



Kodak Highlights

First Quarter 1981

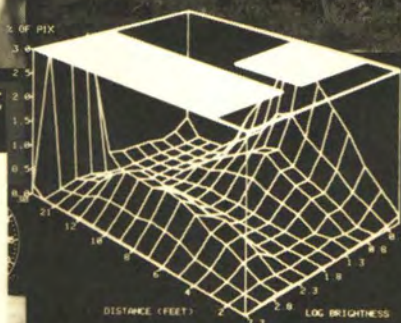
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SALES

1980

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HIGH Technology

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On the Cover

Our cover collage is designed to represent some of the high points in the reports to shareowners given by Walter A. Fallon, chairman and chief executive officer, and Colby H. Chandler, president, at Kodak's 1981 Annual Meeting.

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

May, 1981/Volume 34/No. 2

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1981 Annual Meeting

Kodak's meeting of shareowners moved west of the Mississippi River for the first time ever in 1981, as the 80th annual event was held on May 6 in Fort Collins, Colorado. Walter A. Fallon, board chairman and chief executive officer, presided.

Most of the shareowners in attendance took the opportunity to visit and to tour the Kodak Colorado Division facilities in nearby Windsor after the meeting.

More than 73 percent—118,065,647 of 161,388,900—of the company's shares outstanding and entitled to vote were present or represented by proxy at the meeting and voted in the election of directors.

The accounting firm of Price Waterhouse & Company was reelected as auditors for 1981. The vote was 117,553,193 in favor (99.8%) and 201,931 against (0.2%).

A proposal suggesting that the company be required to report actual (or percentage) attendance of each director at the Directors' meetings and at the preceding annual meeting was defeated by a vote of 109,797,089 against (97.2%) and 3,197,592 in favor

(2.8%). A proposal requiring that the company release information concerning the exact number of votes received by each nominee for director was defeated by a vote of 110,651,538 against (97.9%) and 2,403,806 in favor (2.1%).

The following directors were elected to serve until the 1982 annual meeting:

Roger E. Anderson
James S. Bruce
Colby H. Chandler
Kendall M. Cole
Charles T. Duncan
Walter A. Fallon
Douglass C. Harvey
Robert S. Hatfield
Juanita M. Kreps
J. Paul Lyet
Toy F. Reid
Robert A. Sherman
John G. Smale
W. Allen Wallis
Gerald B. Zornow

The Continuing Definition of Kodak: Fallon, Chandler Report to Shareowners

Walter A. Fallon, chairman and chief executive officer, and Colby H. Chandler, president, made the following reports at the 1981 Annual Meeting of Kodak Shareowners in Ft. Collins, Colorado, May 6, 1981. Mr. Fallon's report came first.

Coming to Colorado has reminded me of the vision shared by many Kodak people when ground was first broken for our nearby facilities at Windsor. There was excitement in seeing the area where Kodak's westernmost U.S. plant would be located. It was excitement of the sort expressed a long time ago by one of this country's most admired authors—the author of WALDEN.

"We go westward," he wrote, "as into the future, with a spirit of enterprise and adventure."

Today, of course, many of you have actually come *eastward* to get to Ft. Collins.

So we understand now that the geography the author of WALDEN really had in mind was the geography of the American spirit. In 1981, there is a growing understanding that we as a society must apply the spirit of enterprise not only eastward and westward, but *inward* as well—to renew our productivity, and our command of the future through science and technology.

Positive Attitude

This is a welcome change from attitudes that prevailed during the 1970s, when technology was often viewed as some kind of Frankenstein's monster we had loosed on the world. It was in the 70s that a nationally syndicated columnist made a remark which has since earned him a place in a volume called the TREASURY OF GREAT AMERICAN SAYINGS, right along with the author of WALDEN.

"The trouble with scientists," the columnist said, "is that they can't leave well enough alone."

To my way of thinking, the value of that remark depends on whether you think the world is well enough as it is. At any rate, we are all aware of what has happened to the

productive capacity of this country since the remark was made. A recent survey, conducted for the New York Stock Exchange, revealed that a majority of Americans now agree with the statement that the U.S. is "losing ground compared with most other countries."

I will leave it to you as a matter of speculation whether the attitude of a decade ago has something to do with the ground that has been lost.

A Proud Record

But we do not have to leave for speculation Kodak's own remarkable record of achievement over the same period. Thanks to your faith in science and technology, thanks to the employees who translate your faith into action, Kodak is a company which renews itself daily.

Last year, we celebrated our Centennial. But you would have a hard time finding anything at Kodak that's a hundred years old. The majority of Kodak products on the market today have been there less than five years. The only thing that's exactly as old as the company itself is the company's tradition of renewal: we have never fallen into the trap of believing our technology was good enough to be "left alone."

Every Kodak recruit feels the forward pull of this tradition of renewal, beginning the moment he or she joins the company. From my days as a technical associate in the 1940s, I remember the enthusiasm of the project team working to develop the first Kodacolor film. I can tell you that the same kind of enthusiasm is being generated at Kodak right now—only there's more of it because there are more project teams than ever before.

Even as we meet this morning, those teams are laying the groundwork for "The Continuing Definition of Kodak" as we will know it over the next several years.

Four Key Factors

Of course, technology alone does not drive the business forward. From Kodak's experience, we have assembled an unequalled



knowledge of the marketplace. This strategic knowledge gives direction to our research. It enables us to select for development just those match-ups of *technological know-how* and market needs that are likely to contribute most to corporate earnings. And we have the freedom to make these selections as we choose, because we know we can back them up with all-important strengths: our *worldwide coordination* in marketing, distribution and service, on the one hand; and our determination to be the world's *low-cost manufacturer* of the goods we make, on the other.

