



# Kodak Highlights

May 1974

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## **On the Cover**

Nearly 900 persons attended the 1974 annual meeting of Kodak shareowners. Company president Walter A. Fallon reviewed Kodak's business progress and discussed the outlook. A complete report of the meeting is presented in this issue.

## **Kodak Highlights**

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## Shareowners Participate in Annual Meeting

The 73rd Annual Meeting of Kodak shareowners was held in Flemington, New Jersey, on Tuesday, April 30. Gerald B. Zornow, board chairman, presided.

Nearly 80 percent or 128,022,963 of your company's 161,330,902 shares outstanding and entitled to be voted were present or represented by proxy at the meeting. Your management and board of directors are grateful to the shareowners represented in person and by proxy who made this fine representation possible.

In other shareowner voting, the independent certified public accounting firm of Price Waterhouse & Company was reelected as auditors for the year 1974. The vote was 127,712,559 in favor with 296,692 against.

A proposal to amend the company's by-laws to prohibit company-sponsored political contributions was defeated by shareowners. The resolution, submitted by the Project on Corporate Responsibility, Inc., received 7,106,572 votes in favor, while 117,357,450 votes were cast against the proposal.

The following directors were elected at the meeting of shareowners to serve for the ensuing year:

Theodore C. Achilles  
Norman F. Beach  
Harmar Brereton  
Colby H. Chandler  
Louis K. Eilers  
Walter A. Fallon  
Harry D. McNeeley  
John M. Meyer, Jr.  
Donald S. Perkins  
Wyllie S. Robson  
Robert A. Sherman  
Herman H. Waggerhauser  
W. Allen Wallis  
Frederic S. Welsh  
John D. Wright  
Gerald B. Zornow



*A review of Kodak business results and comments concerning the company's outlook—on the near and farther term—were contained in the following remarks delivered by Walter A. Fallon, president and chief executive officer, to shareowners at the annual meeting.*

For the first time in recent memory, this report can begin with a "Good Morning" rather than a "Good Afternoon." Our earlier start today responds to requests from a number of you and should provide more time for discussion of the business.

There certainly *is* a lot to talk about. The year 1973 set new Kodak benchmarks in virtually all categories. Worldwide sales rose 16 percent to more than \$4 billion. Earnings from operations more than kept pace, rising 18 percent to more than \$1 billion—another new high. Net earnings after taxes increased 20 percent to more than \$650 million. And dividends declared for Kodak shareowners were up 30 percent to almost \$300 million.

In all, it seems fair to say that 1973 was the "beacon year" predicted from this podium last April. But in the words of the Bard—and the bard I'm referring to is Tin Pan Alley's Eddie Green—"Then was then and

now is now."

I've always found it good practice to start from where I am and that point happens to be the first quarter of 1974, the results of which were announced yesterday.

#### **First Quarter Results**

Worldwide sales for the first 12 weeks came to \$935 million, up 17 percent from a year ago—a gain which compares favorably with those of 1973. The increase was broad based. Sales by units of the U.S. and Canadian Photographic Division rose 16 percent to \$533 million, while sales of Eastman Chemical products increased 16 percent to \$206 million. Overseas demand resulted in sales of \$306 million by the International Photographic Division, an increase of 20 percent from the previous year.

But, as we have said before, first quarter results are rarely indicative of what may be expected for the full year. This year, as in most years, special factors were at work. For one, we believe sales were accentuated somewhat by customers who bought ahead in anticipation of pre-announced higher prices. For another, there is evidence that some customers have been building inventories as a hedge against any possible prod-



uct shortages later in the year, despite our assurances to the contrary. Had it not been for such expressions of customer concern, Kodak sales might not have been quite so robust during the quarter.

Now, about earnings. For the first quarter, earnings from Kodak operations were \$208 million, down three percent from those reported at this time a year ago. Net earnings were a marginal one percent higher than those of the 1973 first quarter, totaling about \$124 million.

#### **Financial Considerations**

The difference between gains in Kodak sales and those in earnings thus far is directly traceable to a recent surge in the cost of doing business. This trend began to manifest itself during the final months of 1973 and, if anything, it has intensified since then.

Many of you know that the cost of silver has more than doubled, increasing from about \$2.00 an ounce at the 1973 low to over \$4.50 an ounce during the first quarter of this year. Most of that increase has taken place in the last few months. In fact, the price as of yesterday was \$5.60. In the early part of 1973, Kodak was paying about \$160 a ton for wood pulp used to make pho-

tographic paper. At the moment, the going rate is about \$280 a ton, and this is projected to go higher still. Prices of other important materials and of many services have also advanced to unprecedented levels.

As a consequence of all this, the company initiated a series of modest price increases in the Fall of 1973. Further cost pressures led to the announcement, on April 15 of this year, that prices of most Kodak films, papers, and photographic chemicals were being raised by about 6½ percent. As before, these increases were fully justified with the Cost of Living Council. They will do what cannot be done on the near term through improvements in productivity—that is, to neutralize the negative pull of sharply higher costs.

