Kodak will not report any such amounts as taxable (or make any related withholding of tax) under Section 409A of the Internal Revenue Code of 1986, as amended, or administrative guidance thereunder, and you agree to indemnify and hold the Company harmless for any liability associated with such reporting and withholding treatment.
- C. Section 409A of the Internal Revenue Code.** The arrangements described in this letter agreement are intended to comply with Section 409A of the Internal Revenue Code to the extent such arrangements are subject to that law. The parties agree that they will negotiate in good faith regarding amendments necessary to bring the arrangements into compliance with the terms of that Section or an exemption therefrom as interpreted by guidance issued by the Internal Revenue Service; provided, however, that Kodak may unilaterally amend this agreement for purposes of compliance if, in its sole discretion, Kodak determines that such amendment would not have a material adverse effect with respect to your rights under the agreement. The parties further agree that to the extent an arrangement described in this letter fails to qualify for exemption from or satisfy the requirements of Section 409A, the affected arrangement may be operated in compliance with Section 409A pending amendment to the extent authorized by the Internal Revenue Service. In such circumstances Kodak will administer the letter in a manner which adheres as closely as possible to the existing terms and intent of the letter while complying with Section 409A. This paragraph does not restrict Kodak's rights (including, without limitation, the right to amend or terminate) with respect to arrangements described in this letter to the extent such rights are reserved under the terms of such arrangements.
- D. Unenforceability.** If any portion of this letter agreement is deemed to be void or unenforceable by a court of competent jurisdiction, the remaining portions will remain in full force and effect to the maximum extent allowed by law. The parties intend and desire that each portion of this letter agreement be given the maximum possible effect allowed by law.
- E. Headings.** The heading of the several sections of this letter agreement have been prepared for convenience and reference only and shall not control, affect the meaning, or be taken as the interpretation of any provision of this letter agreement.
- F. Applicable Law.** This letter agreement, and its interpretation and application, will be governed and controlled by the laws of the State of New York, applicable as though to a contract made in New York by residents of New York and wholly to be performed in New York without giving effect to principles of conflicts of law. Disputes arising under this letter agreement shall be adjudicated within the exclusive jurisdiction of a state or federal court located in Monroe County, New York. Neither party waives any right it may have to remove such an action to the United States Federal District Court located in Monroe County, New York.

Page 4 of 6

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Ms. Mary Jane Hellyar  
August 14, 2006

- G. Amendment.** Except as provided in Subsection (C), this letter agreement may not be changed, modified, or amended, other than in a writing signed by both you and Kodak which expressly acknowledges that it is changing, modifying or amending this letter agreement.
- H. Forfeiture.** In the event that you violate any provision of this letter agreement, in addition to, and not in lieu of, any other remedies that Kodak may pursue against you, no further severance benefits will be made to you hereunder and you agree to immediately repay all severance benefits previously paid to you pursuant to this letter agreement. In such event all other provisions of this letter agreement will remain in full force and effect as though the breach had not occurred.
- I. Plan Documents Control.** To extent that the terms of this Agreement relate to a compensation or benefit plan, such terms are subject to the provisions of the applicable governing documents (such as plan documents, administrative guides and award notices), which are subject to change.
- J. Administration.** The benefit described in this Agreement will be administered by the Kodak employee with the title Director of Human Resources for Kodak ("Administrator"), in accordance with the terms of this Agreement. The Administrator will have total and exclusive responsibility to control, operate, manage and administer the Agreement in accordance with its terms and all the authority that may be necessary or helpful to enable him or her to discharge his or her responsibilities with respect to such benefits. Without limiting the generality of the preceding sentence, the Administrator will have the exclusive right to: interpret the this Agreement, decide all questions concerning eligibility for and the amount of benefits payable under this Agreement (including, without limitation, whether Kodak has offered you a reasonably comparable position for purposes of this Agreement), construe any ambiguous provision of the this Agreement, correct any default, supply any omission, reconcile any inconsistency, and decide all questions arising in the administration, interpretation and application of this Agreement. The Administrator will have full discretionary authority in all matters related to the discharge of his or her responsibilities and the exercise of his or her authority under this Agreement, including, without limitation, his or her construction of the terms of this Agreement and his or her determination of eligibility for benefits under this Agreement. It is the intent of this Agreement, as well as both parties hereto, that the decisions of the Administrator and his or her actions with respect to this Agreement will be final and

binding upon all persons having or claiming to have any right or interest in or under this Agreement and that no such decision or actions shall be modified upon judicial review unless such decision or action is proven to be arbitrary or capricious.