This morning, I would like to discuss these four factors and their role in the continuing definition of this company.

But first, let me review briefly the corporation's performance since we last met. At last year's meeting in Rochester, we told you that we expected sales to run well ahead in dollars during 1980, but that making earnings grow in these days of cost escalation would be a challenge. As you know, and as I am happy to report, we met that challenge.

In dollar terms, worldwide sales indeed ran well ahead, increasing by 21 percent to almost nine and three-quarter billion dollars. And for the second year in Kodak history, net earnings topped the billion-dollar mark, growing 15 percent to 1.15 billion dollars.

During the first quarter of this year, your company continued to perform well. Sales were up 8 percent to \$2.3 billion. Operating



earnings increased 26 percent to \$411 million, and net earnings advanced 29 percent to \$249 million.

Concerning the balance of the year, our view of Kodak's prospects is conditioned by the general belief that growth in the U.S. economy will be modest. Altogether, we see 1981 as another good year for the company. We look forward to gains in shipments of many products and to another increase in reported sales.

Regarding earnings, we expect to perform well. But I should caution you that quarterly comparisons will be more difficult as the year proceeds. In 1980, our earnings declined 2 percent in the first quarter and, then, rose 8, 11 and 37 percent in successive reporting periods. So the benchmark will go higher, as this year proceeds.

Looking Ahead

Beyond the present, there is much for Kodak shareowners to look forward to. Entirely new products—perhaps even new markets—will be brought into being by the interplay between what we know about customer needs and what we know about the possibilities of our technology.

Knowledge of the marketplace is among Kodak's most valuable assets. And while you can find the proof of this in every aspect of our business, it is never more visible than in amateur photography.

We learned long ago that our customers have two fundamental picture-taking needs. They want good, clear pictures. And they want ways to take those pictures as conveniently as possible.

Kodak's historic response was the concept of the cartridge-loading camera, a concept we refined until it was pocket-size. In the last five years alone, more than 100 million of these 126- and 110-size cameras have been sold, by all manufacturers, to customers throughout the world.

In the United States, cartridge loading inaugurated an expansion of picture-taking activity, until today a picture-taking household makes an average of 175 pictures a year.

From the widespread use of 110 cameras in particular, we have learned still more about how our customers take pictures, where, and on what occasions. We are

learning to what degree their picture-taking reflects their expectations of how amateur systems should perform. Or, to put it more plainly, we are learning why they are taking 175 pictures a year and why they aren't taking more.

Photographic Space

This knowledge is now being made explicit through the tool we call "photographic space." At our last meeting, we mentioned photographic space for the first time. We said we would use it to design improved systems, so people might take more and better pictures. Today, in response to the interest generated by our statement, we would like to show you *how* photographic space can be used to help us design those systems.

(An audiovisual presentation on photographic space is shown.)

In the context of my remarks today, I think that presentation is best summed up like this: in any continuing definition of Kodak, there is still much to accomplish on behalf of the amateur picture-taker.

In March, for example, we added to our instant camera line by introducing the Kodak Colorburst 350 camera. Measured in photographic space, the new instant camera continues an advantage of the 250 model. The built-in electronic flash can fire anytime a picture is taken, even outdoors in bright sunlight. This feature increases the amateur's *yield* of good pictures, because it automatically enlists the aid of fill-in flash as used by professionals to soften shadows and highlight details.

In addition, the Colorburst 350 becomes the first instant camera ever to be offered with a built-in close-up lens. High quality instant pictures are possible as close as two feet—thus extending the instant picture-taker's *access* to parts of photographic space otherwise out of reach.

Meanwhile, Kodak's *technological know-how* continues to deepen and expand in other ways that will also be defining our company well into the next century. With 7,000 scientists and engineers at work in research and development, Kodak might



easily be classed as one of the world's foremost research institutions.

At present, we are taking steps to enhance that capacity by adding a new wing at the Research Laboratories complex in Rochester. This four-story wing will be dedicated to the study of solid-state devices. It will have all the capabilities for plasma etching, ion implantation, and photolithography associated with such facilities. And because miniature circuitry makes micro-electronic devices very sensitive to work with, one floor has been designed as an isolated environment—totally dust-free and vibration-free.

Kodak & Electronics

Kodak has been deeply involved with microelectronics ever since the advent of the microprocessor—the “computer on a chip”—not quite ten years ago. Kodak photo resist has been essential to the production of these chips throughout the microelectronics industry.

Computing chips designed and fabricated at Kodak have been built into cameras, copiers, and other sophisticated equipment. And the advantage of coupling electronic logic with our imaging technology is that it permits us to build Kodak's unequalled knowledge of customer needs right into the

products that will be serving them.

Nowhere has this proven more effective than with the Ektaprint copier. The microprocessor in our Ektaprint copiers has much to do with the high marks our machines have been getting. In the fall of last year, the *OFFICE PRODUCTS ANALYST*, a user's newsletter, published the results of its 1980 users survey. Among copier-duplicators, the family of Kodak Ektaprint copiers received the highest ratings by far.

Of course, the performance of our machines must be credited to their advanced engineering in total, and not just to their electronic components. In part, also, the high standards they are setting result from our having carefully positioned our machines for just that segment of the copier market they were designed to serve.

But as far as our engineers are concerned, there is no reason why Kodak should not design a different microprocessor logic for machines that would serve different—and highly demanding—segments of the market equally well. In fact, it is our intent to add to the successful line of Ektaprint copier-duplicators. Later this year we will announce details of a new copier-duplicator with features that will improve upon our existing high levels of productivity, reliability, and serviceability.



