SKYEPHARMA PLC
Form 6-K
January 22, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a - 16 OR 15d - 16 OF
THE SECURITIES EXCHANGE ACT OF 1934

For the month of January, 2007

SkyePharma PLC

(Translation of registrant's name into English)

SkyePharma PLC, 105 Piccadilly, London W1J 7NJ England

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40F.

Form 20-F X   Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes   No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-
____

For immediate release **22 January 2007**

SkyePharma PLC ("the Company")
Notification of Interests of Directors

The Company was informed on 19 January 2007 by Dr David Ebsworth, Non-Executive Director of SkyePharma PLC, that on 19 January 2007 he had purchased 67,000 Ordinary Shares in the Company at a price of 23.99 pence per share. The shares are registered in the name of DWP Bank. As a result of the transaction Dr Ebsworth now has a beneficial interest in 200,000 Ordinary Shares in the Company which represents 0.03% of the Issued Share Capital of the Company.

- ends -

SIGNATURES

Pursuant to the requirements 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.

SkyePharma PLC

By: /s/ John Murphy

Name: John Murphy
Title: Company Secretary

Date: January 22, 2007

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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

$

978

$

854

$

8,136

$

(90

)

$

(5,844

)

$

4,034

Eastman Kodak Company
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY Contd.

(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	$ 978	$ 867	$ 6,717	$ (467)	$ (5,813)	$ 2,282

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Eastman Kodak Company
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY Contd.

(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
		(1)	(2)		6	3

Unvested stock issuances (109,935 shares)						
Shareholders Equity December 31, 2006	$ 978	$ 881	$ 5,967	$ (635)	$ (5,803)	$ 1,388

(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.

Eastman Kodak Company
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Year Ended December 31,		
(in millions)	**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

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.

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Eastman Kodak Company
NOTES TO FINANCIAL STATEMENTS

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 Companys products are manufactured in a number of countries in North and South America, Europe and Asia. The Companys 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 investees 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 Kodaks 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 Companys products. The average cost method also better reflects the cost of inventory on the Companys 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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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 Companys 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 managements 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.

REVENUE

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

For product sales, the recognition criteria are generally met when title and risk of loss have transferred from the Company to the buyer, which may be upon shipment or upon delivery to the customer site, based on contract terms or legal requirements in 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 Companys 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 Kodaks intellectual property, (2) the Company delivers the technology or intellectual property rights, (3) licensee payment is deemed fixed or determinable and free of contingencies or significant uncertainties, and (4)

collection from the licensee is reasonably assured.

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

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.

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 Companys 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 Companys 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.

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
Numerator:			
(Loss) earnings from continuing operations used in basic net (loss) earnings per share	$ (600)	$ (1,354)	$ 69
Denominator:			
Number of common shares used in basic net earnings per share	287.3	287.9	286.6
Effect of dilutive securities:			
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 Companys 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 options 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 Companys common stock for each $1,000 principal of the Convertible Securities. The Companys 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 Companys 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.

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.

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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
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 Companys 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 entitys 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.

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.

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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

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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	LIFO to Average	As Adjusted

	Reported	Cost Change in Costing Methodology Adjustments (1)	
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.

	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
ASSETS			
Current Assets			

Inventories, net	$ 1,140	$ 315	$ 1,455
Total Current Assets	5,781	315	6,096
TOTAL ASSETS	$ 14,921	$ 315	$ 15,236
SHAREHOLDERS EQUITY			
Retained earnings	$ 6,402	$ 315	$ 6,717
Total Shareholders Equity	1,967	315	2,282
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	$ 14,921	$ 315	$ 15,236

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Components of the Companys 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 Companys 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.

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	$ 1,107	$ 434	$ 673	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	$ 1,094	$ 288	$ 806	9 years

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	$ 673

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	$ 3,725	$ 3,221

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

NOTE 7: INVESTMENTS

Equity Method -

At December 31, 2006 and 2005, the Companys significant equity method investees and the Companys 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 Companys 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.

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

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 Corporations 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 Companys 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.

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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	$ 4,143	$ 4,187

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 Companys 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	$ 64	$ 819

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):

			2006		2005	
Country	Type	Maturity	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.

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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.

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.

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	$ 1,283	$ 1,225

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.

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	$ 70	$ 88	$ 85

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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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.

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	$ 101	$ 75

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.

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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 Companys 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 Companys 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 Companys 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 Companys business, financial position, results of operations or cash flows.

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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 Companys $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.

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:

	2006		2005	
(in millions)	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 Companys International Treasury Center, as well as forecasted foreign currency denominated intercompany sales. Silver forward contracts are used to mitigate the Companys risk to fluctuating silver prices. The Companys 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.