We do expect our productivity to improve again this year. Such improvements have made possible Kodak's record of price stability—a record which is a source of pride with us. During the past ten years, prices of Kodak photographic products increased only one-fourth as much as the U.S. Consumer Price Index, and the weighted average of selling prices for these Kodak products actually declined during 1973.

That record was established not during



a period of mandatory controls but, largely, in years when supply and demand were allowed to exert their force in free markets. Tomorrow morning, we will all wake up to the first economy generally free of price controls since August of 1971. We welcome that change, and believe it to be in the long term interest of the public.

### The "Economic Climate"

As to the present economic climate, the facts are that the United States is in the midst of a slowdown. Economists have different views about the balance of 1974, but they do agree that for the year as a whole there will be little if any growth in real gross national product. Kodak must deal with these realities in the coming months. In doing so, there are several positive factors which should act in the company's favor.

For one thing, millions of new Kodak cameras will be active in the hands of consumers this year. During 1973, the number of still and movie cameras shipped by Kodak rose to a record total. In fact, I can tell you that sales of pocket cameras during the two years following introduction have exceeded the number of 126 or original Instamatic cameras sold during their first *three* years

of commercial life. Kodak XL and Ektasound movie products have also generated strong demand and are both expected to contribute significantly to our domestic sales this year. Keep in mind that 70 percent of all amateur pictures are of people and, mostly, of people taking part in family events. It doesn't take any gasoline to get out of the house and into the backyard.

In the graphic arts, the trend to photographic methods is continuing, and health care—the primary consumer of our radiography products—is not particularly sensitive to economic fluctuation. Demand for fibers, chemicals, and plastics should continue strong, and the priority status of the petrochemical industry with reference to feedstocks has alleviated some of the concern about raw material shortages. Overseas, the impact of the energy crisis has been less severe than expected. It is here in developing markets where some of our newer products have yet to make their full presence felt.

In summary, then, we see 1974 as a year in which Kodak sales will increase again. While the earnings outlook is less clear, we are confident that Kodak's performance will be satisfactory in this year of rising costs



and economic adjustments. To put it another way—as Gerry Zornow said last fall in an address before security analysts in Los Angeles—“1974 will be a year of consolidation for many in industry, one of rising costs, a year of making ready for the resumption of strong gains in the U.S. economy . . .”

### **Sustaining Growth**

Kodak's capital spending plans show that we certainly do not have a restrained view of the company's growth potential. Expenditures of \$516 million are budgeted for this year, compared with the \$358 million we spent in 1973. Major projects include—

- Expansion of the Elmgrove plant in suburban Rochester by some 800,000 square feet. This represents an addition of 25 percent to the facilities of the Kodak Apparatus Division.
- Continued growth by the Kodak Park Division, the company's principal producer of films, papers, and photographic chemicals. Construction now underway and work beginning this year will add 700,000 square feet to this facility.
- A new research laboratory in Rochester that includes a seven-story chemistry

building, as well as an adjoining two-story facility for polymer research.

- In Tennessee and South Carolina, new facilities to increase capacity for the production of polyester staple and filament fibers to nearly 700 million pounds a year.
- In Texas, additional capacity for the production of Eastman chemicals, plastics, and intermediates for fibers.

About 85 percent of what we plan to invest this year will be spent for improvements and additions to manufacturing plants and facilities—to make Kodak products of the present and those we plan for the future.

A recent financial analysts' report referred to Kodak research and development as the company's greatest intangible asset. I am inclined to think it a pretty tangible asset, myself. We will spend more than \$250 million in 1974 in support of invention and innovation at Kodak. It would be hard to find a more essential investment. It is designed to enhance the appeal of existing products and, to unearth the fundamentally new things needed to sustain Kodak's growth record. In support of these objectives, the past year has seen an outpouring of research and development advancements.

### Meeting Customer Needs

One recent achievement will put us in excellent position relative to a consumer trend you are probably all aware of: the tremendous surge in demand for knit fabrics for apparel. Demand for textured polyester filament yarns for knit and woven fabrics is expected to grow by more than 50 percent in the next five years. It is estimated that by 1978 more than half the demand for textured polyester filament yarns will be met with partially-oriented source yarns. Tennessee Eastman was the first domestic producer to announce plans to construct a plant specifically for the production of partially-oriented yarn. Significant output is expected by the end of next month.

There are several worthy developments in health care. Improvements in Kodak films now permit the reduction of full-size radiographs to tiny film chips stored in aperture cards. Retrieval is easier and more immediate, and the quality of the image—when viewed on new Kodak readers—meets diagnostic requirements. We plan to market products which embody this technology later this year under the Retnar trademark.

Another of our long term development goals is to provide physicians with radiographs of optimum quality while simultaneously minimizing exposure times. Kodak products now in development represent another significant step in this direction.

Nowhere is Kodak innovation more apparent than in the field of super 8 movies, which have become an increasingly versatile and practical medium. A month ago, we introduced a new line of compact Movie-deck projectors. In appearance and function, these projectors can hold their own with the tapedeck and the stereo turntable. They are virtually self-threading, offer rapid re-run, and feature a variety of projection speeds. In addition, top-of-the-line models incorporate their own preview screens.