Global Strategies

Whenever we face a decision to match technology to market needs, Kodak's capacity for *worldwide coordination* is a source of confidence. At previous meetings, we have discussed the reorganization of the domestic and international aspects of our photographic business into a single, worldwide Photographic Division. We said that this reorganization allows us to utilize Kodak's global manufacturing and marketing networks in more efficient ways.

Today, I would also point out that the reorganization has another significance. It means we will be choosing to develop or not to develop new products according to their *worldwide* potential for profitability.

That is an important point, reflecting as it does the increasingly international nature of our business in Kodak's second century. Ten years ago, about 40 percent of our total photographic sales were made to customers outside the U.S. In 1980, the figure was close to 50 percent. So the need for regarding profitability from a worldwide standpoint is obvious. Our clinical chemistry products, for example, were predicated right from the outset on our expectation of their eventual international success.

I am pleased to report, then, that plans for marketing our Ektachem 400 analyzer in

Europe are right on schedule. Internal tests have been under way in our European Region for some time, and the first machine to be placed on external trade trial will arrive at a hospital in England this month.

We will announce the analyzer to the European market in August, hardly more than a year after its announcement in the United States. That interval, brief by the standards of a few years ago, indicates how closely integrated Kodak's worldwide markets have become.

Emphasizing Productivity

The remaining factor to affect Kodak's continuing definition is our determination to be the world's *low-cost manufacturer* of the goods we sell. I have come to this subject last, but it is certainly not least. Inflation and competition will see to that. In fact, there can be no continuing renewal of Kodak at all unless we police our costs and maintain our productivity. Because it is productivity, and productivity alone, that affords us the freedom to match technology and market needs at our own choosing.

Kodak's capital budget for the coming year is large. But included in that budget are many millions of dollars for projects that will attack costs through the latest manufacturing technology. Two of these projects rank

among the most important in Kodak history.

One is the coal gasification project, under way at Tennessee Eastman, that will reduce our reliance on petroleum and natural gas derivatives.

The other is under way at our Texas Eastman site near Longview, where we are constructing a new hydrocarbon cracking plant. The cracking process is the way we convert petroleum-related feedstocks into the ethylene and propylene building blocks vital to a wide range of Eastman products. The significance of the new plant is its ability to crack a range of hydrocarbons, including naphtha. In the future, therefore, we will have increased flexibility to choose feedstocks according to availability and price.

During the 1970s, overall manufacturing productivity in the United States grew at the average annual rate of only 2.0 percent a year. By contrast, Kodak's U.S. productivity over the same period grew at more than twice that rate—averaging more than 4.3 percent a year.

A continuation—better yet, an improvement—of that solid performance will depend on the wise use of capital, as in the case of the new cracking plant. But it will also depend—as it has in the past—on the good, hard work being done every day by Kodak people. And to discuss some specific results of their hard work, here is Kodak's president, Colby Chandler.

Mr. Chandler addresses the shareowners.

Thank you, Walt, and good morning, ladies and gentlemen. Our presence in northern Colorado today has a double significance for all of us as Kodak shareowners. In the first place, it extends our tribute to the men and women whose daily on-the-job contributions stand behind Kodak's record.

Last year, we paid that tribute in Rochester. But less than half our employees work in the Rochester area. The others—in both the Photographic and Eastman Chemicals Divisions—are at their jobs in research, manufacturing, or marketing in 45 countries around the world.

So this year, we extend our tribute by implication to all of them—and in particular to those who work, only about 20 miles



from here, in the facilities of our Colorado Division. In addition, our presence near those facilities is significant because it points so dramatically to the ongoing renewal we have been considering this morning.

Ten years ago, site preparation at Windsor was largely complete, and construction of buildings was well under way. But the people who would become Kodak men and women had yet to be hired, and the first product would not be out the doors until 1972.

Today, by contrast, Kodak is the second largest employer in the northern Colorado region. Our Colorado Division has become this country's most efficient source of quality products for the graphic arts. It is the most efficient source of microfilm for image processing applications.

It is also—bar none—the largest producer of x-ray film anywhere in the world.

So I hope you will take advantage of being here to visit our Windsor location.

A Look at Our Markets

In the meantime, I would like to take you on a visual tour of some things recently accomplished in our market areas. In each area, the interplay of market needs and technological know-how is at work redefining the nature of our business and our expectations.

If you were to compare this company's



1970 Annual Report with the 1980 report issued this year, you would see how the descriptions of our market areas themselves have changed. All have been reorganized. Some have changed their names. And just recently our Consumer Markets and our Professional and Finishing Markets have joined to operate as a single marketing unit.

In today's marketplace, there is increasing integration of photofinishing and dealer outlets. More and more, the photofinisher is also a dealer. So we think we can better serve the ultimate goal of good, clear pictures for our customers if we begin by making a unified approach to combined dealer/finisher needs.

Looked at another way, our new approach also underscores Kodak's commitment to the entire spectrum of amateur and professional photography—from the beginning picture-taker on the one end to the photofinishing plants at the other. The introduction this year of two new products, designed for users widely apart on that spectrum, tells the same story.

