



Kodak Highlights

May 1978

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On the Cover

A shareowner makes his comment to management at the 1978 Kodak Annual Meeting in Flemington, New Jersey.

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

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1978 Annual Meeting

The 77th Annual Meeting of Kodak shareowners was held April 25 in Flemington, New Jersey. Walter A. Fallon, board chairman and chief executive officer, presided.

More than 72 percent—116,894,997 of 161,377,539—of the company's shares outstanding and entitled to vote were present or represented by proxy at the meeting.

The accounting firm of Price Waterhouse & Company was re-elected as auditors for 1978. The vote was 116,638,169 in favor and 239,260 against.

Shareholder proposal No. 1 (requesting a report of meeting attendance by outside directors) was adopted by a vote of 113,484,962 in favor (99%) and 885,133 against (1%). Shareholder proposal No. 2 (limitation on pension payments to retired officers) was defeated by a vote of 106,202,842 against (96.2%) and 4,178,085 in favor (3.8%). Shareholder proposal No. 3 (requesting Kodak to halt sales to the South African Government) was defeated by a

vote of 105,632,500 against (95.3%) and 5,255,223 in favor (4.7%). Shareholder proposal No. 4 (rotation of the Annual Meeting site among concentrations of shareowners) was defeated by a vote of 106,200,934 against (96.2%) and 4,175,155 in favor (3.8%).

The following directors were elected:

Roger E. Anderson
James S. Bruce
Colby H. Chandler
Kendall M. Cole
Charles T. Duncan
Walter A. Fallon
Douglass C. Harvey
Robert S. Hatfield
J. Paul Lyet
Harry D. McNeeley
Donald S. Perkins
Wylie S. Robson
Robert A. Sherman
W. Allen Wallis
Gerald B. Zornow

Earnings Up, Kodak Solid Chandler Tells Shareowners

The following address was delivered at the Annual Meeting of Kodak Shareowners in Flemington, N.J., April 25, 1978. The speaker is Colby H. Chandler, company president.

Good morning. Last year I stood here and promised you that during the next twelve months you would see your company getting ahead with fundamentals. I suggested that research projects under evaluation and new programs then under way would be driving Kodak toward new achievements in familiar areas of interest, as we move toward the 1980s. I said we would be moving ahead smoothly with new technologies. I said we could stand up to pricing pressures and increased competition in traditional markets. I promised we would sharpen in-house productivity. Most important, perhaps, I implied that within a year you would be seeing signs of progress in a fundamental area, earnings performance or, to put it in a way we can all understand, profits.

It's always pleasant to make good on a promise—especially on a rather bold set of promises. I can report real progress in all these areas this morning.

For one thing, 1977 was a year we can look upon with certain satisfaction.

- Worldwide sales rose 10% to nearly \$6 billion...a record high.
- Operating earnings increased 5% to \$1.19 billion...another record mark.
- Net earnings held close to level at \$643.4 million, despite some positive non-recurring factors which made 1976 a high point of reference.
- Dividends to shareholders were \$339 million, up for the twenty-ninth year in a row, and the payout rate—at 53% of net income—remained high.

Our balance sheet position is strong, and we have the resources to provide for future growth.

I have saved the most encouraging fact of 1977 for last. Demand for Kodak products was strong throughout the second, third and fourth quarters.

That demand was increased in 1978. As

announced just yesterday, Kodak sales during the first quarter climbed 15 percent, totaling \$1.38 billion. Operating earnings rose 51 percent to \$265 million. And net earnings were sharply higher, rising 50 percent to \$141 million.

Many times from this podium, it has been said that first quarter results are not indicative of what can be expected for the full year.

That is particularly true this year. In 1977, a combination of factors severely depressed earnings for the first quarter and thus, the comparison was easier this time around.

Don't mistake my meaning. We are proud of the company's first quarter performance. That 50 percent earnings increase I mentioned a moment ago more than offsets last year's 20 percent decline. If we spread that increase over a two-year span, we would see that Kodak's first quarter earnings have advanced at the average rate of 9 percent since 1976.

The story of this new year—and the story of 1977—is one of facing up to and meeting the demands of the times...the demands



imposed by active competition, the demands arising from efforts to exploit new technologies, the demands of the present and the demands of the future.

I'm going to tell you today how we are meeting those demands. I'm going to give you the facts and let you be the judge. I think you'll see the challenge is being met.

Litigation Report

One important issue I'd like to talk about today is of great concern to everyone here...the litigation between Kodak and others in the photographic industry.

As you know, a jury in New York City concluded in January that Kodak had violated the antitrust laws. The same jury determined two months later that compensatory damages owing to Berkey Photo totaled some \$37 million, a sum that would be trebled under existing law. As announced, we will appeal their decisions as soon as the court enters its judgment in the case.

As we wrote to all shareowners two days after the verdict, we believe the federal court applied an incorrect standard of law to the facts of the case. We continue to believe that the charges brought by Berkey have no merit.

We do not believe the law, in letter or in spirit, restricts Kodak from introducing new and innovative products or insists that Kodak share the details of its research and development with competitors.

In this belief, we are supported by counsel and by wide-ranging editorial opinion, expressed within our industry and the general media.

Writing in *THE NEW YORK TIMES*, a former Deputy Assistant Attorney General for the Justice Department's antitrust division, notes that the antitrust laws traditionally have limited the exchange of confidential information among competitors on the premise that such exchanges tend to dampen or eliminate the incentive of firms to spend their money on research and development.

Then comes a most telling point, and I quote it: "If the results of (one) company's efforts must first be shared with competitors, there is little chance that the company will be able to recapture its...costs through greater sales or savings. This verdict, so long

as it stands, suggests a significant new antitrust risk for many companies."

The author notes that it is not against the law "to build a better mousetrap." The free enterprise system, he says, allows entrepreneurs "to compete by providing consumers with superior goods at the lowest possible price." He—the entrepreneur—"is encouraged to do so through the promise of profits and an ever-enlarging market share. No one competitor is to be favored or sheltered from the rigors of business rivalry. It is competition—not competitors—that has traditionally been protected."

We could not agree more. We believe Kodak is entitled to exercise the ingenuity that has made this company a leading source of photographic innovation. We believe we are entitled to reap fair rewards for the cost and effort of such innovation.

We fully intend to remain a leading source of innovation, into the 1980s and beyond. In that context, it's useful to understand why Kodak has been so successful to date. I think it's because in each market we serve we offer something special, a kind of quality identified with Kodak in customers' minds. For lack of a better name, we call each of these qualities a distinctive Kodak competence.