A year ago, "The Talkies" were previewed here. Ektasound movie cameras, projectors, and films bring the dimension of sound recorded in the camera to home movie-making. Customer response to these new products has been heartening. You may be less familiar with the new Supermatic sound 8 camera for professional use or with a new Kodak processor that turns out 50 feet of finished film in just 14 minutes.

Another newsmaker is Kodak's Supermatic film videoplayer. This device makes it



possible to display any super 8 film, sound or silent, on a single TV screen or on any number of terminals installed in schools, offices, or training facilities. It will also find applications, we feel, in the growing cable television field.

The Kodak 2610 color printer can turn out 6,000 color prints an hour—double the capability of previous equipment. We will be working hard to catch up with initial orders for this machine through the balance of this year.

Economy, convenience, and high quality are features of a new lithographic printing plate introduced in 1973. This product, made at our new Kodak Colorado plant, eliminates an entire negative-making step and enables printers to get on the press in about five minutes.

### Improved Films

Kodak is close to another achievement that will make home movie-making simpler—and the results more certain—than ever before. Those of you who make super 8 movies know that—when you change from indoor shooting in tungsten light to outdoor shooting in daylight—you must remember to flip a switch that positions a daylight filter.



Now we are readying a new Ektachrome super 8 film that eliminates filter settings completely. It will be just as fast and sharp as current 160-speed Ektachrome film. But it is specially designed to reduce shifts in color balance caused by differences among light sources. The film is color balanced to provide optimum rendering when exposed by daylight and fluorescent light, and natural warm renderings when exposed by yellower light sources such as household lamps and firelight. We expect that this new film will be available for your movie-making this summer.

Another pair of Kodak film products made their debut on March 20. They are two new Kodachrome films of superlative quality.

*(Here, color slides illustrate the presentation.)*

First, we're going to take a look at slides made from Kodachrome-X film, on the right, and compare them to the results you can get from the new Kodachrome 64 film, which now takes its place. Notice the improved flesh tones in the little girl on the left. Other colors are improved as well. You can see the cleaner yellows, oranges, and reds on the left. You will also notice the detail in the background behind the copper pot. Im-

proved latitude and lower contrast mean the customer will get better details in shadows and in highlights.

Perhaps the strongest testimony for this new 64-speed film is to compare it to the current 25-speed Kodachrome II, the very best we've had to date. Kodachrome 64 film on your left, Kodachrome II on the right. Here we have a 64-speed film that is comparable overall to Kodachrome II itself and, at the same time, more than twice as fast.

And Kodachrome II also has been improved and will be available as Kodachrome 25 film. I think amateurs and professionals alike will be delighted with the possibilities of these two new films. Pictures add an enduring quality to life even when other things seem uncertain. Because of that, there will always be a strong demand for the best color transparency film we can make.

#### **Future Innovations**

Now let's talk about films for color prints. Here, too, we see room for further improvements. High on our priority list is a program to offer consumers the advantage of taking *still* pictures in any light the eye can see, without reliance on flash units or other

sources of artificial illumination.

Doing this will require a significant increase in present film speeds, new approaches to color sensitizing, and further breakthroughs in optics. I can tell you today that we have made images with experimental films and moderately priced cameras at light levels that would normally require equipment costing several times as much.

Now, let me point out that technical innovation is one thing. The process by which ideas become salable products is another. The difference is what bridges the gap between answers to questions like "How?" and "How Soon?" In this case, "How" has been established. The same can be said of Kodak's progress in the development of a new technology for instant photography.

As noted in the annual report, the basic decisions have been made with respect to the physical and chemical configuration of Kodak's own self-developing color film, one that will emerge dry and litter-free from relatively inexpensive cameras. The configuration of the cameras, themselves, has also been decided. What we have accomplished thus far is considerable. What lies ahead is no less demanding. Now the job is to move forward with the construction of additional manufacturing facilities, to engineer and install production equipment and then, to confirm that Kodak instant products can be mass-produced with consistent quality.

To sum it up: While we are very pleased with our progress to date, there is much work remaining. We are convinced that Kodak can make and market its own instant products. As to when such products may be available to consumers, that is a question which will not be answered today. As to the extent of our commitment—let us simply say that we intend to commit to this program whatever it requires.

#### **Copier Prospect Revealed**

There is another development program I want to discuss. It centers on the emergence of technology which seeks to substitute other light-sensitive materials for silver in imaging systems. The speed of any imaging system depends on the sensitivity of its light-recording material. Silver films and papers are currently faster by far than the next most responsive materials. They serve imaging needs all the way up to the most demanding low-light situations.

The same image you now capture on



Kodacolor II film in one-sixtieth of a second would theoretically take over a month to record on diazo materials which are at the lower end of the speed range. And Kodacolor II is not our fastest silver halide film. Even with electrophotographic materials, it would take about 100 times longer to make that same exposure, assuming that both the sun and the subject would hold still that long.

However, by doing such things as boosting the energy levels of light-input systems where this is feasible, it would be theoretically possible to replace silver with alternative materials in about 20 percent of the film we sell and in even more of the paper we market, *if* speed alone were the limiting factor.