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	$ 118	$ 44	$ 161

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**
(Loss) earnings before income taxes			
U.S.	$ (555)	$ (1,007)	$ (600)
Outside the U.S.	209	208	487
Total	$ (346)	$ (799)	$ (113)
U.S. income taxes			
Current provision (benefit)	$ 194	$ 19	$ (234)
Deferred (benefit) provision	(145)	493	(92)
Income taxes outside the U.S.			
Current provision	135	138	141
Deferred provision (benefit)	38	(93)	(2)
State and other income taxes			
Current provision (benefit)	45	(2)	2

Deferred (benefit) provision	(13)		3
Total	$ 254	$ 555	$ (182)

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 Companys 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 Companys 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 Companys 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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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 Companys 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 managements 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 Companys 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.

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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.

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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 Companys tax rate in China was zero percent for 2005. For 2006, 2007 and 2008, the Companys tax rate will be 7.5%, which is 50% of the normal 15% tax rate for the jurisdiction in which Kodak operates. Thereafter, the Companys 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.

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
2004-2007 Restructuring Program:							
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)	—	—
Pre-2004 Restructuring Programs:							
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 Companys 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 Companys 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 Companys 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.

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 Companys traditional businesses, and to sharpen the Companys 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, Kodaks 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.

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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.

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 Companys 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.

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:

	2006		**2005**	
(in millions)	**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

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:

	2006		2005	
(in millions)	**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:

	2006	
(in millions)	**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:

	2006		2005	
(in millions)	**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:

	2006		2005	
(in millions)	**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

Pension (income) expense for all defined benefit plans included:

	2006		2005		2004	
(in millions)	**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 Companys 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 Companys 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.

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 plans 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 countrys 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 Companys 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%	

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.

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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	$ 3,009	$ 3,061
Underfunded status at end of year	$ (3,009)	$ (3,061)
Unamortized net actuarial loss		$ 968
Unamotized prior service credit		(172)
Net amount recognized and recorded at December 31, 2005		$ (2,265)

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)
	$ (3,009)

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	$ 800

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	$164	$172	$103

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 Plans 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 Companys 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:

	12 months ended December 31, 2004		
(in millions)	**Effect of Subsidy**	**Effect of Assumption Changes**	**Total**
Service cost	$	$ 1	$ 1
Interest cost	13	13	26
Amortization of actuarial gain	17	8	25
	$ 30	$ 22	$ 52

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	$ (635)	$ (467)	$ (90)

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.

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.

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**	**Options**	**Weighted-Average Exercise Price**
$20	$30	4,871	5.26	$26.05	2,056	$ 26.60
$30	$40	16,514	3.79	$32.46	16,286	$ 32.46
$40	$50	578	4.08	$41.71	577	$ 41.70
$50	$60	1,666	3.21	$54.77	1,661	$ 54.77
$60	$70	5,974	1.53	$65.43	5,961	$ 65.44
$70	$80	2,684	0.61	$74.20	2,683	$ 74.20
Over $ 80		2,324	0.17	$89.96	2,324	$ 89.96
		34,611			31,548	

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.

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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	$	967

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	$	1,269
Current liabilities	$	241
Non-current liabilities		61
Total liabilities assumed	$	302
Net assets acquired	$	967

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	$	720

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	$ 1,063
Current liabilities	$ 262
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 Companys 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 Companys 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 Companys historical ownership in the KPG joint venture, the restructuring charges were reflected in the Companys 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

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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 Companys 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.

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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	$ 30

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)
	$	171

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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
Total assets acquired	$	284
Current liabilities	$	23
Other non-current liabilities		9
Total liabilities assumed	$	32
Net assets acquired	$	252

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 Companys 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.

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 Companys 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.

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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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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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,	
(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	$	$

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:

	Year Ended December 31,	
(in millions)	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	$ 33	$ 19

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.

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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
Consolidated total	$ 13,274	$ 14,268	$ 13,517
Earnings (losses) from continuing operations before interest, other income (charges), net, and income taxes:			
Consumer Digital Imaging Group	$ 1	$ (131)	$ (189)
	358	540	854

Film and Photofinishing Systems Group			
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	$ (346)	$ (799)	$ (113)
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	12,241	13,180	12,841
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	$ 14,320	$ 15,236	$ 14,934

(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	$ 146	$ 125	$ 67
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		900		890		781
Restructuring-related depreciation		285		391		183
Consolidated total	$	1,185	$	1,281	$	964
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.

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(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 SPGs 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 Companys 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 Companys 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, Managements 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.

NOTE 24: QUARTERLY SALES AND EARNINGS DATA - UNAUDITED

(in millions, except per share data)		4th Qtr.		3rd Qtr.		2nd Qtr.		1st Qtr.
2006								
Net sales from continuing operations	$	3,821	$	3,204	$	3,360	$	2,889
Gross profit from continuing operations		1,007		874		809		678
Earnings (loss) from continuing operations		17(4)		(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)
2005				
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)

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(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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(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 Companys 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 Companys 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 Companys 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 Companys 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.

NOTE 25: SUBSEQUENT EVENT - PENDING SALE OF THE COMPANYS HEALTH GROUP

On January 8, 2007, the Companys 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 Companys 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.