I'd like to show this morning how such competence has developed in three markets—photography, business systems, and health care.

Photography Paramount

For Kodak, there has always been one central business, photography, and one main customer, the photographer. An 8 x 10 Ektachrome transparency made by the finest professional photographer may take days to plan, set up and execute. But the end result is based on the same technology as the print that comes out of a Colorburst instant camera found under the Christmas tree by someone who may have never taken a picture before.

Though all photos are fundamentally similar, nevertheless each is unique. Each captures a different slice of time—from several hours to a millionth of a second. Each shows a new slant of light, a new turn of mood, or a new way to see the same thing.

Kodak sells still and movie cameras and

films purchased by millions of people each year. Virtually all these products are designed to reflect George Eastman's central marketing idea. Make photography convenient. Simplify it. Make it easier and easier and easier. If possible, make the camera as convenient as the pencil.

Ninety years after George Eastman thought up the word Kodak and put it on his Number One camera, snapshots by Kodak become easier and easier. Last year, U.S. consumers made more than five and one-half billion color negative snapshots. This figure was up more than 10 percent from 1976. The trend is continuing. Thus far in 1978, demand for Kodacolor films has been exceptional. This resurgence of interest is due in part to the increasing convenience in using Kodak films and cameras. Our commitment to customer convenience continues. For a very long time, still photographers have sought the convenience of available light or, as we say, "existing-light" color photography. In 1971, ideas developed in the Kodak Research Laboratories began to pay off. XL movie cameras and film let consumers make super 8 movies without movie lights. In 1977 we introduced Kodacolor 400 film in 35 mm and 110 sizes. Kodacolor 400 film does for color photography what Tri-X film has done for black-and-white since 1954: it lets people photograph virtually anything they can see. Moreover, like Kodacolor II, this new film has exceptionally wide latitude. Consumers can get acceptable prints under as many as six different camera stops. This means that a photographer can take photos of two scenes, one with 32 times as much light in it as the other, and still get acceptable exposures in each. Such latitude allows engineers to design simple cameras without sophisticated exposure controls. Eliminating exposure controls can save money, especially when the designers invent models that can be built largely with automated equipment. Saving money in production allows a manufacturer to pass those savings along to customers. The result—low-priced cameras.

Those cameras are here. In February, we announced the Kodak Ektra camera series of six pocket models. These cameras all sense 110 cartridges notched for Kodacolor 400

film. Four camera models are now on sale—the Ektra 1 and Ektra 2 cameras, as well as their versatile companions, the Tele-Ektra 1 and Tele-Ektra 2 models. They reflect ingenious refinements in the design of Kodak pocket cameras first introduced just six years ago. But their most remarkable refinement is revealed in their price. When a customer goes to a dealer and purchases an Ektra camera outfit with attachable electronic flash, he or she is getting a remarkable bargain—an inexpensive camera that takes fast film, yet uses a handy flash when slower films or stop-action scenes demand it.

The two new Ektra models set for delivery to dealers this summer, promise even more. Both the Kodak Ektralite 10 camera and the Kodak Ektramax camera feature built-in electronic flash to make flash photography more convenient than ever. Its features and price should make the Ektralite camera one of the most popular Kodak cameras. And the Ektramax camera helps usher in the new age of available light photography for 110 camera owners.

While all the Ektra cameras will sense 400 speed film and take advantage of the high speed, the Ektramax has additional features which give it the capability to take pictures of anything you can see. There is something special about the Ektramax camera. It will be available in August with a fast, yet low-cost lens. Three of its four elements will be optical plastic. One plastic element is special. It's what optical scientists call "aspheric." Most lenses are spherical, that is, their surface forms arcs which, if extended, would become perfect circles. Aspheres are, literally, "non spheres." Their unusual shape is extremely difficult to design, make and test. But it corrects aberrations that otherwise would require additional—and costly—glass elements. Designing and making a mold that would allow us to manufacture large quantities of highly precise plastic lenses was an enormous challenge for Kodak engineers. But they succeeded, and the benefits to the user are clear. Cameras containing such lenses become lighter and less expensive. The results in this case mean the Ektramax—at the top of our camera line—will be a true available-light camera. And it will be priced at considerably less than what



consumers are accustomed to paying for a 110 camera with this capability.

But the prints resulting from the Kodacolor 400 film exposed in the camera will be comparable to those made in the more expensive models. The Ektramax camera, in short, will make existing-light prints more affordable, more convenient than ever.

"Shoot What You See"

Existing-light photography means more than prints. About the time the Ektralite and Ektramax cameras are on the market, we'll be offering 35 mm camera users the convenience of ASA 400 reversal film. Ektachrome 400 film will let photographers shoot just what they see much in the way Kodacolor 400 film users can, but with the added brilliance that comes from projected images. People will now be able to "shoot slides" where flash would be obtrusive. Moreover, creative photographers who want to use higher shutter speeds to stop action will be able to push the new film to twice or even four times its rated speed.

Convenience of availability means more than the camera's capacity to capture the light in the scene. For more and more consumers, availability means having the picture here and now. When we introduced

our instant cameras and film two years ago, Kodak color fidelity was finally available for instant prints.

The instant program is going strong. Last year camera sales tripled. Film sales nearly quadrupled. The "Handle" camera was a huge success; more than two million Handles—all we could make—moved from the dealers' shelf into customers' hands. These sales combined with sales of other models to total 1/3 of all instant cameras sold during our first full year of marketing. Our forecasts tell us we will continue to enjoy good growth in 1978, especially in international markets where the world is recognizing that distinctive competence supporting the slogan: "Color by Kodak." When you couple this experience with an expanding group of users who annually expose hundreds of millions of instant prints of all kinds, you get a sense of Kodak's accomplishments in this area as well as a sense of its potential return to your company.

We continue to build. The Colorburst 100 and 200 motorized cameras announced in February reflect improvements on the EK4 and EK6 cameras. Yet each costs the consumer at least ten dollars less than the first motorized Kodak camera, the EK6. In August, the seventh Kodak instant camera,

the Colorburst 300, will be available. It will feature built-in electronic flash, adding another measure of affordable convenience to the instant line.

To spur sales of instant products, our advertising people have come up with some clever ways to promote them. The same family that uses available light cameras and films to record their vacation can also use new Kodak instant postcards to mail pictures back home. When pictures of your vacation arrive home before you do, people can get a sense of directly sharing your experience that traditional postcards, letters or even phone calls just can't duplicate.

