

# EASTMAN KODAK CO

## FORM 10-K (Annual Report)

Filed 03/10/99 for the Period Ending 12/31/98

Address	343 STATE ST ROCHESTER, NY 14650-0910
Telephone	7167244000
CIK	0000031235
Symbol	EKDKQ
SIC Code	3861 - Photographic Equipment and Supplies
Industry	Printing Services
Sector	Services
Fiscal Year	12/31

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

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

For the year ended December 31, 1998 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

### Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$2.50 par value	New York Stock Exchange

### Securities registered pursuant to Section 12(g) of the Act: None

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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

At December 31, 1998 322,798,358 shares of Common Stock of the registrant were outstanding. The aggregate market value (based upon the closing price of these shares on the New York Stock Exchange at January 12, 1999) of the voting stock held by nonaffiliates was approximately \$25.7 billion.

## PART I

### ITEM 1. BUSINESS

Eastman Kodak Company (the Company or Kodak) is engaged primarily in developing, manufacturing and marketing consumer, professional, health and other imaging products. Kodak's sales, earnings and identifiable assets by operating segment for the past three years are shown in Note 18, Segment Information.

---

#### CONSUMER IMAGING SEGMENT

Sales of the Consumer Imaging segment for 1998, 1997 and 1996 were (in millions) \$7,164, \$7,681 and \$7,659, respectively.

Kodak manufactures and markets various components of consumer imaging systems. For traditional consumer amateur photography, Kodak supplies films, photographic papers, processing services, photofinishing equipment, photographic chemicals, cameras (including single-use) and projectors. The Advanced Photo System is an amateur system of cameras, films and photofinishing which delivers a variety of consumer features such as drop-in loading, multiple print size options, index prints, and negatives returned in the cartridge. Kodak has also developed products that bridge traditional silver halide and digital products. These products include kiosks and scanning systems to digitize images, digital media for storing images, software for enhancing images and a network for transmitting images.

**Marketing and Competition.** Kodak's consumer imaging products and services are distributed worldwide through a variety of channels. Individual products are often used in substantial quantities in more than one market. Most sales of the Consumer Imaging segment are made through retailers. Independent retail outlets selling Kodak amateur products total many thousands. In a few areas abroad, Kodak products are marketed by independent national distributors. In addition, certain consumer products may be purchased through the Internet.

Kodak's advertising programs actively promote its consumer imaging products and services in its various markets, and its principal trademarks, trade dress and corporate symbol are widely used and recognized.

Kodak's consumer imaging products and services compete with similar products and services of others. Competition in traditional and digital consumer imaging markets is strong throughout the world. Many large and small companies offer similar consumer products and services that compete with Kodak's business. Kodak's products are continually improved to meet the changing needs and preferences of its customers.

**Raw Materials.** The raw materials used by the Consumer Imaging segment are many and varied and generally available. Silver is one of the essential materials in traditional photographic film and paper manufacturing. Digital electronic components are becoming more prevalent in product offerings.

---

## **KODAK PROFESSIONAL SEGMENT**

Sales of the Kodak Professional segment for 1998, 1997 and 1996 were (in millions) \$1,840, \$2,272 and \$2,367, respectively.

Products of the Kodak Professional segment include films, photographic papers, digital cameras, printers and scanners, chemicals, and services targeted to professional customers. These products serve professional photofinishers, professional photographers and commercial printers and publishers.

Kodak Polychrome Graphics, a 50/50 joint venture with Sun Chemical Corporation, was formed on December 31, 1997. The joint venture assumed responsibility for the photographic plate business, as well as for the marketing of Kodak graphic arts film, and proofing materials and equipment. Sales for the segment decreased in 1998 primarily because the Company now sells graphics products to the joint venture, rather than selling completed products to final customers.

**Marketing and Competition.** Kodak's professional imaging products and services are distributed through a variety of channels, including the Internet. Most sales of the Kodak Professional segment are made to professional photographers, printers and publishers.

Kodak's professional imaging products and services compete with similar products and services of other small and large companies. Strong competition exists throughout the world in these markets. Kodak's products are continually improved to meet the changing needs and preferences of its customers.

