

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

X Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 1996

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 1-87

EASTMAN KODAK COMPANY

(Exact name of registrant as specified in its charter)

NEW JERSEY

(State of incorporation)

16-0417150

(IRS Employer Identification No.)

343 STATE STREET, ROCHESTER, NEW YORK  
(Address of principal executive offices)

14650  
(Zip Code)

Registrant's telephone number, including area code: 716-724-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Number of Shares Outstanding at June 30, 1996
Common Stock, \$2.50 par value	336,913,291



Eastman Kodak Company and Subsidiary Companies  
 CONSOLIDATED STATEMENT OF EARNINGS

(in millions)	Second Quarter		First Half-Year	
	1996	1995	1996	1995
<b>REVENUES</b>				
Sales	\$4,117	\$3,938	\$7,505	\$7,075
Earnings from equity interests and other revenues	85	54	143	126
	-----	-----	-----	-----
TOTAL REVENUES	4,202	3,992	7,648	7,201
	-----	-----	-----	-----
<b>COSTS</b>				
Cost of goods sold	2,100	2,030	3,876	3,643
Selling, general and administrative expenses	1,137	1,098	2,108	1,993
Research and development costs	247	233	488	452
Interest expense	21	19	39	38
Other costs	37	13	56	61
	-----	-----	-----	-----
TOTAL COSTS	3,542	3,393	6,567	6,187
	-----	-----	-----	-----
Earnings before income taxes	660	599	1,081	1,014
Provision for income taxes	220	222	367	375
	-----	-----	-----	-----
NET EARNINGS	\$ 440	\$ 377	\$ 714	\$ 639
	=====	=====	=====	=====
Earnings per share	\$ 1.30	\$ 1.11	\$ 2.09	\$ 1.88

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Retained earnings at beginning of period	\$5,323	\$4,605	\$5,184	\$4,485
Net earnings	440	377	714	639
Cash dividends declared	(135)	(137)	(272)	(273)
Other changes	5	(7)	7	(13)
	-----	-----	-----	-----
RETAINED EARNINGS at end of period	\$5,633	\$4,838	\$5,633	\$4,838
	=====	=====	=====	=====

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 See Notes to Financial Statements



Eastman Kodak Company and Subsidiary Companies  
 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in millions)	June 30, 1996	Dec. 31, 1995
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 940	\$ 1,764
Marketable securities	28	47
Receivables	3,275	3,145
Inventories	1,951	1,660
Deferred income tax charges	535	520
Other	231	173
	-----	-----
Total current assets	6,960	7,309
	-----	-----
<b>PROPERTIES</b>		
Land, buildings and equipment at cost	12,811	12,652
Less: Accumulated depreciation	7,433	7,275
	-----	-----
Net properties	5,378	5,377
	-----	-----
<b>OTHER ASSETS</b>		
Goodwill (net of accumulated amortization of \$345 and \$326)	515	536
Deferred income tax charges	334	344
Long-term receivables and other noncurrent assets	996	911
	-----	-----
TOTAL ASSETS	\$14,183	\$14,477
	=====	=====
-----		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Payables	\$ 3,048	\$ 3,327
Short-term borrowings	636	586
Taxes-income and other	860	567
Dividends payable	135	137
Deferred income tax credits	32	26
	-----	-----
Total current liabilities	4,711	4,643
<b>OTHER LIABILITIES</b>		
Long-term borrowings	571	665
Postemployment liabilities	3,284	3,247
Other long-term liabilities	666	704
Deferred income tax credits	99	97
	-----	-----
Total liabilities	9,331	9,356
	-----	-----
<b>SHAREHOLDERS' EQUITY</b>		
Common stock at par*	981	974
Additional capital paid in or transferred from retained earnings	916	803
Retained earnings	5,633	5,184
Accumulated translation adjustment	62	93
	-----	-----
	7,592	7,054
Less: Treasury stock at cost*	2,740	1,933
	-----	-----
Total shareholders' equity	4,852	5,121
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$14,183	\$14,477
	=====	=====

\* Common stock: \$2.50 par value, 950 million shares authorized, 391 million shares issued as of June 30, 1996 and 390 million shares issued as of December 31, 1995. Treasury stock at cost consists of approximately 54 million shares at June 30, 1996 and 44 million shares at December 31, 1995.