Ms. Mary Jane Hellyar  
August 14, 2006

Your signature below means that:

1. You have had ample opportunity to discuss the terms and conditions of this letter agreement with an attorney and/or financial advisor of your choice and as a result fully understand its terms and conditions; and
2. You accept the terms and conditions set forth in this letter agreement; and
3. This letter agreement supersedes and replaces any and all agreements or understandings, whether written or oral, that you may have had with the Company concerning the matters discussed herein.

If you find the foregoing acceptable, please sign your name on the signature line provided below. Once the letter agreement is executed, please return it directly to my attention.

Very truly yours,

Robert L. Berman

I accept the terms and conditions of this letter agreement.

Signed: \_\_\_\_\_  
Mary Jane Hellyar

Dated: \_\_\_\_\_

cc:Antonio Perez

**Eastman Kodak Company**  
**Computation of Ratio of Earnings to Fixed Charges**  
(in millions, except for ratios)

Year Ended December 31

	2006	2005	2004	2003	2002
(Loss) earnings from continuing operations before provision for income taxes	\$ (346)	\$ (799)	\$ (113)	\$ 62	\$ 890
Adjustments:					
Minority interest in income of subsidiaries with fixed charges	7	4	2	24	17
Undistributed (earnings)/loss of equity method investees	(7)	(12)	(30)	41	107
Interest expense	262	211	168	147	173
Interest component of rental expense (1)	57	50	54	53	53
Amortization of capitalized interest	43	22	25	27	28
Earnings as adjusted	<u>\$ 16</u>	<u>\$ (524)</u>	<u>\$ 106</u>	<u>\$ 354</u>	<u>\$ 1,268</u>
Fixed charges:					
Interest expense	\$ 262	\$ 211	\$ 168	\$ 147	\$ 173
Interest component of rental expense (1)	57	50	54	53	53
Capitalized interest	3	3	2	2	3
Total fixed charges	<u>\$ 322</u>	<u>\$ 264</u>	<u>\$ 224</u>	<u>\$ 202</u>	<u>\$ 229</u>
Ratio of earnings to fixed charges	*	**	***	1.8x	5.5x

(1) Interest component of rental expense is estimated to equal 1/3 of such expense, which is considered a reasonable approximation of the interest factor.

\* Earnings for the year ended December 31, 2006 were inadequate to cover fixed charges. The coverage deficiency was \$306 million.

\*\* Earnings for the year ended December 31, 2005 were inadequate to cover fixed charges. The coverage deficiency was \$788 million.

\*\*\* Earnings for the year ended December 31, 2004 were inadequate to cover fixed charges. The coverage deficiency was \$118 million.

## Subsidiaries of Eastman Kodak Company

Companies Consolidated	Organized Under Laws of
Eastman Kodak Company	New Jersey
Laser-Pacific Media Corporation	Delaware
FPC, Inc.	California
PracticeWorks, Inc.	Delaware
Qualex Inc.	Delaware
Qualex Canada Photofinishing Inc.	Canada
Eastman Gelatine Corporation	Massachusetts
OREX Computed Radiography U.S., Inc.	Delaware
Pakon, Inc.	Indiana
Kodak Imaging Network, Inc. (formerly Ofoto, Inc.)	Delaware
Eastman Canada Company	Canada
Kodak Canada Inc.	Canada
Kodak Graphic Communications Canada Company	Canada
Creo Capital Netherlands B.V.	Netherlands
Creo EMEA S.A	Belgium .
Kodak Argentina S.A.I.C.	Argentina
Kodak Chilena S.A. Fotografica	Chile
Kodak Americas, Ltd.	New York
Kodak Venezuela, S.A.	Venezuela
Kodak (Near East), Inc.	New York
Kodak (Singapore) Pte. Limited	Singapore
Kodak Philippines, Ltd.	New York
Kodak Polychrome Graphics Company Ltd.	Barbados
Kodak Limited	England
Cinesite (Europe) Limited	England
Kodak India Limited	India
Kodak International Finance Limited	England
Kodak Polska Sp.zo.o	Poland
Kodak OOO	Russia
Kodak Czech Spol s.r.o.	Czech Republic
Kodak S.A.	France
Kodak-Pathe SAS	France
Trophy Radiologie S.A.	France
Kodak Verwaltung GmbH	Germany
Eastman Kodak Holdings B.V.	Netherlands
Eastman Kodak SA	Switzerland
Kodak Brasileira Comercio E Industria Ltda.	Brazil
Kodak Nederland B.V.	Netherlands
Kodak Polychrome Graphics Enterprises B.V.	Netherlands
Algotec Systems Ltd.	Israel
OREX Computed Radiography, Ltd.	Israel
Kodak (China) Investment Company Ltd.	China

