



Kodak Highlights

May 1975

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- First quarter sales and earnings
- President's report on new office copier



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On the Cover

Almost 1,000 persons attended the 1975 Annual Meeting of Kodak shareowners. They heard Walter A. Fallon, company president, review Kodak's business progress and discuss the outlook. He unveiled the Kodak Ektaprint 100 copier-duplicator and gave a progress report on the company's efforts in instant photography. A complete record of the meeting is presented in this issue.

Kodak Highlights is published quarterly for shareowners and others with an interest in the company.

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1975 Annual Meeting

The 74th Annual Meeting of Kodak shareowners was held in Flemington, New Jersey, on Tuesday, April 29. Gerald B. Zornow, board chairman, presided.

Seventy-nine percent—127,484,735 of 161,346,613—of your company's shares outstanding 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.

The independent certified public accounting firm of Price Waterhouse & Company was reelected as auditors for the year 1975. The vote was 127,304,732 in favor with 179,677 against.

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

Theodore C. Achilles
Norman F. Beach
Harmar Brereton
Kendall M. Cole
Colby H. Chandler
Louis K. Eilers
Walter A. Fallon
Harry D. McNeeley
John M. Meyer, Jr.
Donald S. Perkins
Wylie S. Robson
Robert A. Sherman
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 far term—are contained in the following remarks by Walter A. Fallon, president and chief executive officer, to shareowners at the 74th annual meeting.

In searching for the right preface to my remarks this morning, I discovered that the traditional sources failed to yield an exact fit. The nearest I could come was Shakespeare, who tells us that "Every why hath a wherefore." In light of current complexities in the economy, I think we should amend his statement to read: "Every why hath a wherefore, and then some."

Once again, Kodak has written a new record in worldwide sales, more than four and one-half billion dollars. This is 14 percent, or half a billion dollars more than the previous high last year. A part of the gain can be chalked up to unavoidable price increases, but it also reflected a continuing advance in unit volume for most Kodak products.

At the same time as sales rose, earnings slipped back slightly. Worldwide net earnings moved back from their previous level by four percent, to about 630 million dollars. As a result, earnings were \$3.90 per share as against \$4.05 per share a year ago.

It was characteristic of 1974 that earnings were restrained even as sales climbed. Not surprisingly, there were a number of "wherefores" for this seeming contradiction.

The most easily pinpointed took place as many U.S. corporations moved from an accounting procedure known as FIFO, or first-in, first-out, to another known as LIFO, last-in, first-out. In Kodak's case, the LIFO procedure was already in use for selected inventories. We extended it to substantially all U.S. inventories in 1974. This effect reduced net earnings by nearly 37 million dollars, or 23 cents per share.

To answer the question of how such a move could be advisable, the virtue of LIFO is that it matches current costs more accurately with current revenues. By providing a timelier cost picture, it results in a more realistic statement of earnings. In this case, it is also a more sober statement.

Our cost increases arrived generally in two forms: As higher operating costs responding to the increase in salaries and wages which followed a long period of federal controls, and in the form of sharply higher prices for raw materials. Recently, we have seen the



hopeful signs of a decline in some raw materials prices, including silver. But since we can't count on prices falling back to pre-shortage positions, the best means of alleviating their negative impact in the long run will be to continue improving our productivity.

Two additional "Wherefores" are worth mentioning in this matter of the opposing trends in sales and earnings. True to projections, Kodak investments in research and development were of record magnitude last year. Understandably, these large expenditures were felt in the earnings statement. As I will demonstrate in a few minutes, they should eventually be apparent in the marketplace, as well.

Gains related to changes in international currencies had an overall favorable effect on earnings again in 1974. However, their impact was less than half as great as in the previous year, and small indeed compared to two years ago.

Turning for a moment to the early months of 1975, the company's first quarter results, announced yesterday, were neither unexpected nor should they be unduly alarming. Worldwide sales totaled \$989.4 million, up 6 percent over the first quarter of 1974; net



earnings amounted to \$95.8 million, or 17 percent below last year.

While selling price increases held total dollar sales above the level of the first quarter of 1974, a decline in volume—reflecting generally lower economic activity during the first quarter—coupled with higher wages and materials costs, brought extraordinary pressure to bear on earnings.

Economic Recovery

While many observers feel that negative factors present in the economy will continue until later in this year, with some recovery then, the unanswered questions are first *when* and second by *how much*. How well we do in the balance of the year will be greatly influenced by the answers to such questions. There are *some* favorable signs visible now. Raw material prices have tended to level off, and some have declined. The selling price increases announced in February should provide some *additional* relief. And we are hopeful that volume will respond quickly to efforts to stimulate the economy.

Perhaps now is the moment to consider another seeming paradox of 1974; How Kodak could register its gratifying volume in the face of widespread fall-off in demand

elsewhere. In fact, this is not a paradox at all, but the logical result of serving a number of the more resilient growth sectors of the economy.

For some time now, we have characterized the photographic side of our business as one of "image-forming" to meet a wide variety of information needs. Most businesses, government agencies and professions, find their information handling requirements growing every year.

The combination of high postal rates, the spiralling cost of file storage space, and the increasing number of copies required for every document, make cost-cutting communication methods all the more attractive.

Undoubtedly, this was one factor behind the substantial increase in our sales of microfilm and microphotographic equipment during 1974. Even in the tight money crunch, it is not too hard for a businessman to justify capital expenditure for installations that pay for themselves in fifteen months, the current average for our micrographic products.