A Future for "Instant"

The products now on the market demonstrate our commitment to instant photography. I'm not going to announce any new products this morning, but you don't have to be clairvoyant to know we're not going to stop bringing out instant cameras after the seventh model. And it doesn't take a degree in photographic science to realize that Kodak instant print film has many other possible applications. We're investigating these opportunities very thoroughly, both for consumers as well as for the millions of people who use photography in their working lives.

But when we talk about the future of instant photography, I would stress a simple point. We will undertake no instant program unless we are confident of returns that fit our financial goals. From the beginnings of this program, we set out to design not the most sophisticated instant cameras available, but cameras we felt would appeal—and sell—to as many people as possible. As we enter our third year, cameras like The Handle and those in the Colorburst line are building a substantial business base for Kodak. This base will grow into the 1980s and beyond.

And speaking of good Kodak business brings us to another Kodak customer, the professional. Here, our distinctive competence comes from the ability to deliver products best known for one thing...quality.

To the professional photographer, quality means products that perform to the highest specifications as reliably as possible. Kodak delivers that quality. The film these photographers use to photograph the style of high

fashion, the complex business of industry, the teeming life beneath the ocean surface, the architecture that defines our civilization, the world close at hand and continents far away, the spectacle that is nature, and thousands of other subjects, is usually Kodak film. The chemicals used to process this film are often Kodak chemicals. The paper they choose to print on are more often than not Kodak papers.

The quality these professionals achieve depends on the keenness of their eye, the control of their craft and their ability to frame a section of world and transform it into a personal vision. I am proud that Kodak materials so often prove equal to that vision and that Kodak shares in the credit for assisting such powerful imagery to shape and mold our times.

Quality Addictive

While quality is elusive—hard to achieve and difficult to control—it is also addictive. Once people learn what it is, they demand it. And we've been doing a number of things to remind people just what Kodak quality can mean in the most human terms.

A survey made several years ago showed that people have rated print quality a poor third in their choice of a processing outlet, well behind convenience and price. But recent studies reveal that people now think quality is every bit as important as price. Moreover, among people who shoot seven or more rolls a year, 50 percent know who made the color paper their negatives are printed on. We are pleased by both that news and the trend it suggests.

Last year, however, we began to hear from finishers that many customers, unaware of quality distinctions, were seeking outlets offering much lower prices. We got their message. We began to provide photofinishers with financial incentives. We began an advertising campaign to tell people how the quality of their prints depends on the paper they're printed on. The results paid off. Quality plus price has equaled good returns for paper business and our photofinishing customers.

For every professional photographer, there are thousands of other professionals in thousands of different businesses. Kodak



business systems people serve these customers through their own distinctive competency and efficiency. They understand how businesses work. They know each business is different. And the products they sell fit their customers' special needs.

Sales in 1977 proved it, as we supported this in-depth commitment to efficiency with new films and hardware. Since the beginning of 1977, no fewer than fifteen major new business products have been introduced. We introduced microfilmers, microfilm processors, readers and reader-printers. We introduced ways to combine the versatility of the microfilm image with the storage power of the customer's own computer. And, as I mentioned last year, we introduced a major technological innovation: a computer output microfilmer that writes with a laser on dry-process film at speeds up to 10,000 pages per hour. At that rate, the Komstar microimage processor could print the equivalent of the entire Kodak annual report in fewer than five seconds.

These products and others in the works are some of the keys that will help unlock the doors to the office of the future. But meanwhile, they have much to contribute to the office of the present.

Business systems efficiencies don't stop with microfilm. The Ektaprint copier line continues to conform to early expectations. A year ago, Ektaprint copiers were sold in 31 cities. Now, they're available in virtually every major city in the country and are up and running in the majority of FORTUNE's top 500 companies.

Much to Offer

It goes without saying that we wouldn't have entered a market already served by the fine companies who have proved so successful there, if we didn't offer some unique benefits. Kodak copies come close to offset quality. Together with the time-saving, labor-saving efficiencies Ektaprint automatic feeders and finishers produce, such quality remains an important reason for our fine two-year track record.

The laser microfilmer and the copier provide us with a logical place to mention Kodak's use of electronics. These products, like many others from Kodak, rely heavily

on electronic components. Minicomputers, microcomputers, complex circuit boards and integrated circuit chips are used whenever they're needed to do the job reliably and intelligently.

In-house capability at the Kodak Apparatus Division now lets us manufacture integrated circuits used in Kodak cameras, including the Colorburst instant cameras I spoke of earlier. Pilot programs at the Kodak Research Laboratories prove we can develop solid state image sensors. We continue to explore how electronics can prove useful in all Kodak areas of business.

Spin Physics, Inc., a subsidiary company, has expanded its facilities in California and will occupy the first of several planned buildings on a new site. Spin Physics supplies a wide range of magnetic heads for instrumentation and video recording. Their understanding of video technology continues to give us a window on another aspect of electronic technology that may, in time, provide Kodak with a broader business opportunity.

In short, we know what electronics can offer, and we're using electronic technology wherever it offers a real benefit.

Quality, convenience, and efficiency are all indispensable to Kodak x-ray films and processors. Yet the distinctive competence of Kodak health care products is summed up best by another word...accuracy. The black-and-white shadows that make up a typical radiograph are difficult for most people to understand, yet under the radiologist's trained eye, they reveal vital information about the state of our health and the progress of medical treatment.

Kodak is the leading producer of x-ray films, and last year's good sales gains show how well we are doing in this traditional business. But accuracy is important to other health care applications as well, and I'd like to report on one this morning.

We like to tell our customers that movies are often the best way to tell a story, particularly a new and exciting story. *(At this point in his talk, Mr. Chandler introduced a brief animated film showing how a new tabletop blood analyzer, now in development, may someday work to save hospitals space, time and money.)*

The benefits to a clinical chemist are clear. With all the chemical and mechanical reactions taking place in the slide, laboratories can be free from the many storage and handling processes associated with wet chemicals. The slide contains much less reagent than is now used in many tests. Finally, development work suggests that this technology may be used to detect substances in the blood at levels as low as one part per hundred billion. It may someday routinely measure many substances that are now difficult and expensive to analyze accurately. With hospital labor costs skyrocketing, and a square foot of laboratory space becoming ever more precious, Kodak's blood analyzer may offer cost-effective treatment, to be sure. But even more, it promises to offer patients the precise measurements their doctors rely on.

In 1977, this unique technology moved from inhouse testing to initial evaluations in several hospital laboratories. Over the next year, units will be placed on marketing trial in a number of major metropolitan areas. I expect there will be much more to say about Kodak and clinical diagnostics by this time next year.