Eastman Kodak Company and Subsidiary Companies  
 CONSOLIDATED STATEMENT OF CASH FLOWS

First Half-Year  
 1996 1995

(in millions)

Cash flows from operating activities:

Net earnings	\$ 714	\$ 639
Adjustments to reconcile above earnings to net cash provided by operating activities:		
Depreciation and amortization	442	429
(Benefit) provision for deferred taxes	(22)	82
Loss on sale and retirement of properties	40	48
Increase in receivables	(166)	(89)
Increase in inventories	(310)	(331)
Increase in liabilities excluding borrowings	73	197
Other items, net	(138)	(464)
	-----	-----
Total adjustments	(81)	(128)
	-----	-----
Net cash provided by operating activities	633	511
	-----	-----

Cash flows from investing activities:

Additions to properties	(532)	(459)
Proceeds from sale of properties and investments	44	27
Marketable securities - sales	35	23
Marketable securities - purchases	(16)	-
Cash flows related to sales of non-imaging health businesses	(1)	(1,241)
	-----	-----
Net cash used in investing activities	(470)	(1,650)
	-----	-----

Cash flows from financing activities:

Net decrease in commercial paper borrowings of 90 days or less	(206)	(175)
Proceeds from other borrowings	853	310
Repayment of other borrowings	(659)	(5)
Dividends to shareholders	(274)	(273)
Exercise of employee stock options	124	71
Stock repurchases	(827)	-
	-----	-----
Net cash used in financing activities	(989)	(72)
	-----	-----

Effect of exchange rate changes on cash

	2	14
	-----	-----

Net decrease in cash and cash equivalents	(824)	(1,197)
Cash and cash equivalents, beginning of year	1,764	2,020
	-----	-----
Cash and cash equivalents, end of quarter	\$ 940	\$ 823
	=====	=====

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 See Notes to Financial Statements



## NOTES TO FINANCIAL STATEMENTS

## NOTE 1

## BASIS OF PRESENTATION

The financial statements have been prepared by the Company in accordance with the accounting policies stated in the 1995 Annual Report and should be read in conjunction with the Notes to Financial Statements appearing therein. 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 estimates and have not been audited by independent accountants. The annual statements will be audited by Price Waterhouse LLP.

## NOTE 2

## COMMITMENTS AND CONTINGENCIES

The Company and its subsidiary companies are involved in lawsuits, claims, investigations and proceedings, including product liability, commercial, environmental, and health and safety matters, which are being handled and defended in the ordinary course of business. There are no such matters pending that the Company and its General Counsel expect to be material in relation to the Company's business, financial condition or results of operations.

## NOTE 3

## RECLASSIFICATIONS

Certain 1995 financial statement amounts have been reclassified to conform with the 1996 presentation.

David J. FitzPatrick, Controller  
July 31, 1996



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

SUMMARY

(in millions, except earnings per share)	Second Quarter			First Half-Year		
	1996	1995	Change	1996	1995	Change
Sales	\$4,117	\$3,938	+ 5%	\$7,505	\$7,075	+ 6%
Net earnings	440	377		714	639	
Earnings per share	1.30	1.11		2.09	1.88	

1996

Sales were \$4,117 million for the 1996 second quarter and \$7,505 million for the first half-year. Net earnings were \$440 million for the 1996 second quarter (\$1.30 per share) and \$714 million for the first half-year (\$2.09 per share).

During the 1996 second quarter, Kodak concluded a \$1 billion share repurchase program, announced last October, and initiated an additional \$2 billion repurchase program which is expected to extend over the next two to three years.

On January 18, 1996, the Company announced it is developing alternatives to strengthen and reposition its Office Imaging business. The Office Imaging business is involved primarily with the development, production, sale, and service of office reprographics, document processing, and reproduction equipment. The Company continues to explore a variety of strategic options and structural alternatives, which include expanding its use of strategic alliances, the formation of joint ventures, and potential divestiture.

1995

Sales were \$3,938 million for the 1995 second quarter and \$7,075 million for the first half-year. Net earnings were \$377 million for the 1995 second quarter (\$1.11 per share) and \$639 million for the first half-year (\$1.88 per share).