At last year's Annual Meeting, we let you in on our progress toward another information handler, a Kodak plain-paper copier. We compared this page from a Kodak Data Book with a black-and-white plain paper copy of



the same page made on experimental Kodak equipment then in development. I remember saying we would have considerably more to say about the commercial form such equipment might take by the time we came to Flemington again.

(Here, color slides illustrate the presentation.)

But as we thought about how to tell you, it became clear that the most effective statement could be made by letting this major product development speak for itself. *(At this point the Kodak Ektaprint 100 copier-duplicator is unveiled.)*

We haven't shown this unit in public before, but if you'll look over to my left on the stage you can see the Kodak Ektaprint 100 copier-duplicator as it is planned for commercialization. In order to give you an idea of the quality of the copy it can make, I'm going to ask Vivian Pendleton to copy that same Data Book page from last year. Then we'll have a copy available for each of you as you leave the auditorium.

We can make these copies while I'm talking because the copier operates at a speed of 4,200 copies an hour. In other words, it can make copies for everyone here in less than 15 minutes. But if you are

impatient to see the kind of work it can do, just look again at the meeting program you received as you came in.

It was reproduced on the Ektaprint copier-duplicator before you arrived. I think you'll agree that the reproduction quality is excellent.

Since a number of companies already have copiers, and good ones, you may wonder about the "wherefores" involved in approaching the market with the particular Kodak model we are showing today.

Copier Market

To understand our reasoning, consideration should be given to industry forecasts which project a growing copier market through 1980. The segment which will be served by the Kodak entry is expected to grow at a rate of approximately 15 percent annually.

We expect that the Kodak copier will attract attention in this marketplace by virtue of both price and features. In pricing, we will present to our customers a plan which is financially attractive and easy to understand.

In features, the Ektaprint copier adds easy operation to speed and quality. The user can load paper while the machine is running, and



pick up copies from either a top exit or a side one, whichever best suits the purpose at hand. The copier also contains a microcomputer to monitor performance continuously. Because it will alert the operator the moment there is a need for any "human" assistance, the microcomputer will help to keep supplies at proper levels, and the machine well-utilized.

Information handling, as I pointed out a moment ago, has become one of the major problems of technological society throughout the world. Kodak's Business Systems Markets Division and Customer Equipment Services Division are already well versed in the requirements of the increasingly sophisticated customer group they serve. As a consequence, our marketing and service network now covers the United States.

This is an important point, for many copier customers are likely to come from our current roster of information systems equipment users. And with a trained and experienced force already in place, Kodak can offer expert and ready service to customers without overwhelming start-up expense—another reason why this business is attractive to us.

Now you can see what I had in mind when I

hinted at the market potential always implicit in research spending. Electrophotographic copies like the ones being run off now are, in a fundamental way, photographs. That is, they are "written with light" in much the same way a pocket camera forms an image on film. So while the copier means a new market entry for Kodak, as a product it is a natural outgrowth of our research and manufacturing knowledge.

Within the next few months, we will be moving Ektaprint copier-duplicators into key user locations for thorough on-the-job evaluation. Delivery schedules and prices will be announced later. And in the future, you will be seeing more Ektaprint products. In fact, the model we have here today is only the beginning—the mainframe for a series of valuable accessories and the foundation for a dynamic new family of Kodak products.

I want to thank Vivian for demonstrating the new copier for us. Now we can let it finish the job by itself, and turn back to other reasons why sales of some products buck downturns in the economy. A substantial portion of our output takes the form of goods related to services in fields like education, scientific research, and health. These services are not exactly discretionary ones. For instance, though you may be short of cash, you don't stop seeing your doctor. You cut corners somewhere else.

Customers Respond

It is no surprise then that sales of X-ray products to the health care industry advanced again. Along this line, I'm pleased to tell you that our customers are responding with great interest to new Retnar minification products . . . to less expensive M-7 X-Omat processors . . . and to Lanex screens which intensify the perception of Kodak X-ray films.

In amateur photography, which is still our most important business of course, the action has been a little more complicated. In an economy where real disposable incomes are declining, spending for consumer durables usually takes the biggest reversal, while supplies and services go on about as usual.

Demand for still cameras and projectors contracted accordingly in 1974. At the same time, amateur film products and processing advanced because people took more pictures. As a matter of fact, 1974 turned out to be the second best sales year in history for Kodak consumer products.

Altogether, sales in the U.S. and Canadian Photographic Division advanced 13 percent

to more than two and one-half billion dollars in 1974. During the first quarter, the division's sales reached \$559.8 million, up 5 percent from last year.

Last September, while Gerry Zornow was discussing the popularity of the pocket Instamatic camera at a meeting of financial analysts, he made this statement: "You can count on Kodak to engineer even greater appeal in our pocket products to keep the line vital and growing."

On April 10 this prediction came true when we announced an entire line of new pocket cameras, a family of four known as the Kodak Trimlite Instamatic cameras. Together, they will replace the present edition of pocket cameras.

The most obvious refinement is a new flash system developed with the General Electric Company. Called Flipflash, it consists of eight lamps in a flat, easy-to-carry array. When it is snapped on to the camera, the top four lamps can be flashed in sequence. Then it can be flipped over to position the other four to fire. As a result, the Flipflash provides a built-in flash extension.

Other engineering improvements will become noticeable in the picture-taker's hands. For instance, each camera has a shorter, lighter trigger stroke. But the element that will clearly set the Trimlite cameras apart in the customer's mind is their attractive personality and design.

Tele-Instamatic 608

Along with the Trimlite family, we announced another remarkable advance, the Kodak Tele-Instamatic 608 camera. This is the first pocket camera with a built-in telephoto lens. Like its cousins, the Tele-Instamatic camera accepts the new Flipflash, but it is the telephoto lens which makes it truly special.