But there are other factors which come into play: customer convenience, quality, the complexity of equipment, the availability of processing services, and economics. Realistically, then, the substitution of other materials for silver is likely to be a very gradual process and one which will not affect high-speed photographic materials for many years to come.

There are, of course, a variety of applications where the speed and sensitivity of



silver are not so essential. In such applications, electrophotography—for example—offers a reasonable alternative. Here, the effect of light on a photoconductor is amplified by means of a toner.

Kodak has carried on intensive investigations of this technology for a number of years. Today, I am pleased to report on our considerable progress.

*(Slides again used as illustration.)*

Here is an example: On the left is a page from a Kodak Data Book which includes both lines of type and a photographic illustration. On the right is a black-and-white copy made on plain paper with equipment now in development by Kodak. I believe you will agree that the quality of the copy is outstanding in its clarity of type and the faithfulness with which the illustration has been reproduced.

Copiers which embody this technology are in advanced stages of development. I am confident that by this time next year we will have considerably more to say about the commercial form such products may take and what we judge to be their substantial potential.

Today, we have allowed the door of the Kodak Research Laboratories to come open

a bit. This has been with a view of letting you share in some of the bright promise emanating from that door. Our mood of general confidence and optimism can be attributed to the fact that what you have glimpsed are only a few of the exciting programs in progress at Kodak.

There has been a great deal of talk in recent months about economic happenings and their impact on business and industry in 1974. So in closing, I want to remind you that commercial success does not just happen. A lot of hard work by a lot of good people—and even a degree of luck, some would say—is required.

Personally, I'm not much of a believer in happenstance. I have always been too impressed with a sign I once saw hanging in the office of a colleague, which said: "The harder I work the luckier I get." You can be sure that those of us in Kodak intend to work very hard, and to be very lucky in your behalf, on the near and the longer terms that lie ahead.

Thank you.



*Following his remarks, Mr. Fallon turned the meeting back to Kodak chairman Gerald B. Zornow who opened the meeting to questions. Members of company management took part in the discussion.*

A representative of the Project on Corporate Responsibility, Inc., based in Washington, D.C., outlined the proposal which appeared in the proxy material distributed to company shareowners. The resolution relates to corporate involvement in electoral politics and called for amending the company's by-laws to prohibit contributions to political candidates and to groups which take public positions on matters put before voters at state and local levels. In reply, Mr. Zornow pointed out that the company had expressed its position on such a by-law amendment in the proxy statement distributed to all Kodak shareowners in March. He stated that corporate contributions to political candidates have not been a part of Kodak's life and will not be. The company's policy is one of complete adherence to both federal and state laws, and even in those states where corporate contributions are legal, Kodak feels restrained from making them, he said.

#### **Price Level Adjustment**

Referring to recent hearings held by the Financial Accounting Standards Board in New York City on the matter of requiring all corporations to include price level adjusted figures along with traditional financial statements, a shareowner inquired if Kodak had taken a position on the matter. Mr. Robert Sherman, vice-president for finance and administration, replied that in periods of rapid inflation, traditional financial statements may not truly represent the financial position of a company. Since this is a very difficult and complicated subject, he said, the company is following developments with interest and concern, but has not yet formulated a position on the most desirable form of financial presentation.

A shareowner inquired why the company had not included in its annual report an item for \$116 million which he said represented Department of Defense contract awards to Kodak for the year 1973. (The \$116 million total includes all DOD contract sales for the government fiscal year, July 1, 1973 through June 30, 1974.) The shareowner also called attention to the production of explosive materials at a plant in Kingsport, Tennessee, which is managed by Kodak. Mr. Zornow



replied that in 1973, Kodak's business with the U.S. Government and its defense contractors was 4 percent of total sales and amounted to about \$158 million, and that total included sales of all Kodak products to all departments of government, including the Department of Defense. He also explained that the Holston Defense Corp. in Kingsport, Tennessee, is owned by the U.S. Army and produces RDX explosives. Kodak furnishes the management, personnel and administrative services to operate this plant for which the company received a management fee. That fee, he said, amounted to \$1.9 million in 1973, and is included in the overall government sales figure.

A question raised at last year's annual meeting was brought up at the 1974 meeting and centered on the Volunteers for Better Government, a local political committee in Kingsport, Tenn., to which some 100 Tennessee Eastman Company employees contributed in 1971 and 1972 through a payroll deduction option. Mr. Zornow reiterated the company's position that there is, and has been, no organizational affiliation between the Tennessee Eastman Company and Volunteers for Better Government. Because it was felt that a payroll deduction option may

have been misunderstood, steps were taken to withdraw this option, he explained. The company took this action not because such an option is unusual—it is the way many Kodak people contribute to groups such as the Community Chest and the United Fund—but rather, because the company recognized and wished to avoid any possibility of misunderstanding.

A shareowner asked if any consideration had been given to special gift packages offered to shareowners over the holiday season. Mr. Zornow replied that such a program has been discussed by Kodak management, although no action to implement has been taken.