One of these products is the Kodak 3510 color printer, announced to the trade about six weeks ago. The new printer is operator-free, and controlled by a minicomputer as powerful as some mainframe computers of not so many years back. Because it can perform faster exposure calculations and

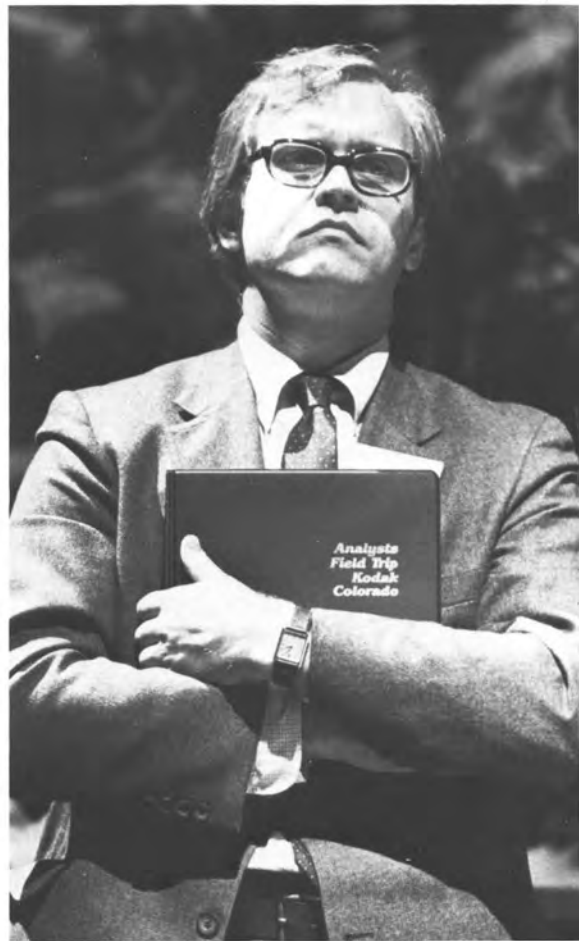
resident on-line diagnostics, the 3510 printer is capable of making up to 12,500 prints per hour. So it is 30 percent faster than its Kodak predecessor, the model 2610. It also incorporates an interface for connection to Kodak's recently introduced Technet quality control service.

The unique Technet service provides the photofinisher with continuous process monitoring and control on site, as well as access to a central Kodak computer for assistance with more complex problems. So by itself, or in connection with Technet service, the new printer embodies a productivity advantage that will be readily noticed by today's cost-conscious, high-volume photofinishers.

Ektaflex Products

The other new product line, on display as you came into the building, is also for making prints—except it is for making them one at a time, in the home darkroom. This is the Kodak Ektaflex PCT color printmaking system, and it is by far the most important innovation for darkroom hobbyists since we introduced Ektachrome film for home processing back in 1955.

The virtue of the Ektaflex products is to eliminate much of the work, time, and tedium currently involved in color processing by the hobbyist. All that's needed is the tabletop printmaker, Ektaflex PCT film and



paper, and a ready-mixed activating solution. These are used in conjunction with a standard enlarger of the sort most darkroom enthusiasts will already own. In four simple steps, the Ektaflex printmaker will deliver a finished enlargement, from either negatives or slides—and it will do so in six to 15 minutes, depending on the temperature. The results are comparable in quality to those you would expect from Ektacolor and Ektachrome papers.

Neither of the new product lines I've just described would have been possible a few years ago. Each has been defined by the intersection of market need and technological know-how. For the color printer, electronics know-how was important. For the Ektaflex printmaker, the know-how came directly from the image transfer research that led to Kodak instant cameras and film.

Double Theme

From the story of these two product lines, a careful observer could pick out the double theme which is running through all our Photographic Division markets right now. On the one hand, traditional applications of imaging are being enhanced as they meet with electronics. On the other hand, our imaging technologies themselves are being extended forward to encompass new applications.

Let's take the electronics side of this theme first. There was a time when many forecasters saw electronic media as an immediate threat, especially to motion picture film. That time was ten or fifteen years ago.

Today, eighty percent of network prime-time programming consists of shows produced on film, largely because film is highly suitable for shooting on location, for creating mood and fantasy.

Over the past several years, we have also seen the advent on a large scale of both cable television and video cassette players in the home. About 25 percent of U.S. households now have cable hookups, for example, up from 14 percent six years ago. The growing popularity of these media adds to the demand for new programming material, and the most popular programming among viewers continues to be feature-length entertainment that originates on film.

Especially dramatic is the transformation electronics is bringing about in office equipment and information handling. Today, the interest generated by Kodak's micrographics equipment has spread from financial institutions—typically our largest customers—to applications in business, industry, and government as well.

The explanation lies in the substantial productivity gains offered by our products when they are interfaced with a computer. This integration enables our customers to use their computing power to access directly their microimage files.

Image Processing

So in the continuing definition of Kodak, neither the term "micrographics" nor the term "data processing" is sufficient to describe what our office products market is all about. In the 1980s, a more accurate description will be "image processing" instead. The increased demand for these image processing products contributed significantly to the strong sales gains we recorded both here and abroad last year.

Our popular Ektaprint copier products also made a strong contribution, accounting for about half the U.S. revenues of our Business Systems markets in 1980. As you probably know, Kodak copier products have now been announced to the European market as well—just last month. External trade tests will be conducted during the summer, and the first user installations are scheduled for the fourth quarter of this year.

Early indications are that our copy products will be as well received in Europe as they have been here in the U.S.

Before we leave the subject of electronics, we might note that our deepening expertise in that area has also suggested the possibility of imaging products which are increasingly electronic in nature. Last December, we demonstrated through our Spin Physics subsidiary a sophisticated system for high-speed video recording and motion analysis.

We expect this system to be most useful to industries, government agencies, and other institutions with special research needs. As technology and manufacturing processes become more complicated, scientists and engineers need a way of recording and analyzing

events that occur too rapidly for the eye to see.