(Slides again used for illustration.)

With the normal lens, the customer can shoot a scene like this New Orleans cathedral from a position 85 yards away. Or by simply flipping the lens switch to telephoto, she can bring the scene as close as if she were standing on the other side of that construction equipment, only 50 yards away instead.

Until now, most amateur picture-takers probably regarded telephoto photography as beyond their reach. But the Tele-Instamatic 608 camera is as easy to use as any other Kodak pocket camera, and it will also be offered at a pocket-sized price of less than

\$36. The benefits-to-dollar ratio ought to be one of the most favorable offered to amateur picture-takers this year. We're confident that these new products will generate strong demands when they become available to consumers this June.

The same dynamics which underlie success at home also support growth in the International Photographic Division. Many European nations, for instance, are as advanced as the United States in microfilm applications, particularly in conjunction with computers. So cost-conscious managers in Europe continued to find Kodak business products very attractive.

An additional "wherefore" behind success abroad lies in wide geographic diversification. Although overall sales gains in Europe slowed in 1974, good sales advances were generated elsewhere, particularly in Latin America. The popularity of the pocket camera there has contributed to strong demand for our amateur products. And in Japan, which has the fastest growing photographic market in the world, consumers are embracing the pocket concept with an enthusiasm which has propelled sales there to record levels.

All told, sales of the International Photographic Division were up 13 percent, to nearly one and one-half billion dollars in 1974. In the first quarter, sales totaled \$361.4 million, some 18 percent higher than the year before.

As with the other divisions, the working philosophy of the Eastman Chemicals Division was highlighted by the conditions of 1974. That philosophy has been to concentrate on products where we have something special to offer in terms of proprietary interest, raw materials or know-how.

In chemicals, for example, pollution-control regulations have created heavy demand for new formulations in coating materials. Our advanced technology in this field enabled us to develop solvents meeting the requirements of these regulations. As a result, sales of Eastman solvents for synthetic coatings moved up vigorously throughout the year.

In September we announced that a 1,350 acre site near Batesville, Arkansas, purchased in 1971, had been chosen as the location for our newly-formed Arkansas Eastman Company. The plant under construction there will represent a substantial investment and should begin production of organic chemicals sometime in 1977.





In the man-made fibers business, polyesters hold a commanding position. Despite lagging sales in the early months of this year—due to inventory adjustments in the distribution chain—we continue to believe that the long term demand for polyester fibers will be strong. The latest forecasts for polyesters of all kinds predict a U.S. production total of 5.1 billion pounds in 1979, compared to 2.8 billion last year. The expansions at Carolina Eastman will increase our capacity to participate in this growth.

In spite of a long list of scarce materials, Eastman Chemicals has been able to procure what it needs to keep its plants in normal operation. The sharply higher costs involved made it necessary for us to raise prices substantially, however. These are reflected in the unusually steep advance in sales dollars up 25 percent to about 992 million dollars in 1974.

In the first quarter, sales were \$212.4 million, an increase of 3 percent . . . with slack demand for textile products, home furnishings, automobiles and packaging materials restraining shipments of Eastman fibers, plastics and chemicals. Here, too, market conditions are expected to show improvement as the year progresses.

Record Capital Spending

I think our capital spending plans make it clear that we regard these profiles of Kodak's several businesses with great confidence. Our capital budget of 616 million dollars for 1975 is the highest in the Company's history.

Nearly half of the new budget is intended for projects of the U.S. and Canadian Photographic Division, largely for expansions and improvements in Rochester. Outside of Rochester, at Kodak Colorado, we are continuing to build new facilities for sensitizing and finishing film.

About 20 percent of the capital budget is for investment in areas served through the International Photographic Division. In Europe, for instance, we are expanding facilities for camera manufacture, increasing our capability to make pocket camera-sized film cartridges, and completing a synthetic chemicals plant.

In Latin America, we are adding new film manufacturing capacity in Mexico and improved paper sensitizing facilities in Brazil. Both paper and film capacities are being increased in Australia as well.

For the Eastman Chemicals Division we have scheduled over 30 percent of the 1975 expenditures. The new chemicals plant at

Batesville, Arkansas, and the expansion in Kodak polyester fibers capacity at Carolina Eastman, I have already mentioned. We will also augment manufacturing capacity in Kingsport, Tennessee and Longview, Texas.

In the spring of 1974, when we inaugurated new facilities at the Kodak Research Laboratories, I characterized the company's research efforts in a way that may bear repeating this morning. "We undertake industrial research not for the sake of proving the provable, but to apply what may be proved to the needs and wants of people. Doing this, and doing it well, is what sustains the Kodak enterprise."

There you have the "wherefore" behind a 1974 research expenditure of \$274 million dollars. And a good illustration of what is meant can be found in the on-going project which has been under development for some time . . . Kodak's progress in instant photography.

In my last report, I told you that basic decisions on the configuration of the film and the cameras had already been made. We are not ready to unveil those cameras the way we did with the Ektaprint copier this morning. But remembering the old wisdom that says "by their fruits you shall know them," we realized we had something you really ought to see: pictures taken with experimental cameras using self-developing color film, all by Kodak.

(Slides used to illustrate.)

Because we can't reveal the actual prints themselves, we decided to do the next best thing by showing you these slides. Each one of these transparencies was made directly from an actual instant print. I think the slides will demonstrate for you the beautiful color performance that these future Kodak products appear capable of providing.