Companies Consolidated	Under Laws of
Eastman Kodak Company	
Kodak Korea Ltd.	South Korea
Kodak New Zealand Limited	New Zealand
Kodak (Australasia) Pty. Ltd.	Australia
Kodak (South Africa) (Proprietary) Limited	South Africa
Kodak (Egypt) S.A.E.	Egypt
Kodak (Malaysia) Sdn.Bhd.	Malaysia
Kodak (Taiwan) Limited	Taiwan
Eastman Kodak International Capital	
Company, Inc.	Delaware
Kodak de Mexico S.A. de C.V.	Mexico
Kodak Export de Mexico, S. de R.L. de C.V.	Mexico
Kodak Mexicana, S.A. de C.V.	Mexico
N.V. Kodak S.A.	Belgium
Kodak A/S	Denmark
Kodak Norge A/S	Norway
Kodak Societe Anonyme	Switzerland
Kodak (Hong Kong) Limited	Hong Kong
Kodak (Thailand) Limited	Thailand
Kodak Gesellschaft m.b.H.	Austria
Kodak Kft.	Hungary
Kodak Oy	Finland
Kodak S.p.A.	Italy
Kodak Portuguesa Limited	New York
Kodak, S.A.	Spain
Kodak Nordic AB	Sweden
Kodak Japan Ltd.	Japan
K.K. Kodak Information Systems	Japan
Kodak Digital Product Center, Japan Ltd.	Japan
Kodak (China) Limited	Hong Kong
Kodak Electronic Products (Shanghai) Company	
Limited	China
Kodak (China) Company Limited	China
Kodak (China) Graphic Communications Company Ltd.	China
Kodak (Wuxi) Company Limited	China
Kodak (Xiamen) Company Limited	China
Kodak (Shanghai) International Trading	
Co. Ltd.	China
Shanghai Da Hai Camera Co., Ltd.	China

Note: Subsidiary Company names are indented under the name of the parent company.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-111726, No. 333-108562, No. 333-56964, and No. 333-31759), Form S-4 (No. 333-74572) and Form S-8 (No. 33-56499, No. 33-65033, No. 33-65035, No. 333-57729, No. 333-57659, No. 333-57665, No. 333-23371, No. 333-43526, No. 333-43524, No. 333-64366, and No. 333-125355), of Eastman Kodak Company of our report dated February 28, 2007 relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Rochester, New York  
March 1, 2007

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**CERTIFICATION**

I, Antonio M. Perez, certify that:

1. I have reviewed this Annual Report of Eastman Kodak Company on Form 10-K;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2007

/s/ Antonio M. Perez

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Antonio M. Perez  
Chairman and Chief Executive Officer

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**CERTIFICATION**

I, Frank S. Sklarsky, certify that:

1. I have reviewed this Annual Report of Eastman Kodak Company on Form 10-K;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2007

/s/ Frank S. Sklarsky

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Frank S. Sklarsky  
Chief Financial Officer

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**CERTIFICATION PURSUANT TO  
18 U.S.C. Section 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Eastman Kodak Company (the "Company") on Form 10-K for period ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Antonio M. Perez, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Antonio M. Perez

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Antonio M. Perez  
Chairman and Chief Executive Officer

March 1, 2007

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**CERTIFICATION PURSUANT TO  
18 U.S.C. Section 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Eastman Kodak Company (the "Company") on Form 10-K for the period ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frank S. Sklarsky, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Frank S. Sklarsky

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Frank S. Sklarsky  
Chief Financial Officer

March 1, 2007

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