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Sales by Industry Segment

(in millions)	Second Quarter			First Half-Year		
	1996	1995	Change	1996	1995	Change
Consumer Imaging						
Inside the U.S.	\$ 903	\$ 817	+11%	\$1,461	\$1,303	+12%
Outside the U.S.	1,124	1,061	+ 6	2,021	1,842	+10
	-----	-----	---	-----	-----	---
Total Consumer Imaging	2,027	1,878	+ 8	3,482	3,145	+11
	-----	-----	---	-----	-----	---
Commercial Imaging						
Inside the U.S.	1,031	1,007	+ 2	1,964	1,932	+ 2
Outside the U.S.	1,066	1,062	0	2,074	2,014	+ 3
	-----	-----	---	-----	-----	---
Total Commercial Imaging	2,097	2,069	+ 1	4,038	3,946	+ 2
	-----	-----	---	-----	-----	---
Deduct Intersegment Sales	(7)	(9)		(15)	(16)	
	-----	-----	---	-----	-----	---
Total Sales	\$4,117	\$3,938	+ 5%	\$7,505	\$7,075	+ 6%
	=====	=====	===	=====	=====	===

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Earnings from Operations  
by Industry Segment  
(in millions)

	Second Quarter			First Half-Year		
	1996	1995*	Change	1996	1995*	Change
Consumer Imaging	\$ 422	\$ 399	+ 6%	\$ 583	\$ 546	+ 7%
Percent of Sales	20.8%	21.2%		16.7%	17.4%	
Commercial Imaging	\$ 209	\$ 181	+15%	\$ 448	\$ 450	0%
Percent of Sales	10.0%	8.7%		11.1%	11.4%	

Total Earnings from Operations	\$ 631	\$ 580	+ 9%	\$1,031	\$ 996	+ 4%
	=====	=====	===	=====	=====	===

\* Certain amounts have been reclassified to conform with the 1996 presentation.

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COSTS AND EXPENSES (in millions)	Second Quarter			First Half-Year		
	1996	1995	Change	1996	1995	Change
Gross profit	\$2,017	\$1,908	+ 6%	\$3,629	\$3,432	+ 6%
Percent of Sales	49.0%	48.5%		48.4%	48.5%	
Selling, general and administrative expenses	\$1,137	\$1,098	+ 4%	\$2,108	\$1,993	+ 6%
Percent of Sales	27.6%	27.9%		28.1%	28.2%	
Research and development costs	\$ 247	\$ 233	+ 6%	\$ 488	\$ 452	+ 8%
Percent of Sales	6.0%	5.9%		6.5%	6.4%	

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1996 COMPARED WITH 1995

Second quarter

For the second quarter of 1996, sales increased 5% compared with the second quarter of 1995, primarily due to higher unit volumes, partially offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices.

Sales in the Consumer Imaging segment increased 8%, due to higher unit volumes slightly offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices. Sales inside the U.S. increased 11%, primarily due to higher unit volumes slightly offset by lower effective selling prices. Sales outside the U.S. increased 6%, due to higher unit volumes partially offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices. Worldwide growth was led by sales gains of the Company's Qualex photofinishing subsidiary and increased sales of Advantix products, Ektacolor papers and one-time-use cameras.

Sales in the Commercial Imaging segment increased 1%, due to higher unit volumes partially offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices. Sales inside the U.S. increased 2%, due to higher unit volumes. Sales outside the U.S. were level, with higher unit volumes offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices. Worldwide increases were led by digital and professional motion imaging products.

Earnings from operations increased 9%, as the benefits of higher unit volumes and manufacturing productivity were partially offset by lower effective selling prices and higher advertising expenses.

Earnings from operations in the Consumer Imaging segment increased 6%, as the benefits of higher unit volumes and manufacturing productivity were somewhat offset by increased advertising expenses and lower effective selling prices.

Earnings from operations in the Commercial Imaging segment increased 15% as the benefits of manufacturing productivity and higher unit volumes were only partially offset by lower effective selling prices and the unfavorable effects of foreign currency rate changes.

For the second quarter of 1996, earnings from equity interests and other revenues increased \$31 million primarily due to higher investment earnings. The increase in other costs in 1996 when compared with 1995 is due primarily to higher net losses in 1996 from foreign exchange transactions and the translation of net monetary items in highly inflationary economies. The decrease in the effective tax rate from 37% in the second quarter of 1995 to 33% in the second quarter of 1996 was primarily due to the utilization of certain foreign tax loss carryforwards.

Year to date

For the first half of 1996, sales increased 6% compared with the first half of 1995, primarily due to higher unit volumes, partially offset by lower effective selling prices and the unfavorable effects of foreign currency rate changes.