With our new video device, they will be able to record these high-speed phenomena at faster frame rates than ever before, and to replay them instantaneously in slow motion for detailed analysis. For accuracy and maximum information storage density, the recorder relies on a special magnetic tape that was developed jointly by Spin Physics and Kodak-Pathé. Its high recording speeds were made possible by the advent of a unique solid-state sensor, developed and now being manufactured at our Research Laboratories in Rochester.

Traditional Technology: New Applications

As I turn from electronics to consider some extensions of more traditional Kodak technologies, it might be appropriate for us to reflect on the notion of just what "high technology" really is.

There is a tendency to equate it with only the newest and most expensive devices. But if you define it according to the sophistication of its science and the level of its performance, then the technology that has grown up surrounding silver-halide image forming is one of the "highest" around. We will continue to find new applications for the expertise we have gained in this exacting field. Some of these will even take us outside the strict definitions of photography.

A case in point is the recent announcement by Graphics Markets of a nonsilver, dielectric film for recording seismic data. Geophysicists make use of such data in their

search for new gas or oil fields. Until now, seismic data of this sort has been recorded on electrographic paper. But the results were often of poor quality, in part because the paper required a constant level of high humidity. Needless to say, many of the areas where geophysicists are currently exploring for gas and oil would not meet these requirements for humidity.

The new Kodak film, however, is not sensitive to changes in humidity, and will produce a consistently high quality image wherever it is used. Since it is dielectric rather than being conventionally photographic in nature, it offers the benefits of film without the need for wet processing. And, of course, it can be handled in daylight.

A more profound extension of Kodak technology occurred when scientists demonstrated how our expertise could be fitted to the needs of the health sciences for a dry-process blood-analyzing method. The Ektachem products that resulted have much to do with the continuing definition of the area we now call Health Sciences Markets. As we reminded you last year, the Ektachem products program is still young. But already it has gained good acceptance, and usage rates for our analyzers now in the marketplace are more than double our early expectations.

Last year we announced the Ektachem 400 analyzer—equipped to perform a dozen of the blood serum tests commonly called for in routine and emergency cases. Some of those tests are of the kind we call colorimetric, and some are potentiometric in character. But, as we also pointed out in 1980, there



is the capacity for adding more tests as we develop them.

So today, I am pleased to report on our progress toward a third kind of clinical testing—kinetic, or, as it is also called, rate testing. Kinetic tests are especially important for analysis of heart and liver enzymes. They also present problems of design and manufacture unlike those presented by the two kinds of tests we have already developed. We are delighted, therefore, that Kodak's progress in this new area is in line with our highest expectations. In fact, the first three among the kinetic tests we are working on have already graduated from the "research" to the "development" stage.

In due course, once we are fully satisfied with the performance of all our kinetic tests, they will graduate into the marketplace itself.

Eastman Chemicals Division

So far, I have been citing examples from our Photographic Division markets. But, in the Eastman Chemicals Division, it is possible to pick out the same theme of available high technology being extended to new applications—applications consistent with Kodak's knowledge of the marketplace and Kodak's standard of profitability. Indeed, the entire history of Eastman Chemicals is an illustration of just this theme.

For more than 50 years, Eastman has been producing high-grade chemicals vital to our photographic manufacturing. But the technologies involved can also be tapped to make equally complex products for the special needs of industrial customers outside Kodak. So today, Eastman makes some 300 industrial and specialty chemicals, 13 types of plastics and plastics products, three basic textile fibers, and about 140 textile dyes.

Yet all are produced from one or more of the four basic product streams: cellulose esters, polyesters, olefins, and organic chemicals. These product streams also provide photographic chemicals for Kodak.

Cellulose ester, for instance, is the source for the cellulose acetate used to manufacture Kodak film base. But early on, in order to better utilize Eastman's capacity and expertise, the technology was extended to yield the world's first filter tow for filter cigarettes.

In 1981, Eastman still ranks as the world's largest supplier for this product.

More recently, the purity of cellulose acetate has suggested its use in other filtration devices as well. So while you may have known about filter tow, you probably don't know that for the past five years, Eastman has also been supplying a special cellulose acetate used to make the filters in artificial kidney machines.

The olefins offer another, if more complicated, illustration. Olefins (such as propylene) are used at Texas Eastman to make not only end products, but also the large quantities of aldehydes necessary for future manufacturing. One of the aldehydes to come out of this process, called isobutyraldehyde, was traditionally viewed by the chemical industry as a waste product. Most companies burned it off. Eastman, however, stockpiled it until our scientists could develop the technology to match it to market needs.

As a result, Eastman today is a leader in isobutyraldehyde technology, and we make a number of useful products from this substance. One of these is our Texanol solvent, an important coalescing aid in latex paints and in latex-base inks for the printing trade. Another is a plasticizer, Kodaflex TXIB, used to produce vinyl floor tiles, wall coverings, wood preservatives, and carpet backings. A third is isobutyl acetate, with such varied uses as an ingredient in furniture finishes and as a pharmaceutical intermediate for ethical drug companies.

As these examples indicate, Eastman's experience with its exacting technology has a profound effect on the continuing definition of Kodak. It makes it possible for us to pick and choose among those specialty markets in chemicals, fibers, and plastics that represent the most profitable deployment of our chemical capacity and expertise. Last year, Eastman Chemicals Division sales passed the \$2 billion mark for the first time.

Strength Through Diversity

About six weeks ago, *BUSINESS WEEK* magazine published its annual scoreboard of operating results for 1,200 U.S. companies in 39 key industry groups. Kodak was classified as one of 23 leisure-time industries, a diverse group that also included Walt Disney Pro-



ductions, Mattel (the toy manufacturer), and Polaroid. For the group as a whole, net earnings as a percent of sales averaged about 8 percent in 1980.