A question was raised about the composition of the company's board of directors with respect to female members and further about the number of shares held by individual directors. Mr. Zornow replied that an individual's qualifications are examined carefully in the selection process and that directors are nominated on the basis of proven ability, which is consistent with the corporate objective of developing and directing the company for the benefit of all shareowners. He said that the company considers qualified women when board va-



cancies occur, and that it will continue to consider such candidates.

In reply to a question concerning the company's dividend rate on common stock, Mr. Zornow pointed out that increasing the dividend rate prudently is in the best interest of both shareowners and the company and that the matter is seriously discussed at each board of directors meeting. (Cash dividends to Kodak shareowners increased in 1973—the 25th consecutive year that dividends have increased.)

#### **Promotional Campaign**

A shareowner suggested that the company undertake a promotional campaign in support of 5 x 7 inch enlargements, similar to the promotional efforts in support of other standard sizes including 8 x 10 inch. Mr. Van B. Phillips, marketing general manager, replied that special programs for the company's Color Print and Processing Laboratories with regard to enlargement services are geared to the needs of customers as those needs are perceived on a nationwide basis. He added that this program is continually reviewed with the goal of finding those services which will have the widest use.

A question centered on rapid access pho-

tography, specifically the potential anti-trust implications of entering a major competitor's only market and whether such action would be in the best interest of the company. In reply, Mr. Fallon emphasized that Kodak's interests are to serve customer needs, expressed his belief that there is a place for Kodak in instant photography, and said that the company's interest in this field is in the best traditions of free and competitive enterprise.

Referring to the president's comments on first quarter results which Mr. Fallon said were influenced by customers who bought ahead in anticipation of pre-announced higher prices and other customers who have been building inventories in anticipation of product shortages, a shareowner asked for comment on Kodak's "real" sales level during the first quarter. Mr. Fallon acknowledged that there had been pre-buying and price increases, but indicated it was impossible to assess their precise influence on retail sales. He added however that there was good real growth in the company's business in the first quarter.

Another shareowner question concerned the hiring and rehabilitation of ex-convicts, and in particular those individuals who had



been convicted for drug abuse. The shareowner also inquired about the kinds of positions available to these people. Mr. Frederic S. Welsh, director of corporate relations, explained that the company does hire ex-convicts and those who have recovered from drug abuse. He mentioned that Kodak works with a number of local agencies including Rochester Jobs Incorporated, and that RJJ has been quite helpful in finding jobs for ex-convicts. As for the types of jobs filled, Mr. Welsh said that the individual's skills and interests were important considerations in job placement. Replying to a related question, he stated that Kodak's employment application did not include a question concerning drug abuse. (An employee health form which includes questions about habits such as smoking, alcohol consumption, and use of drugs such as aspirin, sleeping pills, tranquilizers, and others is maintained by the company's medical department for health purposes only. The information on the form is confidential and is not available to the employee's supervisor.)

Citing specific examples of corporations which have made unreported contributions to political candidates, a shareowner inquired about precautions taken by Kodak

and its auditors to preclude such contributions. Mr. Zornow replied that the company had not made any such contributions, and that it will not make any in the future. He said further that the company has undertaken specific auditing procedures to provide reassurance in this matter.

Noting that 110-size films require smaller amounts of raw materials than 126-size films in manufacturing, a shareowner inquired if profit margins would be increased proportionally. Mr. Fallon said in reply that although there is less film used in the 110 size than in the 126, there are offsetting cost factors, such as closer tolerances and high quality standards to be maintained. As a result margins are reasonably comparable, he added.

A question from a shareowner and former Kodak employee touched on health care coverage for wives of retired employees. Pointing out that the widow of a retired employee is no longer covered by Blue Cross and Blue Shield and that the cost of such coverage for the widow is then quite substantial, the shareowner asked if the company was working on a plan to cover the widow. Mr. Welsh confirmed the shareowner's remarks and noted that the





company's extended health care plan rather than Blue Cross and Blue Shield offers some help in such cases. He added that the entire Blue Cross/Blue Shield and extended health care plans for employees are under extensive review at the moment.

In reply to a question centering on the four anti-trust suits filed against the company over the past several years, Mr. Harmar Brereton, general counsel for the company, said that the company is defending itself vigorously. Since, however, the cases were in active litigation, the company should not comment on matters involved beyond those statements contained in the annual report to shareowners, he noted.

#### **Greater Financial Detail**

A shareowner called for greater detail in the company's financial reports, and suggested that such items as interest paid and long term debt be included in future annual reports. He also proposed that sales, advertising, distribution, and administrative expenses—now shown as a single item—be reported separately. In reply, Mr. Sherman stated that both the format and method of presentation of the company's financial statements receive a great deal of on-going

attention. He added that the amount of interest paid is an important component of the line item called "other charges," and most of the interest paid by the company represents borrowings by Kodak's overseas operations. (Note: The company's worldwide advertising and sales promotion expenses were \$120.1 million in 1973 and were noted on page 34 of the 1973 annual report.)

Pointing out that Congress had recently adopted a resolution naming April 30 as a national day of humiliation, fasting and prayer, a shareowner proposed that the chairman declare a short period of silence for prayer. Mr. Zornow replied that although it would be inappropriate to consider the proposal at a shareowners' meeting, he suggested that those present at the meeting might in their own way find a moment to respond individually to the shareowner's proposal.