**Raw Materials.** The raw materials used by the Kodak Professional segment are many and varied and generally available. Silver is one of the essential materials used in the manufacturing of professional photographic, industrial x-ray, and graphic arts film, and paper. Digital electronic components are becoming more prevalent in product offerings.

## **HEALTH IMAGING SEGMENT**

Sales of the Health Imaging segment for 1998, 1997 and 1996 were (in millions) \$1,526, \$1,532 and \$1,627, respectively.

The products of the Health Imaging segment are used to capture, store, process, print and display images and information in a variety of forms for customers in the health care industry, for both primary and referral diagnoses.

Products of the Health Imaging segment include medical films, chemicals, and processing equipment, as well as services for health care professionals. The Health Imaging segment serves customers for general radiology products and specialty health markets, including cardiology, dental, mammography, oncology and ultrasound imaging.

On November 30, 1998, Kodak acquired the worldwide medical imaging business of Imation Corp., which includes Imation's manufacturing facilities in White City, Oregon and Oakdale, Minnesota, and all of the outstanding shares of Imation's Cemax-Icon subsidiary in Fremont, California. The acquired business generates approximately \$500 million in revenues annually. See Note 16, Acquisitions and Joint Ventures.

**Marketing and Competition.** Kodak's health imaging products and services are distributed through a variety of channels, primarily to health care organizations.

Kodak's health imaging products and services compete with similar products and services of other small and large companies. Strong competition exists throughout the world in these markets. Kodak's products are continually improved to meet the changing needs and preferences of its health care customers.

**Raw Materials.** The raw materials used by the Health Imaging segment are many and varied and generally available. Silver is one of the essential materials used in X-ray film manufacturing.

---

## **OTHER IMAGING SEGMENT**

Sales of the Other Imaging segment for 1998, 1997 and 1996 were (in millions) \$2,876, \$3,053 and \$4,315, respectively.

Products of the Other Imaging segment include motion picture films, audiovisual equipment, certain digital cameras and printers, copiers, microfilm products, applications software, printers, scanners and other business equipment, as well as supplies and service agreements to support certain of these products. These products serve customers primarily in motion picture and television, office automation, and government markets.

**Marketing and Competition.** Products and services of the Other Imaging segment are distributed through a variety of channels. The Company also sells and leases business equipment directly to users, and has a presence on the Internet. The Company manufactures copiers and sells them through its non-exclusive distributor, Danka Business Systems PLC (Danka), and through OEM (Original Equipment Manufacturer) channels. See Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

These products and services compete with similar products and services of other small and large companies. Strong competition exists throughout the world in these markets. Kodak's products are continually improved to meet the changing needs and preferences of its customers.

**Raw Materials.** The raw materials used are many and varied and generally available. Silver is one of the essential materials in traditional film manufacturing. Electronic components represent a significant portion of the cost of the materials used in the manufacture of business equipment.

---

## **RESEARCH AND DEVELOPMENT**

Through the years, Kodak has engaged in extensive and productive efforts in research and development. Research and development expenditures for 1998, 1997 and 1996 were (in millions) \$922, \$1,230 and \$1,028, respectively. The 1998 figure includes a \$42 million charge for the write-off of in-process research and development associated with the acquisition of Imation Corp.'s worldwide medical imaging business on November 30, 1998. The 1997 figure includes a \$186 million charge for the write-off of in-process research and development associated with the acquisition of Wang Laboratories' software unit on March 17, 1997. See Note 15, Acquisitions and Joint Ventures.

Research and development groups are located principally in the United States in Rochester, New York. Outside the U.S., research and development groups are located principally in Australia, England, France, Japan and Germany. These groups, in close cooperation with manufacturing units and marketing organizations, are constantly developing new products and applications to serve both existing and new markets.

It has been Kodak's general practice to protect its investment in research and development and its freedom to use its inventions by obtaining patents where feasible. The ownership of these patents contributes to Kodak's ability to use its inventions but at the same time is accompanied by patent licensing. While in the aggregate Kodak's patents are considered to be of material importance in the operation of its business, the Company does not consider that the patents relating to any single product or process are of material significance when judged from the standpoint of its total business.