Flexibility Counts

These three major markets—photography, business systems, and health care—illustrate dramatically how Kodak has worked to match distinctly different competences to distinctly different needs.

That same kind of competence applies wherever Kodak products are made and sold. We have the ability to deliver, sell, and promote Kodak products virtually anywhere in the world. Moreover, our distribution is supported in specific markets abroad by manufacturing capability vital to Kodak's success.

Last year, sales of the International Photographic Division totaled nearly \$2 billion. More than 40,000 men and women were responsible, and a very high percentage of them are citizens of the countries where they work. Thus, Kodak contributes, through its people and its technology, to local economies around the world while meeting the increasing needs of photographic customers.

Worldwide sales by the Eastman Chemi-



als Division exceeded \$1.3 billion in 1977. While those sales increased 10 percent—and though this division's operating margins are a healthy 17 percent—few people are fully aware of the diversity of the products made at Eastman plants in six different locations.

Eastman chemicals, fibers and plastic are found in automobile steering wheels, baby diapers, nurses' uniforms and super-strong adhesives, plastic bottles and heavy-duty twine, filter cigarettes and polyester fabrics, printing inks and Vitamin E. "Eastman"—as this division is known to the trade—may have a low profile, but consumers encounter its products in scores of ways every day of their lives.

There is more, of course, to the story than sales. Sales bring the money in. But stopping money from flowing out too rapidly is critically important as well. We saw last year—and we are seeing this year—that Kodak can deliver the goods, while reducing internal costs to the point where dramatic increases in productivity result.

Productivity Up

Kodak has always looked for ways to increase productivity. From 1955 to 1976, for example, all U.S. manufacturing companies increased their productivity at an average annual rate of 2.5 percent. At Kodak, the rate of increase in that period was about twice as high, and last year, our gain in productivity was even greater. In that sense—among others cited earlier—1977 was a record year.

A company improves its productivity by increasing output while holding costs down. Prudent use of all resources is important in holding costs down. Last year we deferred a number of less-than-critical capital projects, while proceeding with essential improvements and expansions. This year, we plan capital spending of \$495 million worldwide, an increase of \$69 million over what we spent in 1977, but still considerably less than the amount budgeted for that year.

Economizing internally can take many forms. Many companies have a fast method: indiscriminate termination of large numbers of people. With our labor rates at Kodak plants in the U.S. twice the rate of a Japanese competitor, and eight times the rate of a

competitor in Taiwan, we must scrutinize personnel levels very closely.

As people retired or left the company in 1977, we filled their jobs from within, where possible. That move has paid off. Last year, worldwide employment was down 3 percent. Yet, 3,300 fewer Kodak people made and sold \$500 million more of Kodak products than were made and sold in 1976.

You may be wondering why such a substantial improvement in productivity did not produce greater margins on sales. The answer stems from two forces; one, continued inflation in the cost of labor and materials, and two, price resistance in certain Kodak markets.

You are all familiar with the inflationary trend and how devastating its force can be. We experience inflationary pressure in all aspects of our business. In normal times, the combination of improved productivity and increases in selling prices offset the escalation in business costs.

But these are not normal times. During the past five years, hourly wage rates have climbed 50 percent. The prices of purchased materials have soared 130 percent. Kodak prices, meanwhile, have increased only 35 percent.

If our only goal were to improve margins on the short term, we could have compensated for the difference between productivity gains and business costs by substantially increasing Kodak selling prices.

That would have been a serious mistake. It would have jeopardized our growth prospects. And it is growth—in unit volume—which provides the best environment for improving financial results.

If 1977 showed us anything, it showed substantial growth in Kodak sales...in real terms and not as a result of price escalation.

Solid Foundation

And if 1978 is showing you anything, it should be that we have established a solid foundation for earnings improvement. I say "we" because that foundation is based on the work of 124,000 men and women who recognized what had to be done, who buckled down and did the job, and who are seeing the results just as you are. I commend them for their effort and achievement. It



should be clear to you by now that Kodak is well positioned to move forward, to meet growing demand, to improve operating effectiveness, and to realize growth in Kodak earnings. While corporate objectives are multi-faceted, we share with you one primary goal...long-term growth in earnings per share.

Those are the important points, the developments that made last year memorable and point to future progress for your company.

All these factors combine to produce what I consider a collective, distinctive competence for Kodak. Strength. The closer you look at Kodak, the more strength you see in those areas vital to our future success.

Consider. A base has been laid, built on fundamental technology and knowledge of the markets we serve. Our traditional product areas remain healthy. More recent ventures into instant photography and office copiers are growing steadily. New products, like the blood analyzer, promise much.

Eastman Kodak Company is growing smoothly and adaptively in changing times. Our profit margins remain well above the industrial average. Meanwhile, we have ample capital assets and very little debt.

Supporting all Kodak programs is a research budget of nearly a million dollars a day—or about 2 percent of the total industrial research budget in the United States.

Finally, I think the most searching analysis of every important aspect of our business—from research through manufacturing to the marketplace—shows that Kodak is running smoothly and well. We know what we're doing. We know what we have to do. As we move toward the 1980s, I think you will see we have the resolve and the strength to do it.

Thank you.



Questions and Answers

The following is an account of various matters presented and discussed during the course of the business meeting. A complete transcript of the meeting is available for a \$5.00 fee. Send a check or money order payable to Eastman Kodak Company to: Department 0504, Eastman Kodak Company, 343 State Street, Rochester, N.Y. 14650.

Walter A. Fallon, Kodak chief executive officer and chairman of the board of directors, called the meeting to order at 11:00 a.m., April 25, 1978.

After the presentation of the agenda and introduction of the officers and directors, a woman from Bryn Mawr College asked why there are no women on the Kodak board. Mr. Fallon replied that Dr. Juanita Kreps had served on the board before becoming Secre-

tary of Commerce in 1977, and that it is hoped she will return to the Kodak board when and if she returns to private business.

A shareowner supported the request for a woman on the board and nominated a woman currently serving as a director of several other corporations. The shareowner then asked a series of questions related to the directors. Mr. Fallon replied that outside directors receive an annual stipend of \$10,000, and, in addition, \$500 for each of the five regular meetings attended during the year, plus \$350 for each committee meeting attended. The shareowner noted that two outside directors were absent from this meeting. Mr. Fallon had previously said that schedule conflicts would not allow them to attend. The shareowner then questioned the shareholdings of some outside directors. Mr. Fallon said that ownership of shares is not, in and of itself, the real criterion for service on the board.



A proxy holder then made a statement of concern about how the University of Rochester's shares were being voted on Resolution No. 3.

