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 September 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<br>(State of incorporation) | 16-0417150<br>(IRS Employer Identification No.) |
| 343 STATE STREET, ROCHESTER, NEW YORK<br>(Address of principal executive offices) | 14650<br>(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 September 30, 1996 |
|---|---|
| Common Stock, $2.50 par value | 333,246,654 |

Eastman Kodak Company and Subsidiary Companies
CONSOLIDATED STATEMENT OF EARNINGS

| (in millions) | Third Quarter 1996 | Third Quarter 1995 | Three Quarters 1996 | Three Quarters 1995 |
|---|---|---|---|---|
| REVENUES | | | | |
| Sales | $4,149 | $3,813 | $11,654 | $10,888 |
| Earnings from equity interests and other revenues | 30 | 64 | 173 | 190 |
| TOTAL REVENUES | 4,179 | 3,877 | 11,827 | 11,078 |
| COSTS | | | | |
| Cost of goods sold | 2,152 | 1,987 | 6,028 | 5,630 |
| Selling, general and administrative expenses | 1,119 | 1,037 | 3,227 | 3,030 |
| Research and development costs | 252 | 244 | 740 | 696 |
| Interest expense | 20 | 20 | 59 | 58 |
| Other costs | 14 | 77 | 70 | 138 |
| TOTAL COSTS | 3,557 | 3,365 | 10,124 | 9,552 |
| Earnings before income taxes | 622 | 512 | 1,703 | 1,526 |
| Provision for income taxes | 212 | 174 | 579 | 549 |
| NET EARNINGS | $ 410 | $ 338 | $ 1,124 | $ 977 |
| Earnings per share | $ 1.22 | $ .99 | $ 3.32 | $ 2.86 |

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

| | Third Quarter 1996 | Third Quarter 1995 | Three Quarters 1996 | Three Quarters 1995 |
|---|---|---|---|---|
| Retained earnings at beginning of period | $5,633 | $4,838 | $ 5,184 | $ 4,485 |
| Net earnings | 410 | 338 | 1,124 | 977 |
| Cash dividends declared | (134) | (136) | (406) | (409) |
| Other changes | (2) | 5 | 5 | (8) |
| RETAINED EARNINGS at end of period | $5,907 | $5,045 | $ 5,907 | $ 5,045 |

See Notes to Financial Statements

Eastman Kodak Company and Subsidiary Companies
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| (in millions) | Sept. 30, 1996 | Dec. 31, 1995 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 916 | $ 1,764 |
| Marketable securities | 27 | 47 |
| Receivables | 3,171 | 3,145 |
| Inventories | 1,947 | 1,660 |
| Deferred income tax charges | 541 | 520 |
| Other | 217 | 173 |
| Total current assets | 6,819 | 7,309 |
| PROPERTIES | | |
| Land, buildings and equipment at cost | 12,937 | 12,652 |
| Less: Accumulated depreciation | 7,520 | 7,275 |
| Net properties | 5,417 | 5,377 |
| OTHER ASSETS | | |
| Goodwill (net of accumulated amortization of $356 and $326) | 504 | 536 |
| Deferred income tax charges | 337 | 344 |
| Long-term receivables and other noncurrent assets | 961 | 911 |
| TOTAL ASSETS | $14,038 | $14,477 |

| | Sept. 30, 1996 | Dec. 31, 1995 |
|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Payables | $ 3,098 | $ 3,327 |
| Short-term borrowings | 601 | 586 |
| Taxes-income and other | 857 | 567 |
| Dividends payable | 134 | 137 |
| Deferred income tax credits | 37 | 26 |
| Total current liabilities | 4,727 | 4,643 |
| OTHER LIABILITIES | | |
| Long-term borrowings | 564 | 665 |
| Postemployment liabilities | 3,134 | 3,247 |
| Other long-term liabilities | 673 | 704 |
| Deferred income tax credits | 101 | 97 |
| Total liabilities | 9,199 | 9,356 |
| SHAREHOLDERS' EQUITY | | |
| Common stock at par* | 978 | 974 |
| Additional capital paid in or transferred from retained earnings | 907 | 803 |
| Retained earnings | 5,907 | 5,184 |
| Accumulated translation adjustment | 67 | 93 |
| | 7,859 | 7,054 |
| Less: Treasury stock at cost* | 3,020 | 1,933 |
| Total shareholders' equity | 4,839 | 5,121 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $14,038 | $14,477 |

* Common stock: $2.50 par value, 950 million shares authorized, 391 million shares issued as of September 30, 1996 and 390 million shares issued as of December 31, 1995. Treasury stock at cost consists of approximately 58 million shares at September 30, 1996 and 44 million shares at December 31, 1995.