Eastman Kodak Company
SUMMARY OF OPERATING DATA (in millions, except per share data, shareholders, and employees)

	2006	2005	2004	2003
Net sales from continuing operations	$ 13,274	$ 14,268	$ 13,517	$ 12,909
(Loss) earnings from continuing operations before interest, other income (charges), net, and income taxes	(202)	(632)	(106)	260
(Loss) earnings from:				
Continuing operations	(600)(1)	(1,354)(2)	69(3)	163(4)
Discontinued operations	(1)	150(6)	475(6)	64(6)
Cumulative effect of accounting change		(57)		
NET (LOSS) EARNINGS	(601)	(1,261)	544	227
EARNINGS AND DIVIDENDS				
(Loss) earnings from continuing operations				
- % of net sales from continuing operations	(4.5)%	(9.5)%	0.5%	1.3%
Net (loss) earnings				
- % return on average shareholders equity	(32.8)%	(39.9)%	14.5%	7.0%
Basic and diluted (loss) earnings per share:				
Continuing operations	(2.09)	(4.70)	.24	.57
Discontinued operations		.52	1.66	.22
Cumulative effect of accounting change		(.20)		
Total	(2.09)	(4.38)	1.90	.79
Cash dividends declared and paid				
- on common shares	144	144	143	330
- per common share	.50	.50	.50	1.15
Common shares outstanding at year end	287.3	287.2	286.7	286.6
Shareholders at year end	63,193	75,619	80,426	85,712
STATEMENT OF FINANCIAL POSITION DATA				
Working capital	586	607	872	423
Property, plant and equipment, net	2,842	3,778	4,512	5,051
Total assets	14,320	15,236	15,084	15,213
Short-term borrowings and current portion of long-term debt	64	819	469	946
Long-term debt, net of current portion	2,714	2,764	1,852	2,302
Total shareholders equity	1,388	2,282	4,034	3,471
SUPPLEMENTAL INFORMATION (all amounts are from continuing operations)				
Net sales from continuing operations				
- CDG	$ 2,920	$ 3,215	$ 2,366	$ 1,516
- FPG	4,156	5,325	7,051	7,941
- Graphic Communications Group	3,632	2,990	1,344	967
- Health Group	2,497	2,655	2,686	2,431
- All Other	69	83	70	54
Research and development costs	710	892	836	760
Depreciation	1,185	1,281	964	839

Taxes (excludes payroll, sales and excise taxes)	327	798	(100)	4
Wages, salaries and employee benefits	3,097	3,941	4,188	3,960
Employees at yearend				
- in the U.S.	20,600	25,500	29,200	33,800
- worldwide	40,900	51,100	54,800	62,300

(see footnotes on next page)

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.

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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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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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 Companys 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 Companys 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:

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STOCK OPTIONS AND SARS OUTSTANDING UNDER SHAREHOLDER- AND NON-SHAREHOLDER-APPROVED PLANS

As required by Item 201(d) of Regulation S-K, the Companys 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 common stock on the date of grant; 2) a two-year vesting period; and 3) a term of 10 years.

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

(a) 1. Consolidated financial statements:

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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
Antonio M. Perez
Chairman & Chief Executive Officer

By:
/s/ Frank S. Sklarsky
Frank S. Sklarsky
Chief Financial Officer, and Executive Vice President

/s/ Diane E. Wilfong
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
Richard S. Braddock, Director

/s/ Debra L. Lee
Debra L. Lee, Director

/s/ Martha Layne Collins
Martha Layne Collins, Director

/s/ Delano E. Lewis
Delano E. Lewis, Director

/s/ Timothy M. Donahue
Timothy M. Donahue, Director

/s/ Antonio M. Perez
Antonio M. Perez, Director

/s/ Michael Hawley
Michael Hawley, Director

/s/ Hector de J. Ruiz
Hector de J. Ruiz, Director

/s/ William H. Hernandez
William H. Hernandez, Director

/s/ Laura DAndrea Tyson
Laura DAndrea Tyson

/s/ Durk I. Jager
Durk I. Jager, Director

Date: March 1, 2007

Schedule II

Eastman Kodak Company
Valuation and Qualifying Accounts
(in millions)

	Balance at Beginning of Period	Charges to Earnings and Equity	Amounts Written Off	Balance at End of Period
Year ended December 31, 2006				
Deducted in the Statement of Financial Position:				
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
Year ended December 31, 2005				
Deducted in the Statement of Financial Position:				
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
Year ended December 31, 2004				
Deducted in the Statement of Financial Position:				
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

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Eastman Kodak Company
Index to Exhibits

Exhibit Number

(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.)

Exhibit Number		
	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.)

Eastman Kodak Company
Index to Exhibits (continued)

Exhibit Number	
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 September 30, 2005, Exhibit 10.)
	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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Eastman Kodak Company
Index to Exhibits (continued)

Exhibit Number

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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Exhibit Number	
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	
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.)

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.