Sales in the Consumer Imaging segment increased 11%, as higher unit volumes were slightly offset by lower effective selling prices and the unfavorable effects of foreign currency rate changes. Sales inside the

U.S. increased 12%, primarily due to higher unit volumes slightly offset by lower effective selling prices. Sales outside the U.S. increased 10%, due to higher unit volumes partially offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices. Worldwide growth was led by sales gains of the Company's Qualex photofinishing subsidiary along with increased sales of Ektacolor papers, Kodacolor 35mm films, Advantix products and one-time-use cameras.



Sales in the Commercial Imaging segment increased 2%, due to higher unit volumes slightly offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices. Sales inside the U.S. increased 2%, due to higher unit volumes. Sales outside the U.S. increased 3%, due to higher unit volumes slightly offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices. Worldwide growth was led by digital and professional motion imaging products.

Earnings from operations increased 4%, as the benefits of higher unit volumes and manufacturing productivity were partially offset by higher selling, general and administrative activity and lower effective selling prices.

Earnings from operations in the Consumer Imaging segment increased 7%, as the benefits of higher unit volumes and manufacturing productivity were somewhat offset by higher selling, general and administrative expenses and lower effective selling prices. Approximately two-thirds of the increased selling, general and administrative expenses were due to higher advertising expenditures.

Earnings from operations in the Commercial Imaging segment were level, as increases due to higher unit volumes and manufacturing productivity were offset by lower effective selling prices, increased research and development expenditures and the unfavorable effects of foreign currency rate changes.

For the first half of 1996, earnings from equity interests and other revenues increased \$17 million primarily due to higher investment earnings. The decrease in the effective tax rate from 37% during the first half of 1995 to the 34% rate during the first half of 1996 was driven by the utilization of certain foreign tax loss carryforwards.

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#### LIQUIDITY AND CAPITAL RESOURCES

Available cash reserves and cash from operations have been and will be used to complete the \$1 billion and \$2 billion stock repurchase programs.

Cash flow from operations for the first half of 1996 was \$633 million, primarily due to \$714 million of net earnings, which included \$442 million of non-cash depreciation and amortization expenses; a \$310 million increase in inventories and a \$166 million increase in receivables. Net cash outflow from investing activities was \$470 million for the first half of 1996, due primarily to capital expenditures of \$532 million. Net cash outflow from financing activities of \$989 million for the first half of 1996 was primarily due to \$827 million of stock repurchases and \$274 million of dividend payments.

During the second quarter of 1996, a cash dividend of \$135 million (40 cents per share) was declared on the Company's common stock, versus \$137 million (40 cents per share) a year ago. Total cash dividends declared for the year-to-date periods of 1996 and 1995 amounted to \$272 million (80 cents per share) and \$273 million (80 cents per share), respectively.

Cash, cash equivalents and marketable securities were \$968 million at the end of the second quarter, compared with \$1,811 million at year-end 1995. Net working capital at the end of the quarter was \$2,249 million, compared with \$2,666 million at year-end 1995. Both decreases are primarily attributable to the stock repurchase program.

Projected operating cash flows are expected to be adequate to support normal business operations, planned capital expenditures, the stock repurchase program, and dividend payments in 1996.

Capital additions for the second quarter of 1996 were \$282 million compared with \$221 million for the second quarter of 1995. For the first half of 1996, capital additions were \$532 million versus \$459 million a year ago.

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## Part II. OTHER INFORMATION

## Item 1. Legal Proceedings

In April 1987, the Company was sued in federal district court in San Francisco by a number of independent service organizations who alleged violations of Sections 1 and 2 of the Sherman Act and of various state statutes in the sale by the Company of repair parts for its copier and micrographics equipment (Image Technical Service, Inc. (ITS), et al v. Eastman Kodak Company). The complaint sought unspecified compensatory and punitive damages. Trial began on June 19, 1995 and concluded on September 18, 1995 with a jury verdict for plaintiffs of \$23,948,300, before trebling. The Company has appealed the jury's verdict and intends to continue to defend this action vigorously.

Three cases that raise essentially the same antitrust issues as ITS are pending (Nationwide, et al v. Eastman Kodak Company, filed March 10, 1995, A-1 Copy Center, et al v. Eastman Kodak Company, filed December 13, 1993, and Broward Microfilm, Inc. v. Eastman Kodak Company, filed February 27, 1996). The Nationwide and A-1 cases are pending in federal district court in San Francisco, while Broward Microfilm is pending in federal district court in Miami. A-1 is a consolidated class action, while Broward Microfilm purports to be a national class action. The complaints in all three cases seek unspecified compensatory and punitive damages. As is the case in ITS, the Company is defending these matters vigorously.