---

## **ENVIRONMENTAL PROTECTION**

Kodak is subject to various laws and governmental regulations concerning environmental matters. Some of the U.S. federal environmental legislation having an impact on Kodak includes the Toxic Substances Control Act, the Resource Conservation and Recovery Act (RCRA), the Clean Air Act, and the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (the Superfund law).

It is the Company's policy to carry out its business activities in a manner consistent with sound health, safety and environmental management practices, and to comply with applicable health, safety and environmental laws and regulations. Kodak continues to engage in a program for environmental protection and control.

Environmental protection is further discussed in Item 3, Legal Proceedings, and in the Notes to Financial Statements.

---

## **EMPLOYMENT**

At the end of 1998, the Company employed 86,200 people, of whom 46,300 were employed in the U.S.

---

## **ITEM 2. PROPERTIES**

The Consumer Imaging segment of Kodak's business in the United States is centered in Rochester, New York, where photographic goods are manufactured. Another manufacturing facility near Windsor, Colorado, also produces sensitized photographic goods.

Consumer imaging manufacturing facilities outside the United States are located in Australia, Brazil, Canada, China, England, France, India, Indonesia, Mexico and Russia. Kodak maintains marketing and distribution facilities in many parts of the world. The Company also owns processing laboratories in numerous locations worldwide.

Products in the Kodak Professional segment are manufactured in the United States primarily in Rochester, New York. Manufacturing facilities outside the United States are located in Brazil, Canada, China, England, France, Germany, Japan and Mexico.

Products in the Health Imaging segment are manufactured in the United States primarily in Rochester, New York; Windsor, Colorado; Oakdale, Minnesota; White City, Oregon; and Fremont, California. Manufacturing facilities outside the United States are located in Brazil, China, France, Germany, India and Mexico.

Products in the Other Imaging segment are manufactured in the United States primarily in Rochester, New York and Windsor, Colorado. Manufacturing facilities outside the United States are located in Brazil, Canada, England, France, Germany, India, Ireland and Mexico.

Properties within a country are generally shared by all segments operating within that country.

Regional distribution centers are located in various places within and outside of the United States. The Company owns or leases administrative, manufacturing, marketing and processing facilities in various parts of the world. The leases are for various periods and are generally renewable.

## **Item 3. 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. et al v. Eastman Kodak Company, "ITS"). 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 (\$71,844,900 after trebling). The Company appealed the jury's verdict, and on August 26, 1997 the 9th Circuit Court of Appeals rendered its decision affirming in part, reversing in part, and reversing and

remanding on the issue of used equipment damages. The court affirmed the jury's liability rulings, but reduced damages (after trebling) from \$71,844,900 to \$35,818,200, and narrowed the scope of the injunction under which the Company is required to make parts available. On April 27, 1998, the Supreme Court denied the Company's petition for Supreme Court review, effectively concluding all aspects of the case except plaintiffs' used equipment claim. The Company took a third quarter 1997 pre-tax charge of \$46,000,000.

Two cases that raise essentially the same antitrust issues as ITS are Nationwide, et al v. Eastman Kodak Company, filed March 10, 1995, and A-1 Copy Center, et al v. Eastman Kodak Company, filed December 13, 1993. Both cases were filed in federal district court in San Francisco. A-1 is a consolidated class action. The complaints in both cases seek unspecified compensatory and punitive damages. On September 16, 1998, the Company and plaintiffs in ITS, Nationwide, and A-1 engaged in a successful mediation, effectively concluding these cases. Under the terms of the mediated settlement, the Company will make payments to plaintiffs in return for plaintiffs' discontinuance of the litigation, with prejudice. The amount of the Company's payments, which was covered by previously recorded reserves, will not be material to the Company's financial position or results of operations.

A fourth repair parts case, Broward Microfilm, Inc. v. Eastman Kodak Company, a purported national class action which was filed February 27, 1996 in federal district court in Miami, was dismissed without prejudice on May 13, 1998.

On July 7, 1998, the Company received a proposed administrative Consent Order seeking unspecified penalties and a compliance schedule from the New York State Department of Environmental Conservation, to address alleged violations of the Environmental Conservation Law and regulations at the Company's Kodak Park manufacturing complex in Rochester, New York. The violations alleged are primarily comprised of air, water, and hazardous substance releases and incidents, largely accidental, that have been reported by the Company to the Agency over the past five years. The Company expects that it will be assessed a civil penalty in excess of \$100,000. The entire matter is subject to negotiation, which can be expected to result in an administrative settlement that will include a penalty and a compliance schedule for implementation of maintenance, upgrade, and reporting activities.