One of the criteria all along has been that Kodak instant products would be capable of the color quality our customers have come to expect of us. In color, the important thing of course is that the photosensitive element has to respond not only to *bright colors*, and not only to *certain colors*, but to the entire *spectrum of color*.

Getting that result is naturally more complicated than it sounds. What works for reds may not work for blues. What works for saturated colors may miss those which are more subtle. But as these examples follow one another on the screen, I think you will agree that our success to date is worthy of Kodak's reputation for fine color products.

It's worth emphasizing that since the pic-

tures before you are 35mm slides made from the actual prints, you are seeing the images once removed. Seeing them first hand, as I have, serves to demonstrate even more forcefully the brilliance and clarity of these Kodak instant pictures.

Period of Refinement

Ahead of us now is a period of refinement which will lead to the formulation of the very best product we can make. Along with this must be additional engineering and construction of facilities capable of high quality mass production.

The enthusiasm and commitment with which Kodak people have applied themselves to this project is truly one of the best examples I know of the resilience and strength of American enterprise. Together, these people are writing another chapter in the success story of how to get things done.

When their job is finished, we will be proud to put the Kodak name on an instant product for Kodak customers. I don't have to tell you I am confident we will see that moment arrive.

A beautiful picture like this one is enough to demonstrate all by itself that the moment is within our reach.

We've come a long way since the days when George Eastman could personally supervise the design of every piece of machinery in the plant. But we have not outdistanced his formula for success. The secret, he said, was "Good goods."

If there is an ultimate "Wherefore" behind Kodak's successes in the past and for the future, it lies in that formula.

Thank you.



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

A financial analyst asked if there was some technological reason, or manufacturing constraint, which would prevent Kodak from introducing instant photo products of its own in 1975. Mr. Fallon noted that the company is progressing rapidly towards the fulfillment of its objectives in instant photography and, further, that Kodak has a specific date in mind for the introduction of instant products. He said, however, that the company "is not ready yet to announce its target date" for commercial introduction.

Instant photography was the subject of a number of other questions from shareowners and financial analysts.

In response to a question about Kodak's agreement to supply color negative material for Polaroid film, Mr. Fallon noted that the supply contract will expire this year and that it will not be renewed. Asked about features of Kodak instant products, Mr. Fallon noted that the company plans a line of cameras priced

for the mass market . . . that the film will emerge from these cameras dry and litter free . . . and that the resulting pictures would be of characteristic Kodak quality. Earlier in the meeting, shareowners saw a series of transparencies produced through conventional means from actual instant prints made with experimental Kodak cameras and film.

Fiber profits and economic planning

A question about first quarter profitability of the Eastman Chemicals Division and specifically about the profitability of the fibers business was answered by Harry D. McNeely, general manager. He said fiber profits were not good but there had been an improvement in demand during the second quarter which is expected to continue during 1975. He said that considering the environment in which we operate, the profitability of the Eastman Chemicals Division is very satisfactory.

An investment analyst asked what assumptions Kodak is making about economic conditions in its planning for the future, and what affect the LIFO accounting method had on first quarter earnings. Robert A. Sherman, director, Finance & Administration, assured the questioner that Kodak is following cur-



rent economic conditions closely. A main factor in U.S. economic recovery, he noted, was the liquidation of business inventories. He observed that this liquidation seems to be happening. He noted that there is no solid consensus among economists as to the timing of full recovery. As to LIFO accounting, he said that first quarter results were reported on the LIFO basis and the company did not attempt to compare what the results would have been on some other basis.

Plain paper copying

The Ektaprint 100 copier-duplicator, demonstrated during Mr. Fallon's remarks, was the catalyst for a number of questions.

A shareowner wanted to hear more about customer evaluations, prices, and marketing strategies. Mr. Fallon replied that the company is about to begin thorough on-site customer evaluation of the copier-duplicator, with the expectation that the Ektaprint 100 copier-duplicator will be commercially available later this year. Pricing information should be announced sometime before then. Kodak has already begun to train marketing specialists selected from its well-established Business Systems Markets Division.

A securities analyst asked a series of

questions related to the Ektaprint 100 copier-duplicator, its photoconductor, and the expected portion of profit derived from rentals and sales—hardware vs. consumables. Colby H. Chandler, general manager, U.S. and Canadian Photographic Division, responded. The photoconductor is a flexible belt that should have substantial life depending upon the conditions of use, he said. Replacements will be made by qualified Kodak service representatives. Customers will have the option of purchasing or renting the copier, Mr. Chandler stated, and it remains to be determined what division of revenues and profits will result from these options. As to the breakdown of revenues and profits from hardware as opposed to consumable supplies, he said that it is likely equipment will generate the bulk of these.

Mr. Kendall M. Cole, general counsel, told a questioner that Kodak does not expect to require patent licenses from other firms in order to market the Ektaprint 100 copier.

Another shareowner wanted to know what percentage of stockholder equity Kodak was prepared to invest in the copier line. Mr. Fallon said that it is a capital intensive program which is expected to meet with good commercial success and the corporation is



prepared to support it. Mr. Zornow added that Kodak is planning a controlled introductory program which makes entry costs somewhat less burdensome.

Photographic enlargements

Mr. Van B. Phillips, general manager, Marketing Division, was asked by a photo retailer and shareowner to comment on the success of the company's efforts to promote color enlargements, particularly the 5x7 inch size. Mr. Phillips answered that this segment of the business grew in 1974 and is expected to continue growth this year. Both dealers and consumers seem to have responded well to this promotion, he said.