Election of Auditors

After the nomination of Price Waterhouse & Company as auditors, a shareowner asked what the auditors' fee was in 1977. Mr. Fallon said the figure was approximately \$1 million. Representatives of the auditors in attendance stated that Price Waterhouse applied its own test programs to Kodak's computer system and was satisfied with the information received. Donald Perkins, an outside director and chairman of the board's Audit Committee, said he is pleased with the way the accounts of the company are kept, and that Price Waterhouse had assured the Committee that it has the cooperation of the company.

A shareowner asked about executive perquisites at Kodak. Mr. Fallon said that Kodak does not offer such perquisites as

automobiles, club memberships, apartments, and the like to its executives in the U.S. Nominations were then closed and consideration of the four shareholder proposals followed.

Discussion of Resolutions

Resolution No. 1 called for a report of the attendance of directors at regular meetings and the Annual Meeting to be included in the proxy statement. The shareholder proposal was supported by company management. It was asked what director attendance was at 1977 board meetings. Mr. Fallon replied that attendance was 100 percent for all directors but Mr. Hatfield, who was out of the country when one meeting was held, and himself, who was required to be in New York City to testify during the Berkey trial the day of another meeting. A shareowner asked Kodak to put the names of those proposing resolutions in the proxy statement. Mr. Fallon said the company had received similar suggestions from shareowners on this sub-

ject and that the company is giving it consideration.

Resolution No. 2 called for consideration of a limit on future pensions paid to retired company executives. L.S. Zartman, company secretary, read the management's statement in opposition as contained in the proxy. A shareowner complained that pensions seemed to be increasing faster than dividend payouts. Mr. Fallon replied that about 53 percent of net earnings were paid out to shareowners in 1977, a percentage higher than the average of industrial corporations.

Resolution No. 3 concerned Kodak sales to the South African Government. Several individuals representing various organizations spoke in support of the resolution. Mr. Zartman read management's statement in opposition to the proposal. In addition, Mr. Fallon made the following statement:

"I think before we proceed to discussions, it would be very helpful to the shareowners if I made one or two additional comments. In mid-February, after this resolution was received and included in your proxy statement, the United States Department of Commerce placed an embargo on the exportation of products to and for use by the South African military and police. Your Company is in full compliance with that embargo . . .

"One more point: The preamble of this resolution expresses concern that Kodak products will be used in passbooks [which] blacks in South Africa are required to carry. Kodak products are not used in that passbook system which relies completely on a Polaroid process, Polaroid cameras and films. Kodak does not manufacture any product which is compatible with this system. Further, we have made it clear that we will not modify our products for use in the Polaroid system. We have made it equally clear that we will not, if asked, design or develop a Kodak system for that purpose. You can consider that a commitment from the Kodak Company. And there's a third point. You should know that Kodak has no more than 20 percent of the photographic business in South Africa."

In response to questions regarding Kodak South Africa operations, Mr. Fallon answered that Kodak employees in South

Africa communicate their concerns to management through worker committees rather than unions, and that there were some layoffs at the company a year ago. Fifty employees were affected. Wylie S. Robson, executive vice president and general manager of the International Photographic Division, said the company is not aware of any law or regulation in South Africa preventing black supervision of whites in working situations. He said that educational policies in that country inhibit the adequate development of the black population's educational background, leaving this group ill-prepared for certain kinds of employment.

At the end of the discussion on resolution, Mr. Fallon summarized management's position: "We've said that our policy is to sell Kodak products around the world within the guidelines of U.S. law, and I've said that we are abiding by the U.S. embargo—and so are our subsidiaries.

"I've given this a lot of thought. I've read all the material that has been submitted. But we feel that it would serve no real, practical purpose to go beyond U.S. policy. It would risk the future of our business. It would risk the well-being of Kodak people. And it would have no practical effect upon the ability of the South African Government to get photographic supplies—and it would have no effect on apartheid.

"We have loyal employees in South Africa; 101 of those employees are black. More than half are 40 years old, and we consider them part of the Kodak company worldwide. We have as much concern for their welfare as we do for our people in Rochester. It's our position that we should support them."

Resolution No. 4, concerning the location of the Annual Meeting, was introduced. Mr. Zartman read management's statement in opposition to the proposal as it appeared in the proxy statement. The shareowner who presented the resolution read the supporting statement. Discussion was followed by Mr. Chandler's report to shareowners.

The following is a summary of the discussion period after Mr. Chandler's remarks. A shareowner opened the questioning by asking about the effects of competition, foreign



and domestic, on Kodak business results. Mr. Fallon said that the company is satisfied with the 1977 sales results of Kodak instant products—camera sales tripled and film pack sales nearly quadrupled. He explained that while the value of photo product imports increased 40 percent in 1977, the rate has slackened somewhat in recent months. The value of paper imports has declined.

The company chairman told a shareowner, in reply to a question about dividend increases, that the board would consider such action. He noted that Kodak dividends have increased each year for the last 29 years and the cash payout rate in 1977 was about 53 percent of net earnings.

The shareowner's questions continued, covering such areas as Eastman fibers, Kodak copier duplicators, and company promotional efforts.

Regarding the trade name of the mod-acrylic fiber manufactured by the Eastman Chemicals Division, Harry D. McNeeley, executive vice president and general manager, said that the product is sold under the name Verel. Mr. Chandler, speaking to the subject of copier duplicators, said the program is moving ahead rapidly. He added that units are being placed in all major North American cities and that the business community recognizes the high image quality of Kodak Ektaprint copier duplicators. The shareowner then suggested a sales promotion in which a T-shirt bearing the Kodak corporate symbol be given away with the purchase of film. Mr. Fallon said this would be considered. When the shareowner suggested that all shareowners be allowed to purchase company products directly from Kodak, Mr. Fallon replied that it seems in the best interest of all shareowners for Kodak to sell its products on the open market to maintain profitability.

Professional Products

A shareowner and professional photographer made a lengthy statement about Kodak and its policy of distributing its professional products through stockhouse dealers. The comments also touched upon various aspects of company management.

Anthony Frothingham, vice president, Marketing, replied that the distribution of



products through stockhouse dealers is more efficient and less costly, from the company's point of view, than selling directly to professional photographers.

Mr. Fallon commented on various remarks by the shareowner regarding the quality of Kodak products, the qualifications of the board of directors, and the percentage of increase in cash dividends on the company's stock. Mr. Fallon stated that the Kodak business is sound, the board has a good balance of business experience and overall knowledge of the photographic business, and that policies of fairness govern employee wages and shareowner dividends.