#### **Public Transportation**

A shareowner inquired about company efforts to support mass transportation in Rochester, N.Y., and to encourage company employees to use public forms of transportation rather than private automo-



biles to get to and from work. Mr. Welsh answered by saying that the company was supporting the Dial-A-Ride program, for example, and has been successful in encouraging its employees to form car pools. Kodak has been cooperating with city officials and other local industries to alleviate the traffic problem, and has staggered work hours as one approach to the problem of traffic congestion, he said. Mr. Welsh added that the company was also promoting the park-and-ride program among its Rochester employees.

In response to a related question, Mr. Zornow said that the matter of transportation to the annual meeting site would be reviewed.

A shareowner recalled remarks made by former chairman Dr. Louis K. Eilers at a previous meeting about sales of company products in Japan, and asked if the company had been allowed to price its products more competitively in that country since that time. Mr. Wylie S. Robson, general manager of the company's international photographic division, replied that certain of the severe restraints encountered by the company have lessened in recent years. The excessive tariff barriers on Kodak products enter-

ing Japan are in a period of reduction and the company anticipates further reductions in the future, he said. These reductions should help to make Kodak products more attractive to the Japanese public, he added.

In response to a suggestion that Kodak resume manufacturing 35mm cameras, Mr. Douglass C. Harvey, general manager of the Kodak Apparatus Division, indicated that the company frequently examines its manufacturing programs for cameras and equipment in the light of consumer demand and market requirements.

A related question centered on the availability of accessory attachments such as wide angle and telephoto lenses for the Kodak Instamatic camera line. Mr. Harvey replied that the attachments were made and marketed by firms other than Kodak, and should still be available.

## First Quarter Report to Shareowners

First Quarter Summary (in millions, except earnings per share)	First Quarter		
	1974	1973	Change
Sales . . . . .	<b>\$935.1</b>	\$797.6	+ 17%
Earnings from operations . . . . .	<b>208.2</b>	213.6	- 3%
Net earnings . . . . .	<b>124.3</b>	122.8	+ 1%
Per share . . . . .	<b>\$.77</b>	\$.76	

The first quarter was marked by continued gains in sales, accompanied by marginally higher net earnings. Earnings from operations declined from the first quarter of 1973, but higher interest income led to pre-tax earnings just above the level of last year.

### Photographic and Chemical Division Products Advance

All three divisions contributed to the overall growth in sales:

Sales (in millions)	First Quarter		
	1974	1973	Change
U.S. and Canadian			
Photographic Division . . . . .	<b>\$533.4</b>	\$459.5	+ 16%
International Photographic Division . . . . .	<b>305.9</b>	255.2	+ 20%
Eastman Chemicals Division . . . . .	<b>206.6</b>	177.6	+ 16%
Deduct: Interdivisional Sales . . . . .	<b>(110.8)</b>	(94.7)	
Worldwide . . . . .	<b>\$935.1</b>	\$797.6	+ 17%

Sales to the U.S. Government and defense contractors were \$38.7 million, representing 4 percent of total sales.

Sales gains by the U.S. and Canadian Photographic Division reflected, to some extent, the accumulation of inventories by customers which was prompted by economic uncertainties and pre-announced price increases. Sales of products in the professional and commercial, graphic arts, radiography and business systems markets were strong. Good gains continued in amateur films and photofinishing supplies; shipments of amateur equipment declined when compared with the very high levels of deliveries in the first quarter of 1973.

Although the difficult economic situation restrained sales gains in Europe, strong business in other areas of the world led to an overall rise in International Photographic Division sales.

Gains in all product lines boosted sales of the Eastman Chemicals Division. Good increases were recorded in Kodol and Verel fibers used in textile and floor coverings, as well as in plastics and chemicals.

### Earnings Affected by Cost Pressures

First quarter operations were carried on in an economic climate marked by continuing increases in the cost of purchased materials and services, and generally higher wages, salaries and benefits. These factors, together with an increased level of expenditures for product development programs, were important elements in the decline in earnings from operations. Exchange gains and losses and adjustments resulting from foreign currency translations were not significant in the earnings comparison.

Some price increases on photographic products were implemented on a selective basis early in the year but were not fully reflected in first quarter results. On April 15, a further price increase averaging about 6½ percent was announced on almost all films, papers and photographic chemicals and many processing services. Price increases on a number of products of Eastman Chemicals Division were made throughout the quarter. These increases are expected to neutralize the negative pull of sharply higher costs.