Legal action against Kodak was the subject of one shareowner's question. Mr. Cole explained that basically what is being attacked is the integrity of Kodak's operation of its photographic business. The company believes it has conducted business in a proper and legal manner, that it has been responsible for a great broadening in the appeal of photography, and that it has been fair to its customers and proper in its relations with other photographic manufacturers. He referred specifically to the status of the GAF, Berkey, and Pavelle cases. The first two are

scheduled for trial this fall, but may not come to trial until Spring of 1976. The Pavelle case has been deferred until the completion of the other trials (see "Legal Notes," page 39, 1974 Annual Report).

Kodak stock ownership

A proxy holder asked if large blocks of Kodak stock have been purchased by foreign oil-producing countries, including Kuwait. Also, had the company been pressured to change its business practices or policies regarding sales of products to Israel? Mr. Zornow said that Kodak has not been subjected to any pressure of any type to alter its distribution or sales practices in Israel. He said that the company is not aware of any sizable purchases of Kodak stock by oil-producing countries.

A shareowner suggested that the company purchase its own stock during periods of depressed prices for distribution to owners at a later date. Mr. Zornow said such action is considered from time to time.

Mr. Zornow also replied to a shareowner who suggested that a stock split is in order. Mr. Zornow stated that he could not make such a commitment at this time, but assured the questioner that the board of directors



considers such action at regular meetings.

Institutions comprise about 22 percent of Kodak ownership and hold 71.5 percent of the outstanding shares, Mr. L. S. Zartman, corporate secretary, stated in response to a shareowner's inquiry.

Two shareowners inquired about the Automatic Dividend Reinvestment Service. One person wondered if it would be possible to reinvest less than 100 percent of dividends without going through the procedure of creating multiple accounts. Mr. Zartman replied that the company had not been aware of the desire of participants in the program to reinvest less than all of the dividend, but allowed that the question may reveal an interest in a partial reinvestment option.

Another shareowner stated that he found the quarterly reporting form used in connection with the dividend reinvestment plan to be confusing. Mr. Zartman offered to explain the procedure to the questioner immediately after the meeting and to note any suggestions for clarification of the reporting process.

Photo processing and equipment

One individual wanted information about Kodak processing and reprints. She was

referred to Dr. Harold L. Smith, general manager, Kodak Park Division, who would answer her detailed questions immediately after the meeting.

Dr. Smith also responded to the comments of a shareowner who complained of her reception at the Kodak Colorado facilities when she visited there. Dr. Smith apologized for an inadvertent slip by the company and told the shareowner that he hoped she would be able to visit the plant again soon. He assured her that the reception she described was not in keeping with management's intentions or with Kodak's general image.

A shareowner expressed the wish that Kodak manufacture more-sophisticated, larger-format cameras for those who want to make professional-quality enlargements. Mr. Zornow commented that the company for a number of reasons, primarily economic, ceased manufacturing such equipment a number of years ago. He said Kodak has focused its substantial effort on the demands of the mass market, noting this approach had resulted in the pocket Instamatic format. This camera-using segment of the market does not usually require enlargements of the size and quality demanded by professional photographers and sophisticated amateurs.



Social programs

A shareowner commented that the 1974 Annual Report did not mention specifically the very fine socially beneficial programs which Kodak funds and supports in Rochester. Was there any special reason for this? Mr. Frederic S. Welsh, vice president for Corporate Relations, said that he did not think mention of such programs was intentionally left out. He noted that some comments were made (for example, there was specific reference to the company's good corporate citizenship efforts in the Windsor, Colo. area), and that there are, of course, limitations of space which dictate the contents of the report.

When asked if current restraints on employment would cause the affirmative action compliance program at Kodak to be cut back, Mr. Welsh said no.

An employee-shareowner with a personnel question was referred to management representatives after the meeting, in keeping with established policy.

In response to a good-natured question about the site of the annual meeting, Mr. Zornow said that a sizable number of shareowners are located in the New York City and Philadelphia areas and thus the

interest of a good many shareowners are satisfied by holding the meeting in Flemington. (As in recent years, approximately 1,000 shareowners attended the 1975 Annual Meeting at Flemington. Included were about 150 financial analysts representing institutions that hold upwards of 40 million shares of Kodak stock.)

First Quarter Report to Shareowners

(in millions, except earnings per share)	First Quarter		
	1975	1974*	Change
Sales	\$989.4	\$935.1	+ 6%
Earnings from operations	164.3	189.3	-13
Net Earnings	95.9	114.9	-17
Per Share	\$.59	\$.71	

*As restated to reflect the extension of LIFO inventory accounting method.

In Summary

Selling price increases held total dollar sales above the level of the first quarter of 1974, but a decline in unit volume—reflecting generally lower economic activity during the first quarter—coupled with higher wages and materials costs, led to lower first quarter earnings.

Sales Advance

Sales gains were recorded in all three operating divisions, reflecting selling price increases implemented since the first quarter of 1974.

Sales (in millions)	First Quarter		
	1975	1974	Change
U.S. & Canadian			
Photographic Division	\$559.9	\$533.4	+ 5%
International Photographic Division	361.4	305.9	+ 18
Eastman Chemicals Division	212.4	206.6	+ 3
Interdivisional Sales	(144.3)	(110.8)	
Worldwide	\$989.4	\$935.1	+ 6%

Although shipments by the U.S. and Canadian Photographic Division declined in volume, dollar sales advanced. Sales of photographic materials and services moved ahead of last year on the strength of demand for amateur products and x-ray films, but photographic equipment was generally lower. First quarter sales in both years reflected accumulation of inventories by customers in response to pre-announced price increases.