For Kodak, by comparison, net earnings amounted to about 12 percent of sales.

BUSINESS WEEK might also have listed us with the 21 instruments companies—which is where they used to list us, as a matter of fact. In this group, earnings average about 5½ percent of sales.

Or, with an eye to our growing electronics expertise, they might have put us among the 46 electrical and electronics companies whose earnings averaged about 5½ percent in 1980.

Thinking of the Ektaprint copier and our image processing methods, they could have compared us to the 34 office equipment and computer companies: net earnings close to 9 percent of sales. Finally, remembering our chemicals base, they could have classed us with the 44 chemicals firms—a group whose earnings averaged 5¾ percent of sales in 1980.

Now, none of these earnings comparisons would be exactly on point. But the lesson to be drawn from their variety is accurate. As we match our technological know-how to our knowledge of the marketplace, we are carefully—and effectively—defining Kodak's strength through diversity.

Yet there was at least one place where BUSINESS WEEK could *not* have listed us. They could not have put us among the 22 conglomerates. Kodak's continuing definition still proceeds, as it always has, from one origin: its 101-year expertise in image forming. It is the quality and profitability of that technology by which we measure all others.

And it is in that technology—ingeniously adapted, expanded, and applied—where the central focus of Kodak's future lies.

Discussion Summary

The following summarizes various matters presented and discussed during the course of the business meeting. A transcript of the complete meeting is available. Send your request to: Shareowner Relations, Eastman Kodak Company, 343 State Street, Rochester, New York 14650.

Walter A. Fallon, chief executive officer and chairman of the board of directors, called the meeting to order at 10:30 a.m., May 6.

After presentation of the agenda and introduction of officers and directors, the meeting then moved to a discussion of the election of auditors and two shareowner proposals.

The following is a summary of the discussion period after Mr. Fallon and Mr. Chandler concluded their report to shareowners.

The first shareowner asked if the company makes available a list of Kodak's charitable and educational contributions. Mr. Fallon said that such a booklet, entitled "Joint Ventures," is available upon request.

The same shareowner then asked if the company had any political action committees. Mr. Fallon said that a political action committee has been in existence at Eastman Chemicals Division for about two years, that it has about 150 participants, and that it has filed all required reports on contributions to candidates with appropriate state and federal agencies. Toy Reid indicated that the total contributed in 1980 was about \$25,000, and that this amount had been distributed over a wide range of candidates.

Mr. Fallon then responded to two more questions by the same shareowner, one concerning the site of Kodak's annual meeting and the other concerning Polaroid Corporation, where he declined to comment on possible new products from that company. He emphasized the high quality and continued progress in Kodak's instant photography program. Regarding the site of the annual meeting, he said that it is the subject of board action each year, that the Colorado site had seemed very appropriate, and that the company will continue to select suitable sites.



Another shareowner asked for comment concerning the progress of the Japanese in the photographic industry. Mr. Fallon said that, while the Japanese have improved their technology and have widened the variety of their products in the photographic industry, Kodak is confident that its technology is superior. He noted that Kodak's share of the worldwide market in both paper and film increased slightly faster than the market itself last year, and that the company is confident it can continue to grow as it has in the past.

A shareowner who is employed in the graphic arts industry wanted to know what Kodak was doing to combat escalating materials costs in that industry; he added a particular concern over the rise last year in the price of silver and its effect on film and paper costs. Mr. Fallon acknowledged that the price of silver, regrettably, had increased dramatically, and that Kodak had tried to respond responsibly. He pointed out, however, that silver was not the only cost factor, and that the costs of other raw materials and labor also had increased.

In response to a shareowner's question about electronic cameras and video systems, Mr. Fallon said that, while we have witnessed a predictable rise in the use of video movie cameras, such products are expensive,



specialized, and limited. He said photographic movie cameras still have great appeal worldwide, and he noted that all-electronic still cameras are even further in the future. He said there is no question that the conventional photographic market, boosted by the use of 35 mm photography, will continue to grow.

A financial analyst asked for an update on the company's Product Interchange Program, and Kay Whitmore responded that the first round of the program is essentially complete. He said certain long-running products had been positioned in Kodak Limited, Kodak-Pathé, and Kodak Colorado Division, with small-running products handled more effectively in Rochester and

elsewhere. He said the program has been very successful to date and will continue to be successful.

Another analyst asked for an update on developments in the antitrust and patent litigation areas. Kendall Cole provided a report, noting that the most decisive event that has occurred was the denial by the Supreme Court of Berkey's petition from the adverse ruling in its case in the Second Circuit.

A shareowner offered a commendation to Kodak management for the job they have done in recent years, and Mr. Fallon thanked him for his comments.

The meeting was adjourned at approximately 12:20 p.m.

Kodak products today are used in more than 130 countries around the world, including trade with nine Eastern Bloc nations. For information concerning Kodak's trade with the Eastern Bloc, you may write to: Shareowner Relations, Eastman Kodak Company, 343 State Street, Rochester, New York 14650.

First Quarter Report to Shareowners

Management's Discussion and Analysis of Financial Condition and Results of Operations

In Summary

(in millions, except earnings per share)

	First Quarter		
	1981	1980	Change
Sales	\$2,305.3	\$2,137.1	+ 8%
Earnings from Operations	411.2	325.3	+26
Earnings before Income Taxes	442.1	335.5	+32
Net Earnings	249.1	193.0	+29
Per Share	\$1.54	\$1.20	

Sales Advance

First quarter sales increased by 8 percent compared with first quarter sales last year. Gains were reported by all three operating divisions.