See Notes to Financial Statements

Eastman Kodak Company and Subsidiary Companies
CONSOLIDATED STATEMENT OF CASH FLOWS

| (in millions) | Three Quarters 1996 | 1995 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $ 1,124 | $ 977 |
| Adjustments to reconcile above earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 661 | 641 |
| (Benefit) provision for deferred taxes | (26) | 97 |
| Loss on sale and retirement of properties | 34 | 39 |
| (Increase) decrease in receivables | (61) | 50 |
| Increase in inventories | (307) | (424) |
| Increase in liabilities excluding borrowings | 39 | 394 |
| Other items, net | (15) | (335) |
| Total adjustments | 325 | 462 |
| Net cash provided by operating activities | 1,449 | 1,439 |
| Cash flows from investing activities: | | |
| Additions to properties | (831) | (695) |
| Proceeds from sale of properties and investments | 66 | 78 |
| Marketable securities - sales | 40 | 23 |
| Marketable securities - purchases | (20) | - |
| Payment for purchase of Qualex | - | (100) |
| Cash flows related to sales of non-imaging health businesses | (8) | (1,212) |
| Net cash used in investing activities | (753) | (1,906) |
| Cash flows from financing activities: | | |
| Net decrease in commercial paper borrowings of 90 days or less | (219) | (259) |
| Proceeds from other borrowings | 1,224 | 2,529 |
| Repayment of other borrowings | (1,091) | (2,236) |
| Dividends to shareholders | (409) | (409) |
| Exercise of employee stock options | 84 | 82 |
| Stock repurchases | (1,131) | - |
| Net cash used in financing activities | (1,542) | (293) |
| Effect of exchange rate changes on cash | (2) | 8 |
| Net decrease in cash and cash equivalents | (848) | (752) |
| Cash and cash equivalents, beginning of year | 1,764 | 2,020 |
| Cash and cash equivalents, end of quarter | $ 916 | $ 1,268 |

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
Vice President and Controller
October 28, 1996

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

## SUMMARY

| (in millions, except earnings per share) | Third Quarter 1996 | Third Quarter 1995 | Change | Three Quarters 1996 | Three Quarters 1995 | Change |
|---|---|---|---|---|---|---|
| Sales | $4,149 | $3,813 | + 9% | $11,654 | $10,888 | + 7% |
| Net earnings | 410 | 338 | +21% | 1,124 | 977 | +15% |
| Earnings per share | 1.22 | .99 | +23% | 3.32 | 2.86 | +16% |

### 1996

Sales were $4,149 million for the 1996 third quarter and $11,654 million for the first three quarters. Net earnings were $410 million for the 1996 third quarter ($1.22 per share) and $1,124 million for the first three quarters ($3.32 per share).

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

On September 9, 1996, Danka Business Systems PLC and Kodak announced that they have signed an agreement for Danka to acquire the sales, marketing, and equipment service operations of Kodak's Office Imaging business, as well as Kodak's facilities management business known as Kodak Imaging Services. In connection with this agreement, Kodak will supply high-volume copiers and printers to Danka. Danka will pay Kodak $684 million in cash and assume certain assets and operating liabilities. Completion of the agreement is subject to approval by Danka shareholders as well as regulatory consents. The parties plan to close the transaction by December 31, 1996. As of December 31, 1995, the unaudited book value of the net assets to be acquired was approximately $800 million. The transaction will result in an estimated book loss of approximately $250 million after tax, which will be recorded at the time of closing, assuming receipt of shareholder approval and regulatory consents.

### 1995

Sales were $3,813 million for the 1995 third quarter and $10,888 million for the first three quarters. Net earnings were $338 million for the 1995 third quarter ($.99 per share) and $977 million for the first three quarters ($2.86 per share).