*(continued on page 23)*

# Consolidated Balance Sheet

Eastman Kodak Company and Subsidiary Companies

<b>Assets</b>	<b>Mar. 24, 1974</b>	Dec. 30, 1973 (in thousands)	Mar. 25, 1973
<b>Current Assets</b>			
Cash . . . . .	<b>\$ 115,495</b>	\$ 150,531	\$ 85,436
Marketable securities at cost (approximates market value) . . . . .	<b>833,888</b>	885,259	780,758
Receivables . . . . .	<b>622,511</b>	665,559	531,198
Inventories . . . . .	<b>792,826</b>	737,485	674,022
Prepaid charges applicable to future operations . . . . .	<b>75,674</b>	76,586	58,036
Total current assets . . . . .	<b><u>2,440,394</u></b>	<u>2,515,420</u>	<u>2,129,450</u>
<b>Properties</b>			
Land, buildings, machinery, and equipment at cost . . . . .	<b>3,412,951</b>	3,319,335	3,064,678
Less: Accumulated depreciation . . . . .	<b>1,646,936</b>	1,605,254	1,486,599
Net properties . . . . .	<b><u>1,766,015</u></b>	<u>1,714,081</u>	<u>1,578,079</u>
<b>Other Assets</b>			
Unamortized excess cost of investments in consolidated subsidiaries over net assets acquired . . . . .	<b>16,740</b>	17,145	16,551
Long-term receivables and other noncurrent assets . . . . .	<b>55,684</b>	55,435	60,164
TOTAL ASSETS . . . . .	<b><u>\$4,278,833</u></b>	<u>\$4,302,081</u>	<u>\$3,784,244</u>
<b>Liabilities and Shareowners' Equity</b>			
<b>Current Liabilities</b>			
Payables . . . . .	<b>\$ 554,240</b>	\$ 572,755	\$ 426,615
Taxes—income and other . . . . .	<b>256,014</b>	256,125	264,188
Dividends payable . . . . .	<b>51,626</b>	132,277	43,555
Total current liabilities . . . . .	<b>861,880</b>	961,157	734,358
<b>Other Liabilities and Deferred Credits</b>			
4½% convertible debentures—due 1988* . . . . .	<b>66,416</b>	66,416	66,456
Other long-term liabilities . . . . .	<b>64,676</b>	63,906	67,298
Deferred income taxes . . . . .	<b>94,494</b>	92,703	80,561
Total liabilities and deferred credits . . . . .	<b><u>1,087,466</u></b>	<u>1,184,182</u>	<u>948,673</u>
<b>Shareowners' Equity</b>			
Common stock (\$2.50 par value, 360,000,000 shares authorized); Issued 161,582,745* (161,582,329—Mar. 25, 1973)			
Par value—paid in or transferred from retained earnings . . . . .	<b>403,957</b>	403,957	403,956
Additional capital paid in or transferred from retained earnings . . . . .	<b>267,537</b>	266,778	266,739
Retained earnings . . . . .	<b>2,519,873</b>	2,447,164	2,164,876
Total shareowners' equity . . . . .	<b><u>3,191,367</u></b>	<u>3,117,899</u>	<u>2,835,571</u>
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY . . . . .	<b><u>\$4,278,833</u></b>	<u>\$4,302,081</u>	<u>\$3,784,244</u>

\*691,833 authorized but unissued shares of common stock are reserved for the conversion of the debentures issued by Eastman Kodak International Capital Company, Inc. 37,309 shares have been issued as a result of conversions to date.

# Consolidated Statement of Earnings

Eastman Kodak Company and Subsidiary Companies

## For the Quarter (12 Weeks) Ended

Mar. 24, 1974      Mar. 25, 1973

(in thousands, except earnings per share)

### Sales

Sales to: Customers in the United States . . . . .	<b>\$ 542,215</b>	\$ 481,334
Customers outside the United States . . . . .	<b>392,862</b>	316,312
<b>TOTAL SALES</b> . . . . .	<b><u>935,077</u></b>	<u>797,646</u>

### Costs

Cost of goods sold . . . . .	<b>545,474</b>	428,074
Sales, advertising, distribution, and administrative expenses . . . . .	<b>181,431</b>	155,938
<b>Total costs and expenses</b> . . . . .	<b><u>726,905</u></b>	<u>584,012</u>

### Earnings

<b>EARNINGS FROM OPERATIONS</b> . . . . .	<b>208,172</b>	213,634
Interest income . . . . .	<b>17,003</b>	11,414
Other income . . . . .	<b>6,437</b>	6,141
Less: Other charges . . . . .	<b>4,777</b>	4,925
<b>EARNINGS BEFORE INCOME TAXES</b> . . . . .	<b>226,835</b>	226,264
Provision for United States, foreign, and other income taxes . . . . .	<b>102,500</b>	103,500
<b>NET EARNINGS</b> . . . . .	<b><u>\$ 124,335</u></b>	<u>\$ 122,764</u>
 Average number of shares of common stock outstanding . . . . .	 <b>161,329</b>	 161,310
 Net earnings per share . . . . .	 <b>\$ .77</b>	 \$.76

## Consolidated Statement of Retained Earnings

### Retained Earnings

Retained earnings at beginning of year . . . . .	<b>\$2,447,164</b>	\$2,085,667
Net earnings . . . . .	<b>124,335</b>	122,764
<b>TOTAL</b> . . . . .	<b>2,571,499</b>	2,208,431
Cash dividends declared at \$.32 per share (\$.27 in 1973) . . . . .	<b>51,626</b>	43,555
<b>RETAINED EARNINGS</b> at end of quarter . . . . .	<b><u>\$2,519,873</u></b>	<u>\$2,164,876</u>

Financial statements for the quarter have been prepared by the company in accordance with the accounting policies stated in the 1973 Annual Report and should be read in conjunction with the Notes to Financial Statements appearing in that report. The statements are based in part on approximations and have not been audited by independent accountants. The year-end statements will be audited by Price Waterhouse & Co.