International Photographic Division sales advanced, with dollar gains in all regions; the division reported a modest increase in unit volume.

Eastman Chemicals Division sales reflected the weak condition of markets for textiles, home furnishings, automobiles and packaging materials. Shipments of chemicals, plastics and fibers in units were significantly below those of last year, but selling price increases offset the decline in volume.

Sales to the U.S. Government and defense contractors were \$40.6 million, representing 4 percent of total sales for the quarter.

Earnings Decline

While the steady rise in the purchase price of raw materials which began over a year ago slowed, and some materials turned down, the level remained substantially higher than in the first quarter of 1974. Salaries, wages and benefits were also at higher levels, especially in the units operating overseas. With an overall decline in volume, unit manufacturing costs increased. This escalation of business costs, together with sluggish demand—textile fibers in particular—and constraints on selling price increases abroad were major factors in the earnings decline.

Research and development expense in the quarter amounted to \$73.9 million, compared with \$64.1 million in the comparable quarter last year.

	First Quarter		
	1975	1974	Change
Cost of Goods Sold (in millions)	\$619.1	\$564.4	+ 10%
Percent of Sales	62.6%	60.4%	
Sales, Advertising, Distribution and Administrative Expense (in millions)	\$206.0	\$181.4	+ 14%
Percent of Sales	20.8%	19.4%	

Sales, advertising, distribution and administrative expenses reflected the higher levels of salaries, wages and benefits now in effect, placing additional pressure on earnings.

The effect on earnings of exchange gains and losses and adjustments related to the translation of foreign currencies was not material in the first quarter of either year.

	1975	1974	Change
	Earnings from Operations (in millions)	\$164.3	\$189.3
Percent of Sales	16.6%	20.2%	

Interest income declined, with reduced rates of return on a lower balance of securities held. Other income also declined, while other charges increased compared with a year ago. The provision for income taxes was \$77.5 million, down from \$93.0 million in 1974 principally as a result of lower earnings.

	1975	1974	Change
	Net Earnings (in millions)	\$95.9	\$114.9
Percent of Sales	9.7%	12.3%	
Net Earnings per share	\$.59	\$.71	

Dividends to Shareowners

Cash dividends of 39 cents per share were declared in the quarter, up from 32 cents in the first quarter of 1974. Total dividends declared amounted to \$62.9 million compared with \$51.6 million last year.

Capital Improvements

Capital expenditures for additions and improvements to plants and facilities totaled \$131.1 million during the quarter.

	First Quarter	
	1975	1974
Capital Expenditures (in millions)		
U.S. and Canadian Photographic Division	\$59.4	\$50.2
International Photographic Division	23.8	17.9
Eastman Chemicals Division	47.9	29.9
Worldwide	\$131.1	\$98.0

The provision for depreciation was \$49.0 million, 10 percent above the \$44.7 million for the first quarter of 1974.

(continued on page 19)

Consolidated Statement of Earnings

Eastman Kodak Company and Subsidiary Companies

	For the Quarter (12 Weeks) Ended	
	Mar. 23, 1975	Mar. 24, 1974
	(in thousands, except earnings per share)	
Sales		
Sales to: Customers in the United States	\$ 539,763	\$ 542,215
Customers outside the United States	449,674	392,862
TOTAL SALES	<u>989,437</u>	<u>935,077</u>
Costs		
Cost of goods sold	619,121	564,374
Sales, advertising, distribution, and administrative expenses	206,028	181,431
Total costs and expenses	<u>825,149</u>	<u>745,805</u>
Earnings		
EARNINGS FROM OPERATIONS	164,288	189,272
Interest income	11,943	17,003
Other income	4,442	6,437
Less: Other charges	7,322	4,777
EARNINGS BEFORE INCOME TAXES	173,351	207,935
Provisions for United States, foreign, and other income taxes	77,500	93,000
NET EARNINGS	<u>\$ 95,851</u>	<u>\$ 114,935</u>
Average number of shares of common stock outstanding	161,345	161,329
Net earnings per share	\$.59	\$.71

Consolidated Statement of Retained Earnings

Retained Earnings

Retained earnings at beginning of year	\$2,755,635	\$2,447,164
Net earnings	95,851	114,935
TOTAL	2,851,486	2,562,099
Cash dividends declared at \$.39 per share (\$.32 in 1974)	62,925	51,626
RETAINED EARNINGS at end of quarter	<u>\$2,788,561</u>	<u>\$2,510,473</u>

Financial statements for the quarter have been prepared by the company in accordance with the accounting policies stated in the 1974 Annual Report and should be read in conjunction with the Notes to Financial Statements appearing in that report. Comparative financial statements for March 24, 1974 are as restated to reflect the extension of the LIFO inventory accounting method. Research and development costs included in cost of goods sold were \$73.9 million in 1975 and \$64.1 million in 1974.