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## Sales by Industry Segment

| (in millions) | Third Quarter 1996 | Third Quarter 1995 | Change | Three Quarters 1996 | Three Quarters 1995 | Change |
|---|---|---|---|---|---|---|
| Consumer Imaging | | | | | | |
| Inside the U.S. | $ 898 | $ 761 | +18% | $ 2,359 | $ 2,064 | +14% |
| Outside the U.S. | 1,184 | 1,078 | +10 | 3,205 | 2,920 | +10 |
| Total Consumer Imaging | 2,082 | 1,839 | +13 | 5,564 | 4,984 | +12 |
| Commercial Imaging | | | | | | |
| Inside the U.S. | 1,030 | 988 | + 4 | 2,994 | 2,920 | + 3 |
| Outside the U.S. | 1,046 | 995 | + 5 | 3,120 | 3,009 | + 4 |
| Total Commercial Imaging | 2,076 | 1,983 | + 5 | 6,114 | 5,929 | + 3 |
| Deduct Intersegment Sales | (9) | (9) | | (24) | (25) | |
| Total Sales | $4,149 | $3,813 | + 9% | $11,654 | $10,888 | + 7% |

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## Earnings from Operations by Industry Segment
(in millions)

| | Third Quarter 1996 | Third Quarter 1995* | Change | Three Quarters 1996 | Three Quarters 1995* | Change |
|---|---|---|---|---|---|---|
| Consumer Imaging | $ 411 | $ 399 | + 3% | $ 994 | $ 945 | + 5% |
| Percent of Sales | 19.7% | 21.7% | | 17.9% | 19.0% | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Commercial Imaging | $ 216 | $ 152 | +42% | $ 664 | $ 602 | +10% |
| Percent of Sales | 10.4% | 7.7% | | 10.9% | 10.2% | |
| Total Earnings from Operations | $ 627 | $ 551 | +14% | $1,658 | $1,547 | + 7% |

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

COSTS AND EXPENSES

| (in millions) | Third Quarter 1996 | 1995 | Change | Three Quarters 1996 | 1995 | Change |
|---|---|---|---|---|---|---|
| Gross profit | $1,997 | $1,826 | +9% | $5,626 | $5,258 | +7% |
| Percent of Sales | 48.1% | 47.9% | | 48.3% | 48.3% | |
| Selling, general and administrative expenses | $1,119 | $1,037 | +8% | $3,227 | $3,030 | +7% |
| Percent of Sales | 27.0% | 27.2% | | 27.7% | 27.8% | |
| Research and development costs | $ 252 | $ 244 | +3% | $ 740 | $ 696 | +6% |
| Percent of Sales | 6.1% | 6.4% | | 6.3% | 6.4% | |

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1996 COMPARED WITH 1995

Third quarter

For the third quarter of 1996, sales increased 9% compared with the third quarter 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 13%, due to higher unit volumes partially offset by lower effective selling prices and the unfavorable effects of foreign currency rate changes.  Sales inside the U.S. increased 18%, primarily due to higher unit volumes partially offset by lower effective selling prices.  Sales outside the U.S. increased 10%, due to higher unit volumes partially offset by lower effective selling prices and the unfavorable effects of foreign currency rate changes.  All major product lines achieved solid sales growth, led by the Company's Qualex photofinishing subsidiary, Advantix products, color photographic papers and Kodacolor 35mm films.

Sales in the Commercial Imaging segment increased 5%, 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 4%, due to higher unit volumes slightly offset by lower effective selling prices.  Sales outside the U.S. increased 5%, with higher unit volumes partially 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 14%, as the benefits of higher unit volumes were partially offset by lower effective selling prices and higher selling, general and administrative expenses.

Earnings from operations in the Consumer Imaging segment increased 3%, well below the 13% rate of sales growth.  The benefits of higher unit volumes were partially offset by lower effective selling prices and increased selling, general and administrative expenses.  The higher selling, general and administrative expenses were primarily attributable to increased advertising and promotional expenditures associated with the summer Olympics.  Lower earnings in photofinishing operations outside the U.S. also contributed to the lower rate of earnings growth.

Earnings from operations in the Commercial Imaging segment increased 42% compared with the 5% rate of sales growth.  The benefits of higher unit volumes and manufacturing productivity were slightly offset by lower effective selling prices and higher selling, general and administrative expenses.  Earnings increases were led by motion picture films, copiers and health imaging products.

For the third quarter of 1996, earnings from equity interests and other revenues decreased due to lower earnings from equity interests and lower gains on sales of capital assets.  Other costs decreased due to lower net losses from foreign exchange transactions and the translation of net monetary items in highly inflationary economies.  There was no change in the effective tax rate compared with the third quarter of 1995.