The Company is participating in the Environmental Protection Agency's (EPA) Toxic Substances Control Act (TSCA) Section 8 (e) Compliance Audit Program. As a participant, the Company has agreed to audit its files for materials which under current EPA guidelines would be subject to notification under Section 8 (e) of TSCA and to pay stipulated penalties for each report submitted under this program. The Company anticipates that its liability under the Program will be \$1,000,000.

In addition to the foregoing environmental action, the Company has been designated as a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (the Superfund law), or under similar state laws, for environmental assessment and cleanup costs as the result of the Company's alleged arrangements for disposal of hazardous substances at approximately twenty-five Superfund sites. With respect to each of these sites, the Company's actual or potential allocated share of responsibility is small. Furthermore, numerous other PRPs have similarly been designated at these sites and, although the law imposes joint and several liability on PRPs, as a practical matter, costs are shared with other PRPs. Settlements and costs paid by the Company in Superfund matters to date have not been material. Future costs are not expected to be material to the Company's financial condition or results of operations.



## Item 4. Submission of Matters to a Vote of Security Holders

The 1996 Annual Meeting of Shareholders of Eastman Kodak Company was held on May 8.

A total of 284,546,636 of the Company's shares were present or represented by proxy at the meeting. This represented more than 83% of the Company's shares outstanding.

The individuals named below were elected to three-year terms as Class III Directors:

Name	Votes Received	Votes Withheld
Richard S. Braddock	281,370,768	3,175,868
Karlheinz Kaske	280,492,531	4,054,105
Richard A. Zimmerman	281,404,128	3,142,508

Martha Layne Collins, George M. C. Fisher, Paul E. Gray, John J. Phelan, Jr., Alice F. Emerson, Roberto C. Goizueta and Wilbur J. Prezcano all continue as Directors of the Company.

The election of Price Waterhouse LLP as independent accountants was ratified, with 283,068,737 shares voting for, 613,668 shares voting against, and 864,231 shares abstaining.

The shareholder proposal that would require disclosure of environmental liabilities to shareholders was defeated, with 15,242,230 shares voting for, 207,055,657 shares voting against, 20,272,792 shares abstaining, and 39,975,957 non-votes.

The shareholder proposal that would adopt a system of cumulative voting for the purposes of director elections was defeated, with 64,860,051 shares voting for, 173,118,302 shares voting against, 6,592,326 shares abstaining, and 39,975,957 non-votes.

The shareholder proposal that would eliminate certain executive compensation was defeated, with 12,498,200 shares voting for, 225,685,402 shares voting against, 6,387,077 shares abstaining, and 39,975,957 non-votes.

## Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits and financial statement schedules required as part of this report are listed in the index appearing on page 12.
- (b) Reports on Form 8-K  
No reports on Form 8-K were filed or required to be filed for the quarter ended June 30, 1996.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EASTMAN KODAK COMPANY  
(Registrant)

Date July 31, 1996

David J. FitzPatrick  
Vice President and Controller



Eastman Kodak Company and Subsidiary Companies  
Index to Exhibits and Financial Statement Schedules

Exhibit	Page No.
(11) Computation of Earnings Per Common Share	13
(27) Financial Data Schedule - Submitted with the Edgar filing as a second document to this Form 10-Q	



## Eastman Kodak Company and Subsidiary Companies

Exhibit (11)

## Computation of Earnings Per Common Share

	Second Quarter		First Half-Year	
	1996	1995	1996	1995
	(in millions, except per share amounts)			
Earnings before income taxes	\$ 660	\$ 599	\$1,081	\$1,014
Provision for income taxes	220	222	367	375
Net Earnings	\$ 440	\$ 377	\$ 714	\$ 639
Average number of common shares outstanding	338.2	341.2	340.8	340.6
Earnings per share	\$ 1.30	\$ 1.11	\$ 2.09	\$ 1.88

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE SECOND QUARTER 1996 FORM 10-Q OF EASTMAN KODAK COMPANY, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000031235  
 EASTMAN KODAK COMPANY  
 1,000,000  
 U.S. DOLLARS

6-MOS		
	DEC-31-1996	
	JAN-01-1996	
	JUN-30-1996	
	1.0	940
	28	
	3275	
	100	
	1951	
	6960	12811
	7433	
	14183	
	4711	571
	0	0
		981
		3871
14183		7505
	7648	3876
	3876	
	2652	
	0	
	39	
	1081	
	367	
	714	0
	0	
		0
	714	
	2.09	
	0	