Sales by Segment (in millions)	First Quarter		
	1981	1980	Change
U.S. & Canadian Photographic	\$1,222.3	\$1,139.4	+ 7%
International Photographic	897.5	814.6	+10
Deduct: Interdivisional Sales	(276.3)	(240.5)	
Photographic Segment	1,843.5	1,713.5	+ 8
Chemicals Segment	524.0	479.9	+ 9
Deduct: Intersegment Sales	(62.2)	(56.3)	
Total Worldwide	\$2,305.3	\$2,137.1	+ 8%

For the Photographic segment, comparison is being made against an exceptionally strong sales increase in the first quarter of 1980, when customers were buying in anticipation of price increases. Modest sales growth was experienced in the current quarter by the U.S. & Canadian Photographic Division, led by strong increases in copier products revenues. In the International Photographic Division, strong gains were reported by the Latin American, and Asian, African, and Australasian Regions, while slight increases were experienced by the European Region.

For the Chemicals segment, good sales gains were reported for chemicals, fibers, and plastics.

Sales to the U.S. Government and defense contractors amounted to \$70.6 million, and represented approximately 3 percent of sales.

Operating Earnings Higher

Earnings advanced in comparison with the first quarter of 1980 when results were depressed by sharply higher raw materials costs. Higher selling prices contributed favorably to the earnings increase in the 1981 first quarter. Earnings from operations related to sales were higher than in the first quarter of 1980, but below the first quarter average for the years 1970-1980.

Costs and Expenses (in millions)	First Quarter		
	1981	1980	Change
Cost of goods sold	\$1,451.2	\$1,430.9	+ 1%
Percent of Sales	63.0%	67.0%	
Sales, advertising, distribution, and administrative expenses	\$ 442.9	\$ 380.9	+16%
Percent of Sales	19.2%	17.8%	

Cost of goods sold included research and development expenditures of \$138.9 million compared with \$117.2 million in the first quarter of 1980.

Earnings from Operations	First Quarter		
	1981	1980	Change
Amount (in millions)	\$411.2	\$325.3	+26%
Percent of Sales	17.8%	15.2%	

Interest income was greater than in the first quarter a year ago as a result of increased yields and a higher balance of securities. The after tax gain on exchange and the effect of translation of net monetary assets was \$4.2 million in the quarter compared with a loss of \$8.6 million a year ago. Other charges include realized and unrealized losses on equity securities of \$2.1 million compared with losses of \$7.6 million last year. The provision for income taxes was \$193.0 million compared with \$142.5 million in the first quarter of 1980.

Net Earnings	First Quarter		
	1981	1980	Change
Amount (in millions)	\$249.1	\$193.0	+29%
Percent of Sales	10.8%	9.0%	

Net earnings as a percent of sales of 10.8 percent compares with a 10.9 percent average for the first quarters for the years 1970-1980.

Dividends to Shareowners

A cash dividend of 75 cents per share was declared in the quarter. Total dividends declared in the quarter amounted to \$121.0 million.

Financial Position

Cash and marketable securities were \$1,562.3 million, compared with \$1,585.1 million at year-end. Worldwide inventories were \$1,782.5 million, up 5 percent from \$1,702.8 million at year-end. Receivables were \$1,628.5 million, down 3 percent from \$1,678.0 at year-end. Working capital at the end of the quarter increased slightly to \$3,019.2 million from \$2,998.2 million at year-end.

Capital Expenditures (in millions)	First Quarter	
	1981	1980
U.S. & Canadian Photographic	\$138.0	\$ 90.7
International Photographic	36.0	32.5
Total Photographic	174.0	123.2
Eastman Chemicals	44.9	35.4
Total	\$218.9	\$158.6

The provision for depreciation was \$94.3 million, compared with \$83.4 million in the first quarter of 1980.

Outlook

We continue to see 1981 as another good year for the company. The U.S. economy is expected to show modest growth for the year as a whole and, against this background, we look forward to gains in shipments of many Kodak products and another increase in sales. Concerning earnings, the company should perform well although first quarter results are rarely indicative of what can be expected for the full year.

Walter A. Fallon
Chairman

Colby W. Chandler
President

Consolidated Statement of Earnings

Eastman Kodak Company and Subsidiary Companies

	For the Quarter (12 weeks) Ended	
	Mar. 22, 1981	Mar. 23, 1980
Sales	(in thousands, except earnings per share)	
Sales to: Customers in the United States	\$1,209,790	\$1,134,888
Customers outside the United States	<u>1,095,548</u>	<u>1,002,196</u>
TOTAL SALES	<u>2,305,338</u>	<u>2,137,084</u>
 Costs		
Cost of goods sold	1,451,163	1,430,861
Sales, advertising, distribution, and administrative expenses	<u>442,946</u>	<u>380,915</u>
Total costs and expenses	<u>1,894,109</u>	<u>1,811,776</u>
 Earnings		
EARNINGS FROM OPERATIONS	411,229	325,308
Interest income	47,117	34,393
Interest expense	12,082	7,806
Other income and (charges)	<u>(4,136)</u>	<u>(16,380)</u>
EARNINGS BEFORE INCOME TAXES	442,128	335,515
Provision for United States, foreign, and other income taxes	<u>193,000</u>	<u>142,500</u>
NET EARNINGS	<u>\$ 249,128</u>	<u>\$ 193,015</u>
Average number of shares of common stock outstanding	161,387	161,392
Net earnings per share	\$1.54	\$1.20