Robert B. Murray, General Comptroller  
May 1, 1974

# Consolidated Statement of Changes in Financial Position

Eastman Kodak Company and Subsidiary Companies

	<b>For the Quarter (12 Weeks) Ended</b>	
	<b>Mar. 24, 1974</b>	Mar. 25, 1973
	(in thousands)	
<b>Funds Provided by:</b>		
Net earnings . . . . .	<b>\$ 124,335</b>	\$ 122,764
Charges to earnings not requiring cash outlay:		
Depreciation . . . . .	<b>44,695</b>	41,984
Plant and equipment retired, less accumulated depreciation . . . . .	<b>1,547</b>	1,855
Provision for deferred income taxes, net . . . . .	<b>8,050</b>	6,750
Amortization of excess cost of investments in subsidiaries over net assets acquired . . . . .	<b>405</b>	375
Total from earnings . . . . .	<b>179,032</b>	173,728
Decrease in receivables . . . . .	<b>43,048</b>	21,058
Increase in current liabilities—taxes payable . . . . .	<b>—</b>	27,187
Increase in other long-term liabilities . . . . .	<b>770</b>	8,077
<b>TOTAL FUNDS PROVIDED . . . . .</b>	<b>222,850</b>	230,050
 <b>Funds Used for:</b>		
Dividends to shareowners . . . . .	<b>51,626</b>	43,555
Additions to properties . . . . .	<b>97,999</b>	62,743
Increase in inventories . . . . .	<b>55,341</b>	25,050
Decrease in current liabilities:		
Payables . . . . .	<b>18,515</b>	39,267
Taxes payable . . . . .	<b>111</b>	—
Dividends payable . . . . .	<b>80,651</b>	54,835
Other items, net . . . . .	<b>5,014</b>	785
<b>TOTAL FUNDS USED . . . . .</b>	<b>309,257</b>	226,235
Increase (Decrease) in cash and securities . . . . .	<b>(86,407)</b>	3,815
Cash and securities at beginning of the year . . . . .	<b>1,035,790</b>	862,379
Cash and securities at end of quarter . . . . .	<b>\$ 949,383</b>	\$ 866,194

(continued from page 19)

	First Quarter		
	1974	1973	Change
Earnings from Operations			
Amount (in millions)	<b>\$208.2</b>	\$213.6	-3%
Percent of sales	<b>22.3%</b>	26.8%	

Interest income was higher by almost \$5.6 million—offsetting the decline in operating earnings—reflecting larger average balances of marketable securities as well as improved rates of return. Other income was also higher. The provision for income taxes was \$102.5 million compared with \$103.5 million a year ago, reflecting the increase in the amount of investment tax credit expected this year.

	First Quarter		
	1974	1973	Change
Net Earnings			
Amount (in millions)	<b>\$124.3</b>	\$122.8	+ 1%
Percent of Sales	<b>13.3%</b>	15.4%	
Per Share	<b>\$.77</b>	\$.76	

### Dividends to Shareowners Increased

Cash dividends of 32 cents per share were declared in the quarter, up from 27 cents in the first quarter of 1973. Total dividends declared amounted to \$51.6 million compared with \$43.6 million last year.

### Capital Improvement Program Underway

Capital expenditures for improvements and additions to plant and facilities during the quarter totaled \$98.0 million, against the budget for the year of \$516 million.

	First Quarter	
	1974	1973
Capital Expenditures (amounts in millions)		
U.S. and Canadian Photographic Division	<b>\$50.2</b>	\$36.2
International Photographic Division	<b>17.9</b>	13.2
Eastman Chemicals Division	<b>29.9</b>	13.3
Worldwide	<b>\$98.0</b>	\$62.7

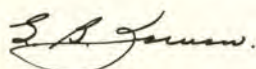
The provision for depreciation was \$44.7 million, 6 percent above the \$42.0 million for the first quarter of 1973.

### Financial Position

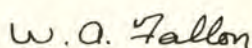
Cash and marketable securities declined seasonally from year-end 1973 to \$949.4 million. Working capital increased from year-end 1973 to \$1,578.5 million. Receivables of \$622.5 million were 17 percent higher than a year ago, while inventories of \$792.8 million were up by 18 percent reflecting the higher volume of business as well as higher inventory values resulting from increased prices of raw materials and supplies.

### Outlook

For the balance of 1974 we are faced with a number of economic uncertainties as countries throughout the world attempt to adjust to high inflation rates and below normal growth. However, we see 1974 as a year in which Kodak sales will increase again. While the earnings outlook is less clear, we are confident that Kodak's performance will be satisfactory in this year of rising costs and economic adjustments.



Chairman



President

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At the annual meeting, shareowners watched a side-by-side comparison of slides made from existing Kodachrome-X film and new Kodachrome 64 film which now takes its place. The new film offers improved color rendition as well as greater latitude and lower contrast.