Year to date

For the first three quarters of 1996, sales increased 7% compared with the first three quarters 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 12%, 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 14%, 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 color photographic papers, Advantix products, Kodacolor 35mm films and one-time-use cameras.

Sales in the Commercial Imaging segment increased 3%, due to higher unit volumes somewhat offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices.  Sales inside the U.S. increased 3% due to higher unit volumes.  Sales outside the U.S. increased 4%, due to higher unit volumes somewhat 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 7%, as the benefits of higher unit volumes and manufacturing productivity were partially offset by higher advertising and other expenses associated with the introduction of Advantix products and the summer Olympics, lower effective selling prices, unfavorable effects of foreign currency rate changes and increased research and development expenditures.

Earnings from operations in the Consumer Imaging segment increased 5%, 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 sixty percent of the increased selling, general and administrative expenses were due to higher advertising expenditures primarily related to the introduction of Advantix products and the summer Olympics.

Earnings from operations in the Commercial Imaging segment increased 10%, as the benefits of higher unit volumes and manufacturing productivity were partially offset by lower effective selling prices, higher selling, general and administrative expenses, increased research and development expenditures and the unfavorable effects of foreign currency rate changes.

Other costs decreased due to lower net losses from foreign exchange transactions and the translation of net monetary items in highly inflationary economies.  The decrease in the effective tax rate from 36% during the first three quarters of 1995 to 34% during the first three quarters of 1996 principally results from 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 $2 billion stock repurchase program.

Cash flow from operations for the first three quarters of 1996 was $1,449 million, primarily due to $1,124 million of net earnings, which included $661 million of non-cash depreciation and amortization expenses, a $307 million increase in inventories and a $61 million increase in receivables.  Net cash outflow from investing activities was $753 million for the first three quarters of 1996, due primarily to capital expenditures of $831 million.  Net cash outflow from financing activities of $1,542 million for the first three quarters of 1996 was primarily due to $1,131 million of stock repurchases and $409 million of dividend payments.

During the third quarter of 1996, a cash dividend of $134 million (40 cents per share) was declared on the Company's common stock, versus $136 million (40 cents per share) a year ago.  Total cash dividends declared for the year-to-date periods of 1996 and 1995 amounted to $406 million ($1.20 per share) and $409 million ($1.20 per share), respectively.

Cash, cash equivalents and marketable securities were $943 million at the end of the third quarter, compared with $1,811 million at year-end 1995.  Net working capital at the end of the quarter was $2,092 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 third quarter of 1996 were $299 million compared with $236 million for the third quarter of 1995.  For the first three quarters of 1996, capital additions were $831 million versus $695 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 (the appeal was argued in the 9th Circuit on September 19, 1996) 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.

As a participant in the Environmental Protection Agency's (EPA) Toxic Substances Control Act (TSCA) Section 8 (e) Compliance Audit Program, the Company 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's participation in the Program will conclude in the fourth quarter, with a payment by the Company of a civil penalty of $750,000.

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 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 11.

(b) Reports on Form 8-K
No reports on Form 8-K were filed or required to be filed for the quarter ended September 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 October 28, 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 | 12 |
| (27) Financial Data Schedule, Exhibit (27) - Submitted with the EDGAR filing as a second document to this Form 10-Q | |

Exhibit (11)

Eastman Kodak Company and Subsidiary Companies

Computation of Earnings Per Common Share

| | Third Quarter 1996 | Third Quarter 1995 | Three Quarters 1996 | Three Quarters 1995 |
|---|---|---|---|---|
| | (in millions, except per share amounts) | | | |
| Earnings before income taxes | $ 622 | $ 512 | $1,703 | $1,526 |
| Provision for income taxes | 212 | 174 | 579 | 549 |
| Net Earnings | $ 410 | $ 338 | $1,124 | $ 977 |
| Average number of common shares outstanding | 335.4 | 342.0 | 339.0 | 341.1 |
| Earnings per share | $ 1.22 | $ .99 | $ 3.32 | $ 2.86 |

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
THIRD 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

9-MOS
DEC-31-1996
JAN-01-1996
SEP-30-1996
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916
27
3171
107
1947
6819
12937
7520
14038
4727
564
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978
3861
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11827
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1124
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