Consolidated Statement of Retained Earnings

Retained Earnings		
Retained earnings at beginning of year	\$5,354,285	\$4,717,150
Net earnings	<u>249,128</u>	<u>193,015</u>
TOTAL	5,603,413	4,910,165
Cash dividends declared at \$.75 per share (\$.60 in 1980)	<u>121,040</u>	<u>96,835</u>
RETAINED EARNINGS at end of quarter	<u>\$5,482,373</u>	<u>\$4,813,330</u>

Supplemental Information:

1. Research and development costs included in cost of goods sold	\$ 138,914	\$ 117,160
2. Operations of subsidiary companies outside the U.S. included in Consolidated Statement of Earnings:		
Sales	\$1,004,085	\$ 925,724
Earnings from operations	97,651	105,701
Net earnings	45,435	58,065

Consolidated Balance Sheet

Eastman Kodak Company and Subsidiary Companies

	Mar. 22, 1981	Dec. 28, 1980	Mar. 23, 1980
Assets			
Current Assets			
		(in thousands)	
Cash	\$ 103,728	\$ 147,214	\$ 143,129
Marketable securities	1,458,592	1,437,848	1,210,145
Receivables	1,628,534	1,677,975	1,546,887
Inventories	1,782,491	1,702,806	1,612,085
Deferred income tax charges	215,038	229,528	120,975
Prepaid charges applicable to future operations	58,868	50,232	47,089
Total current assets	<u>5,247,251</u>	<u>5,245,603</u>	<u>4,680,310</u>
Properties			
Land, buildings, machinery, and equipment at cost	7,071,791	6,860,811	6,191,185
Less: Accumulated depreciation	<u>3,515,708</u>	<u>3,426,113</u>	<u>3,159,829</u>
Net properties	<u>3,556,083</u>	<u>3,434,698</u>	<u>3,031,356</u>
Other Assets			
Unamortized excess cost of investments in consolidated subsidiaries over net assets acquired	4,891	5,198	6,551
Long-term receivables and other noncurrent assets	<u>77,772</u>	<u>68,492</u>	<u>70,343</u>
TOTAL ASSETS	<u>\$8,885,997</u>	<u>\$8,753,991</u>	<u>\$7,788,560</u>
Liabilities and Shareowners' Equity			
Current Liabilities			
Payables	\$1,637,215	\$1,563,887	\$1,402,514
Taxes—income and other	469,806	481,803	359,565
Dividends payable	<u>121,040</u>	<u>201,736</u>	<u>96,835</u>
Total current liabilities	<u>2,228,061</u>	<u>2,247,426</u>	<u>1,858,914</u>
Other Liabilities and Deferred Credits			
4½% convertible debentures—due 1988	66,056	66,056	66,056
Other long-term liabilities	154,296	141,824	133,066
Deferred income taxes	<u>281,457</u>	<u>270,879</u>	<u>243,673</u>
Total liabilities and deferred credits	<u>2,729,870</u>	<u>2,726,185</u>	<u>2,301,709</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	269,788	269,555	269,555
Retained earnings	<u>5,482,373</u>	<u>5,354,285</u>	<u>4,813,330</u>
Total shareowners' equity	<u>6,156,127</u>	<u>6,027,806</u>	<u>5,486,851</u>
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	<u>\$8,885,997</u>	<u>\$8,753,991</u>	<u>\$7,788,560</u>

*Common stock: \$2.50 par value, 360,000,000 shares authorized, 161,586,494 shares issued. Of the shares authorized, 688,083 shares are reserved for the conversion of the debentures issued by Eastman Kodak International Capital Company, Inc.

Consolidated Statement of Changes in Financial Position

Eastman Kodak Company and Subsidiary Companies

	For the Quarter (12 weeks) Ended	
	Mar. 22, 1981	Mar. 23, 1980
	(in thousands)	
Funds Provided By:		
Net earnings	\$ 249,128	\$ 193,015
Charges to earnings not requiring cash outlay:		
Depreciation	94,286	83,370
Retirement of properties, net	3,225	3,930
Provision for deferred income taxes, net	24,100	1,270
Amortization of excess cost of investments in subsidiaries	307	409
Total from earnings	<u>371,046</u>	<u>281,994</u>
Increase (decrease) in current liabilities	(19,365)	117,927
TOTAL FUNDS PROVIDED	<u>351,681</u>	<u>399,921</u>
 Funds Used for:		
Dividends to shareowners	121,040	96,835
Additions to properties	218,896	158,616
Increase (decrease) in: Receivables	(49,441)	160,786
Inventories	79,685	172,617
Other items, net	4,243	(1,584)
TOTAL FUNDS USED	<u>374,423</u>	<u>587,270</u>
Decrease in cash and marketable securities	22,742	187,349
Cash and marketable securities, beginning of year	<u>1,585,062</u>	<u>1,540,623</u>
Cash and marketable securities, end of quarter	<u>\$1,562,320</u>	<u>\$1,353,274</u>

The financial statements have been prepared by the company in accordance with the accounting policies stated in the 1980 Annual Report and should be read in conjunction with the Notes to Financial Statements appearing in that report. In the opinion of the Company, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation have been included in the financial statements. The statements are based in part on approximations and have not been audited by independent accountants. The year-end statements will be audited by independent accountants. Comparative financial statements for the quarter ended March 23, 1980, are as restated to reflect the extension of the LIFO accounting method to cover substantially all inventories of the company's units outside the United States.

Lowrie G. Piercy, General Comptroller
April 29, 1981

KODAK HIGHLIGHTS
EASTMAN KODAK COMPANY
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A new line of seven Kodak Carousel projectors, featuring such innovations as a built-in, rear-projection slide viewing screen on three models, will be available on July 27. The line also features convenient lamp change, a built-in reading light, increased elevation to 16 degrees, and easy slide tray removal with the power off.