South Africa

A portfolio manager for several church-related educational institutions asked for further comments regarding the company's position on South Africa. Mr. Fallon summarized earlier statements that Kodak will sell products around the world within the laws and regulations of the U.S. Government. To go beyond that, he said, would have no practical affect on apartheid or the South African Government's ability to obtain photographic supplies. He concluded with the hope that the students of these institutions would share the same concern the company does for its black employees in South Africa.

A shareowner inquired whether the sale of Kodak instant products was affecting the sale of traditional Kodak cameras. Mr. Fallon replied that the growth of instant product sales has been accompanied by increases in conventional film sales and total camera market sales. He stated that acceptance of the new Kodak Ektra camera line has been very good and both areas are contributing to growth.

Photographic Competition

The shareowner also asked about the effects of competition in the photographic paper market and the company's ability to meet competition there. Mr. Fallon noted that Kodak has a significant commitment to research and development. In addition, he said the company has a very efficient, high-quality paper manufacturing operation at Kodak Park.

Another shareowner made a statement on the antitrust litigation. He urged shareowners to stand behind Kodak in its appeal of the decision in the Berkey case, noting the importance of this case to the future of American industry and the economy. Mr. Fallon expressed confidence in the company's appeal.

A shareowner inquired about the selection process for director candidates. Mr. Fallon answered that people nominated for election qualify through experience, judgment, interest, and background. The qualifications of potential candidates are reviewed regularly.

Earnings and Dividends

The shareowner then asked a series of questions related to earnings performance and dividends. Mr. Fallon said that two-thirds of the increase in first quarter 1978 sales was due to higher unit volume. He explained that the first quarter earnings increase averaged about 9 percent per year since 1976. An earlier statement that the board would consider a dividend increase was reiterated.

A shareowner posed a series of questions regarding the Kodak business. Does Kodak have a political action committee? Answer: no. Has the company made illegal contributions overseas? Answer: no. To questions regarding Kodak legal fees, Mr. Fallon said discussion of such fees would be inappropriate. About earnings, he stated that the company does not forecast earnings, nor would it comment on a specific estimate.

Advertising

When the shareowner asked how much Kodak spent on advertising in 1977, Mr. Frothingham said such advertising expenditures worldwide were \$189.9 million, up 25 percent from the year before. In response to a question on the antitrust litigation, Mr. Fallon said the company's conduct has been proper and Kodak is confident of its appeal of the Berkey verdict. To a series of questions on company airplanes, Mr. Robert E. Schellberg, vice president, general manager, Distribution Division, stated that Kodak has four airplanes, which are used only for company business.



Mr. Fallon reiterated an earlier comment that Kodak has no perquisites such as club memberships or living accommodations for management employees. He noted that the company has one limousine in Rochester used exclusively for business.

When questioned about exhibits at the Kodak Gallery in New York City, Mr. Frothingham noted that during the year a number of special exhibits appear in the gallery and the current one featuring antique cars and photography does not mean, contrary to the shareowner's question, that the company is going into the automobile business.

Shareowner's Support

Another shareowner, a stockholder for almost 40 years, then made a statement in support of Kodak and its management. He said he was well satisfied with his investment in Kodak and praised its employees for their loyalty to the company.

Antitrust Litigation

To a shareowner question regarding the actions of one member of the law firm representing Kodak at the Berkey trial (certain documents said to have been destroyed were in fact in existence) Kendall M. Cole, vice president and general counsel, delivered a detailed summary of the events surrounding this controversy.

Mr. Cole said he reacted with shock and disbelief when advised by John Doar, the company's chief trial counsel, on January 8 that documents sought by Berkey had not been destroyed but were still in the possession of Mahlon E. Perkins, a partner in the law firm conducting Kodak's case. Early the next morning, Mr. Doar produced the documents for Berkey's attorney and informed the court he had done so.

Mr. Cole said the documents withheld were, with the exception of a few innocuous letters, materials pertaining to economic studies of the Berkey and GAF cases. Some were already in the public domain, Mr. Cole stated. Others were routine marketing and market research reports. "There was absolutely nothing to hide," Mr. Cole explained, adding that Perkins' "inexplicable and aberrational behavior created needless ill consequences for Kodak."

Instant Photography

An investment analyst asked about the profitability of the Kodak instant products program and the possibility of settlement of the patent litigation between Kodak and Polaroid. Mr. Fallon referred to the earlier mentioned sales performance and added that productivity is increasing as projected. He spoke of the importance of a good camera base for future film sales, and said that while the program is not yet profitable on a fully allocated basis, projections say it will be. Regarding the patent dispute, Mr. Fallon said there have been preliminary discussion between Kodak and Polaroid as to a settlement of unresolved legal matters, but to date there has been no substantial progress to report.

A shareowner inquired about a thermal film manufactured by the company. Douglas C. Harvey, executive vice president and general manager of the U.S. and Canadian Photographic Division, replied that this film is used in some Kodak business systems products and the company continues to experiment with its use. A series of questions regarding Kodak directors serving on the boards of both savings and commercial banks, advertising and promotion practices, and the incidence of alcoholism among Kodak employees was asked. Mr. Fallon replied that he knew of no law in New York State preventing anyone from serving simultaneously on the boards of a commercial and a savings bank. He noted that product promotions are important for the support of picture-taking and costs are recorded as part of advertising and promotion expense. James S. Bruce, vice president for Corporate Relations, confirmed that the company has a long-standing program to assist any employee to overcome the problems associated with alcoholism.

Enlargements

A shareowner commented on his experiences enlarging Kodacolor negative film. Mr. Fallon answered that the amount of enlargement depends upon the size of the negative being enlarged and that a 35 mm Kodacolor negative can produce a highly satisfactory 8 x 10-inch print.

At this point, the meeting was nearing the



3½-hour mark and a shareowner requested adjournment. Mr. Fallon said that the meeting should continue if there were any more questions to be asked.

A shareowner took exception to an earlier shareholder comment on the quality of Kodacolor film. He said his experience of having more than 3,000 enlargements from Kodacolor film selected for display in salons around the world and his own personal comparison tests with other products has convinced him that the Kodak film is far superior to other products.

Another shareowner asked if the Kodak board has a public issues committee similar to one at General Motors Corporation. Mr. Fallon answered that Kodak does not have such a committee.

Lasers

A shareowner asked if Kodak is engaged in the development of laser technology, especially in the area of geological exploration. Dr. Leo J. Thomas, Jr., vice president and director of the Kodak Research Laboratories, said the company is very active in exploring the use of lasers as writing devices on photosensitive media of various kinds. The company does not have an active program involving the use of lasers in the energy area, although some Kodak research personnel have expertise in this area.