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
April 30, 1975

Consolidated Balance Sheet

Eastman Kodak Company and Subsidiary Companies

Assets	Mar. 23, 1975	Dec. 29, 1974	Mar. 24, 1974
		(amounts in thousands)	
Current Assets			
Cash	\$ 53,818	\$ 109,157	\$ 115,495
Marketable securities at cost (Mar. 23, 1975 market value \$567,389)	581,073	704,655	833,888
Receivables	704,352	756,688	622,511
Inventories	1,013,409	937,822	773,926
Prepaid charges applicable to future operations	87,370	77,110	75,674
Total current assets	<u>2,440,022</u>	<u>2,585,432</u>	<u>2,421,494</u>
Properties			
Land, buildings, machinery, and equipment at cost	3,955,236	3,829,731	3,412,951
Less: Accumulated depreciation	1,823,724	1,778,581	1,646,936
Net properties	<u>2,131,512</u>	<u>2,051,150</u>	<u>1,766,015</u>
Other Assets			
Unamortized excess cost of investments in consolidated subsidiaries over net assets acquired	14,999	15,403	16,740
Long-term receivables and other noncurrent assets	51,356	51,308	55,684
TOTAL ASSETS	<u>\$4,637,889</u>	<u>\$4,703,293</u>	<u>\$4,259,933</u>
Liabilities and Shareowners' Equity			
Current Liabilities			
Payables	\$ 622,540	\$ 638,080	\$ 554,240
Taxes—income and other	248,213	251,954	246,514
Dividends payable	62,925	143,584	51,626
Total current liabilities	933,678	1,033,618	852,380
Other Liabilities and Deferred Credits			
4½% convertible debentures—due 1988	66,076	66,076	66,416
Other long-term liabilities	67,715	71,865	64,676
Deferred income taxes	109,742	104,265	94,494
Total liabilities and deferred credits	<u>1,177,211</u>	<u>1,275,824</u>	<u>1,077,966</u>
Shareowners' Equity			
Common stock Par value—paid in or transferred from retained earnings*	403,966	403,966	403,957
Additional capital paid in or transferred from retained earnings	268,151	267,868	267,537
Retained earnings	2,788,561	2,755,635	2,510,473
Total shareowners' equity	<u>3,460,678</u>	<u>3,427,469</u>	<u>3,181,967</u>
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	<u>\$4,637,889</u>	<u>\$4,703,293</u>	<u>\$4,259,933</u>

*\$2.50 par value, 360,000,000 shares authorized; Issued: 161,586,286 on Mar. 23, 1975 and Dec. 29, 1974; 161,582,745 on Mar. 24, 1974. 688,292 authorized but unissued shares of common stock are reserved for the conversion of the debentures issued by Eastman Kodak International Capital Company, Inc. 40,850 shares have been issued as a result of conversions to date.

Consolidated Statement of Changes in Financial Position

Eastman Kodak Company and Subsidiary Companies

For the Quarter (12 Weeks) Ended

Mar. 23, 1975

Mar. 24, 1974

(amounts in thousands)

Funds Provided by:

Net earnings	\$ 95,851	\$ 114,935
Charges to earnings not requiring cash outlay:		
Depreciation	49,009	44,695
Plant and equipment retired, less accumulated depreciation	1,734	1,547
Provision for deferred income taxes, net	2,550	8,050
Amortization of excess cost of investments in subsidiaries over net assets acquired	404	405
Total from earnings	149,548	169,632
Decrease in receivables	52,336	43,048
Increase in other long-term liabilities	—	770
TOTAL FUNDS PROVIDED	201,884	213,450

Funds Used for:

Dividends to shareowners	62,925	51,626
Additions to properties	131,105	97,999
Increase in inventories	75,587	36,441
Decrease in: Payables	15,540	18,515
Taxes payable	3,741	9,611
Dividends payable	80,659	80,651
Decrease in other long-term liabilities	4,150	—
Other items, net	7,098	5,014
TOTAL FUNDS USED	380,805	299,857
Decrease in cash and marketable securities	178,921	86,407
Cash and marketable securities, beginning of year	813,812	1,035,790
Cash and marketable securities, end of quarter	\$ 634,891	\$ 949,383

(continued from page 16)

Financial Position

Cash and marketable securities declined seasonally from year-end 1974 to \$634.9 million. Working capital also declined slightly from year-end 1974, totaling \$1,506.3 million. Compared with the first quarter of 1974, worldwide inventories increased by \$239.5 million to a total of \$1,013.4 million. Inventories of units operating outside the U.S. reflect the full impact of higher purchase price and cost levels; domestic inventory comparisons largely reflect the replenishment of raw materials which were in short supply a year ago. Receivables amounted to \$704.4 million, or 13 percent higher than a year ago, partly as a result of increasing levels of overseas business toward the end of the quarter.

Outlook

Many observers feel that the negative factors in the economy will continue until later in the year, with some recovery then. While some favorable signs are visible now, much uncertainty still lies ahead, both here and abroad. We continue hopeful that our business will respond quickly to an upturn in economic conditions.

E. A. Jensen

Chairman

W. A. Fallon

President

New Kodak Products

New products—especially the Kodak Ektaprint 100 plain-paper copier-duplicator—were a source of excitement among shareowners at the Annual Meeting.

The assembly of shareowners and financial analysts received a first-hand look at the copier-duplicator demonstrated during Mr. Fallon's remarks.

Also on view was a new line of Instamatic cameras, including the first pocket camera with a built-in telephoto lens.

New copier. The Kodak Ektaprint 100 produces quality copies on plain bond paper at a rate of about 4,200 copies per hour. It is designed for reproduction departments and offices using between 20,000 and 70,000 copies each month.

Within the next few months, said Mr. Fallon, the copier-duplicator will be moving into key user locations for thorough on-the-job evaluation. Price and delivery schedules will be announced later this year. Customers will have a purchase or rental option.

The Ektaprint 100 uses a dry image-forming electrostatic process to produce an image of the document being copied on a photo-conductive film belt. The image is transferred from the belt to paper. Mr. Fallon termed these images "in a fundamental way, photographs" saying the copier-duplicator is a natural outgrowth of the company's capabilities in imaging technology.