An employee-shareowner said he had difficulty obtaining answers to questions about the transfer of an employee payroll deduction stock purchase plan to a New Jersey bank. Robert A. Sherman, vice president and director of Finance and Administration, answered that the bank will provide the same features plus a slight augmentation at lower fees.

The report of the Inspectors of Election was read at this point and the meeting, which lasted three hours and forty-five minutes, was adjourned.



First Quarter Report to Shareowners

(in millions, except earnings per share)	First Quarter		
	1978	1977	Change
Sales	\$1,377.7	\$1,197.4	+15%
Earnings from Operations	265.4	175.8	+51
Earnings before Income Taxes	262.0	181.2	+45
Net Earnings	141.0	94.2	+50
Per Share	\$.87	\$.58	

In Summary

Increased unit volume and improved productivity were the principal factors which contributed to the good results of the first quarter. The earnings comparison reflects, of course, the depressed first quarter of last year when earnings were significantly below the level of 1976. Compared with the first quarter of 1976, earnings for the 1978 quarter increased nearly 20 percent or at the average rate of 9 percent per year.

Sales Advance

First quarter sales were up 15 percent as all three operating divisions contributed to the gain.

Sales by Segment (in millions)	First Quarter		
	1978	1977	Change
U.S. & Canadian Photographic	\$ 729.5	\$ 624.9	+17%
International Photographic	510.9	420.0	+22
Deduct: Interdivisional Sales	(154.2)	(114.8)	
Photographic Segment	1,086.2	930.1	+17
Chemicals Segment	335.9	307.2	+ 9
Deduct: Intersegment Sales	(44.4)	(39.9)	
Total Worldwide	\$1,377.7	\$1,197.4	+15%

Purchases by the U.S. Government and defense contractors amounted to \$40.7 million, and represented approximately 3 percent of total sales.

In the U.S. & Canadian Photographic Division, unit volume, accounting for most of the sales gain, increased substantially from 1977. Consumer products were ahead on the strength of good gains in Kodacolor film sales and photofinishing services, and growing acceptance of Kodak instant cameras and film. Business systems sales, including revenues from copiers, were strong. Sales of radiography, professional and finishing, motion picture and audiovisual, and graphics markets division products also showed gains.

International Photographic Division sales advanced primarily on the strength of higher volume in all regions. Somewhat higher selling prices and favorable foreign exchange rates also contributed to the gain.

Eastman Chemicals Division sales were higher than last year. While volume increased moderately, the principal factor in the sales gain was higher selling prices. Sales of chemicals were well ahead of last year. Fibers and plastics sales advanced moderately.

Earnings Improve

Earnings from operations advanced on the strength of increased unit volume, improved productivity, and moderately higher selling prices. Prices of purchased materials increased and wages and benefits were at higher levels.

	First Quarter		Change
	1978	1977	
Costs and Expenses (in millions)			
Cost of goods sold	\$832.0	\$781.2	+ 7%
Percent of Sales	60.4%	65.2%	
Sales, advertising, distribution and administrative expenses	\$280.3	\$240.4	+17%
Percent of Sales	20.3%	20.1%	

Cost of goods sold includes research and development expenditures of \$85.7 million compared with \$82.8 million in the first quarter of 1977.

	First Quarter		Change
	1978	1977	
Earnings from Operations			
Amount (in millions)	\$265.4	\$175.8	+51%
Percent of Sales	19.3%	14.7%	

Interest income was up from the first quarter of 1977. Interest expense declined. Other charges increased primarily as a result of larger foreign currency exchange losses. Exchange losses, after tax, and the effect of translation of net monetary assets amounted to \$9.6 million compared with \$0.4 million in the first quarter of 1977. Pre-tax earnings increased to \$262.0 million, an increase of 45 percent from the first quarter of 1977. The provision for income taxes was \$121.0 million, 39 percent more than the \$87.0 million in 1977. The main factor contributing to the lower effective tax rate was a reduction in the overall rate for the companies abroad, primarily because of the different effect on the tax rates in the two years resulting from the translation of foreign currencies into U.S. dollars.

	First Quarter		Change
	1978	1977	
Net Earnings			
Amount (in millions)	\$141.0	\$94.2	+50%
Percent of Sales	10.2%	7.9%	

Dividends to Shareowners

Cash dividends of 40 cents per share were declared in the quarter, the same amount per share as a year ago. Total dividends declared amounted to \$64.6 million.

Capital Improvements

Capital expenditures for additions and improvements to plant and facilities totaled \$81.6 million during the quarter.

	First Quarter	
	1978	1977
Capital Expenditures (in millions)		
U.S. & Canadian Photographic	\$49.4	\$63.2
International Photographic	19.1	14.2
Total Photographic	68.5	77.4
Eastman Chemicals	13.1	18.5
Total	\$81.6	\$95.9

The provision for depreciation was \$72.1 million, compared with \$72.9 million recorded in the first quarter of 1977.

Financial Position

Working capital increased during the quarter to \$2,033.6 million compared with \$1,716.2 million at the end of the first quarter of 1977. Cash and marketable securities totaled \$973.2 million, an increase of \$273.8 million over a year ago. Worldwide inventories of \$1,150.5 million were down from \$1,181.0 million a year ago. Receivables totaled \$969.7 million compared with \$812.2 million at the end of the first quarter of 1977.

Outlook

The progress we are seeing grows from strong demand for Kodak products and improvement in the company's cost effectiveness. As for the balance of the year, we look for good gains in sales and continued high productivity. Early orders for new items of equipment—recently introduced Kodak Ektra cameras for traditional photography and Colorburst instant cameras—are very encouraging.

Recent Development

On January 21, 1978, a federal court jury in New York City concluded in a suit brought by Berkey Photo, Inc. that Kodak had violated the antitrust laws and injured Berkey's business. On March 22, 1978, the same jury awarded Berkey \$37.6 million in damages from Kodak. The damages will be trebled in the judgment. Various Berkey demands for equitable relief have yet to be acted upon by the court. Kodak intends to appeal the judgment.

W. A. Fallon
Chairman

C. H. Chandler
President

Consolidated Statement of Earnings

Eastman Kodak Company and Subsidiary Companies

	For the Quarter (12 Weeks) Ended	
	Mar. 19, 1978	Mar. 20, 1977
Sales	(in thousands, except earnings per share)	
Sales to: Customers in the United States	\$ 759,187	\$ 672,932
Customers outside the United States	618,504	524,458
TOTAL SALES	<u>1,377,691</u>	<u>1,197,390</u>
Costs		
Cost of goods sold	832,024	781,234
Sales, advertising, distribution, and administrative expenses	280,300	240,355
Total costs and expenses	<u>1,112,324</u>	<u>1,021,589</u>
Earnings		
EARNINGS FROM OPERATIONS	265,367	175,801
Interest income	15,689	11,097
Interest expense	3,568	4,010
Other income and (charges)	(15,477)	(1,715)
EARNINGS BEFORE INCOME TAXES	262,011	181,173
Provision for United States, foreign, and other income taxes	121,000	87,000
NET EARNINGS	<u>\$ 141,011</u>	<u>\$ 94,173</u>
Average number of shares of common stock outstanding	161,377	161,371
Net earnings per share	\$.87	\$.58

Consolidated Statement of Retained Earnings

Retained Earnings		
Retained earnings at beginning of year	\$3,658,127	\$3,353,558
Net earnings	141,011	94,173
TOTAL	3,799,138	3,447,731
Cash dividends declared at \$.40 per share	64,551	64,548
RETAINED EARNINGS at end of quarter	<u>\$3,734,587</u>	<u>\$3,383,183</u>

Supplemental information:

1. Research and development costs included in cost of goods sold	\$ 85,716	\$ 82,775
2. Operations of subsidiary companies outside the U.S. included in Consolidated Statement of Earnings:		
Sales	\$ 579,229	\$ 488,261
Earnings from operations	72,343	46,714
Net earnings	34,588	21,114

Consolidated Balance Sheet

Eastman Kodak Company and Subsidiary Companies

Assets	Mar. 19, 1978	Dec. 25, 1977	Mar. 20, 1977
Current Assets		(in thousands)	
Cash	\$ 80,366	\$ 97,353	\$ 74,579
Marketable securities	892,786	860,540	624,857
Receivables	969,713	1,015,751	812,151
Inventories	1,150,539	1,099,144	1,180,958
Prepaid charges applicable to future operations	132,075	118,958	99,307
Total current assets	<u>3,225,479</u>	<u>3,191,746</u>	<u>2,791,852</u>
Properties			
Land, buildings, machinery, and equipment at cost	5,214,713	5,141,523	4,871,975
Less: Accumulated depreciation	<u>2,551,525</u>	<u>2,484,441</u>	<u>2,282,017</u>
Net properties	<u>2,663,188</u>	<u>2,657,082</u>	<u>2,589,958</u>
Other Assets			
Unamortized excess cost of investments in consolidated subsidiaries over net assets acquired	9,771	10,179	11,513
Long-term receivables and other noncurrent assets	47,866	45,221	43,753
TOTAL ASSETS	<u>\$5,946,304</u>	<u>\$5,904,228</u>	<u>\$5,437,076</u>
Liabilities and Shareowners' Equity			
Current Liabilities			
Payables	\$ 853,809	\$ 826,974	\$ 761,500
Taxes—income and other	273,500	266,255	249,570
Dividends payable	64,551	145,236	64,548
Total current liabilities	<u>1,191,860</u>	<u>1,238,465</u>	<u>1,075,618</u>
Other Liabilities and Deferred Credits			
4½% convertible debentures—due 1988	66,056	66,056	66,056
Other long term liabilities	105,647	102,101	90,302
Deferred income taxes	174,876	166,298	148,766
Total liabilities and deferred credits	<u>1,538,439</u>	<u>1,572,920</u>	<u>1,380,742</u>
Shareowners' Equity			
Common stock			
Par value—paid in or transferred from retained earnings*	403,966	403,966	403,966
Additional capital paid in or transferred from retained earnings	269,312	269,215	269,185
Retained earnings	3,734,587	3,658,127	3,383,183
Total shareowners' equity	<u>4,407,865</u>	<u>4,331,308</u>	<u>4,056,334</u>
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	<u>\$5,946,304</u>	<u>\$5,904,228</u>	<u>\$5,437,076</u>

*\$2.50 par value, 360,000,000 shares authorized; Issued: 161,586,494 shares; 688,083 authorized but unissued shares of common stock are reserved for the conversion of the debentures issued by Eastman Kodak International Capital Company, Inc. 41,058 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. 19, 1978	Mar. 20, 1977
(in thousands)		
Funds Provided by:		
Net earnings	\$ 141,011	\$ 94,173
Charges to earnings not requiring cash outlay:		
Depreciation	72,133	72,900
Plant and equipment retired, less accumulated depreciation	3,333	1,644
Provision for deferred income taxes, net	6,000	5,900
Amortization of excess cost of investments in subsidiaries over net assets acquired	408	407
Total from earnings	222,885	175,024
Decrease in receivables	46,038	90,488
TOTAL FUNDS PROVIDED	<u>268,923</u>	<u>265,512</u>
 Funds Used for:		
Dividends to shareowners	64,551	64,548
Additions to properties	81,572	95,945
Decrease in current liabilities	46,605	126,147
Increase in inventories	51,395	59,355
Other items, net	9,541	(117)
TOTAL FUNDS USED	<u>253,664</u>	<u>345,878</u>
Increase (decrease) in cash and marketable securities	15,259	(80,366)
Cash and marketable securities, beginning of year	957,893	779,802
Cash and marketable securities, end of quarter	<u>\$ 973,152</u>	<u>\$ 699,436</u>

Supplemental information:

	Mar. 19,	Dec. 25,	Mar. 20,
	1978	1977	1977
(in thousands)			
Analysis of Inventories			
Raw materials	\$ 306,518	\$ 303,923	\$ 321,328
Work in process	389,720	346,123	371,539
Finished goods	454,301	449,098	488,091
Total, per Balance Sheet	<u>\$1,150,539</u>	<u>\$1,099,144</u>	<u>\$1,180,958</u>

Financial statements for the quarter have been prepared by the company in accordance with the accounting policies stated in the 1977 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.

On March 22, 1978, a federal court jury in New York City awarded Berkey Photo \$37.6 million in damages from Kodak in an antitrust trial. The damages will be trebled in the judgment. Kodak intends to appeal the judgment.

Robert B. Murray, General Comptroller
April 26, 1978

KODAK HIGHLIGHTS
EASTMAN KODAK COMPANY
343 STATE STREET
ROCHESTER, N.Y. 14650

Bulk Rate
U.S. Postage Paid
Eastman Kodak Company



Shareowners attending the 1978 Annual Meeting have their picture taken with the new Kodak Colorburst instant camera. The new cameras announced earlier this year are available at photo outlets.

CR5-78M