The copier can reproduce a wide variety of images—from light pencil to dark halftone. It can copy on both sides of the paper. During the presentation, copies of a data page were made and later distributed. The Meeting program was reproduced by the copier.

An operator can request as many as 999 continuous copies from the Ektaprint 100. All controls are within easy reach of the operator. The control panel contains illuminated buttons and displays that together help the operator control and monitor copier operation. After pushing "start" button, first copy emerges in just less than eight seconds.

A built-in microcomputer monitors copier performance continuously and alerts the operator if there is a need for human assistance, thus helping to keep supplies at proper levels and the machine well-utilized.

The copier-duplicator can accommodate any commercially available 16- to 32-pound duplicator bond paper in sizes 8 x 10 inches to 8½ x 14 inches. Kodak will offer four types within these size and weight ranges.

The Kodak Ektaprint 100 copier-duplicator will be marketed by the Business Systems Markets Division, and it will be serviced through the Customer Equipment Services Division, which has some 1,400 field representatives in more than 200 U.S. cities.

New pocket cameras. Shareowners also saw and had demonstrated a series of five pocket-size cameras with new features and new names. They will be available to the market in June.

Four of the models (18, 28, 38, 48) are known as the Kodak Trimlite Instamatic cameras. The fifth is the Kodak Tele-Instamatic 608, which can take normal or telephoto pictures using two built-in lenses.

All the new Kodak cameras use a new flipflash announced by General Electric Company. The flash features eight individual flashbulbs arranged in a thin, pocketable array. The flipflash is plugged into the camera flash socket and the top four bulbs are fired in sequence. It is then flipped top to bottom and the other four bulbs are ready to fire.

Features of the Trimlite series include a large, bright projected frame viewfinder. Various signals are visible in the finder depending upon camera model. The signals indicate such conditions as closed lens cover, low lighting, long exposure, and completed long exposure. All models have improved "soft-touch" shutter releases.

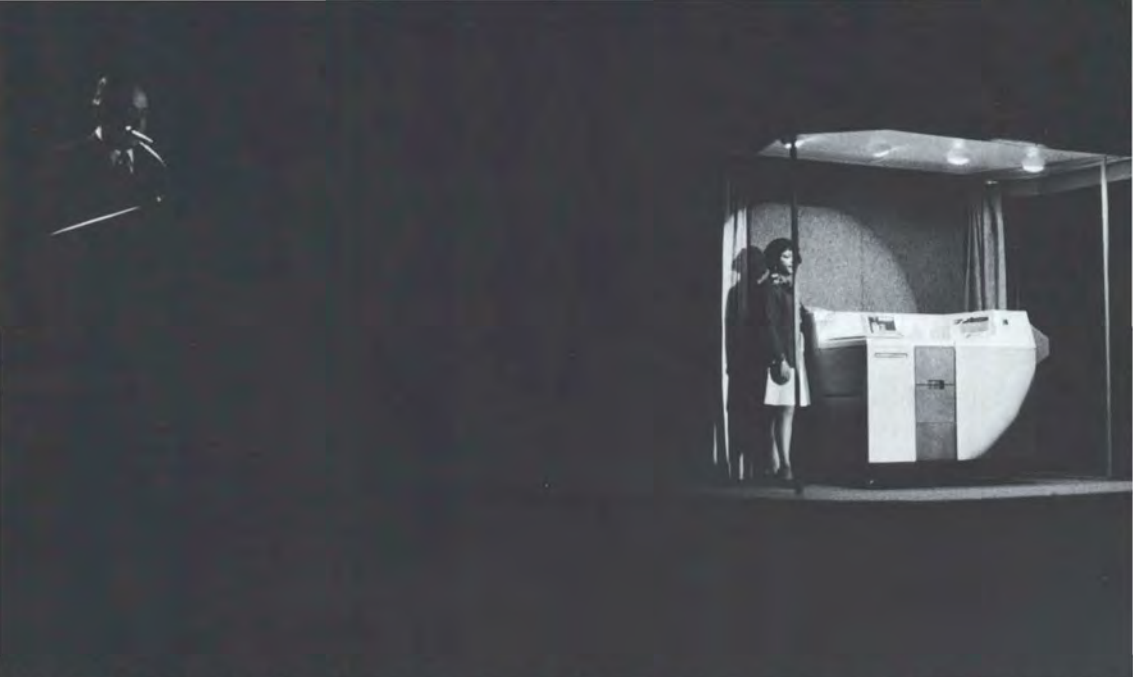
The Tele-Instamatic 608 features two built-in lenses. A switch atop the camera allows the user to select lens preference. The normal lens is a 25 mm single-element design while the telephoto optic is 43 mm.

From a given distance, the telephoto lens produces an image of the subject 72 percent larger than the normal lens. A mask within the viewfinder indicates the field of view and an aiming circle assists in camera pointing.

Accessories include two Kodak Ektron electronic flash units which plug directly into the cameras' flash sockets, and a Kodak clip-on pouch case, which holds any of the new cameras plus a flipflash.

The Tele-Instamatic 608 camera will list at \$35.95. The Trimlite models will list from \$23.95 for Model 18 to \$145.95 for the sophisticated Model 48. The five new models have a three-year warranty.

New Kodak Ektaprint 100 copier-duplicator is demonstrated (above) during president's report. Kodak personnel (opposite) discuss copier-duplicator demonstration shortly before the meeting.



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Shareowners at the Annual Meeting saw 35 mm slides of actual instant prints from experimental film and cameras developed at Eastman Kodak Company. Mr. Fallon reported that the line of cameras will be priced for the mass market and that the immediate access prints will be dry and litter free.