---

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

#### EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instructions G(3) of Form 10-K, the following list is included as an unnumbered item in Part I of this report in lieu of being included in the Proxy Statement for the Annual Meeting of Shareholders.

(as of December 31, 1998)

Name	Age	Positions Held	Date First Elected an Executive Officer	to Present Office
George M. C. Fisher	58	Chairman of the Board, Chief Executive Officer	1993	1995
Joerg D. Agin	56	Senior Vice President	1996	1996
Michael P. Benard	51	Vice President	1994	1994
Richard T. Bourns *	64	Senior Vice President	1988	1990
Daniel A. Carp	50	President and Chief Operating Officer	1995	1997
Martin M. Coyne, II	49	Vice President	1997	1995
Jesse J. Greene, Jr.	53	Vice President, Finance	1998	1998
Carl E. Gustin, Jr.	47	Senior Vice President	1995	1995
Harry L. Kavetas	61	Chief Financial Officer and Executive Vice President	1994	1994
Robert J. Keegan	51	Senior Vice President	1997	1997
Carl F. Kohrt	55	Executive Vice President and Assistant Chief Operating Officer	1995	1995
Michael P. Morley	55	Senior Vice President	1994	1994
Candy M. Obourn	48	Vice President	1997	1991
E. Mark Rajkowski	40	Controller	1998	1998
Willy C. Shih	47	Vice President	1997	1997
Patrick T. Siewert	43	Vice President	1997	1995
Eric L. Steenburgh	57	Executive Vice President and Assistant Chief Operating Officer	1998	1998
Gary P. Van Graafeiland	52	General Counsel and Senior Vice President	1992	1992

\* Retired February 1, 1999

Executive officers are elected annually in February.

All of the executive officers have been employed by Kodak in various executive and managerial positions for more than five years, except Mr. Kavetas, who joined the Company on February 11, 1994; Mr. Greene, who joined the Company on June 20, 1994; Mr. Gustin, who joined the Company on August 15, 1994; Mr. Agin, who joined the Company on September 1, 1995; Mr. Coyne, who joined the Company on September 5, 1995; Mr. Keegan, who joined the Company on July 1, 1997; Mr. Shih, who joined the Company on July 7, 1997; Mr. Steenburgh, who joined the Company on April 13, 1998; and Mr. Rajkowski, who joined the Company on July 13, 1998. Prior to joining Kodak, Mr. Kavetas held executive positions with International Business Machines (IBM) Corporation, most recently as President, Chief Executive Officer and a director of IBM Credit Corporation. Prior to joining Kodak, Mr. Greene held executive positions with International Business Machines (IBM) Corporation, most recently as Assistant Treasurer. Prior to joining Kodak, Mr. Gustin held executive positions with Digital Equipment Corporation (DEC), which he joined in 1994, and Apple Computer. Prior to joining Kodak in 1995, Mr. Agin held executive positions with Universal Studios, most recently as Senior Vice President, New Technology and Business Development. Prior to joining Kodak in 1995, Mr. Coyne was president of his own consulting firm, "M. M. Coyne & Associates." Mr. Coyne was previously employed by Kodak, leaving early in 1995 from the position of Executive Director, Health Group Marketing. Prior to joining Kodak in 1997, Mr. Keegan held the position of Executive Vice President with Avery Dennison Corporation since 1995. Mr. Keegan was previously employed by Kodak, leaving in 1995 from the position of General Manager of Consumer Imaging for Kodak's European, Middle Eastern and African Region. Prior to joining Kodak, Mr. Shih was Vice President of Marketing for Technical Computing at Silicon Graphics Computer Systems, which he joined in 1995. Prior to joining that company, Mr. Shih held executive positions with DEC, which he joined in 1994, and IBM Corporation. Prior to joining Kodak in 1998, Mr. Steenburgh held senior management positions at Xerox Corporation, Ricoh Company, Ltd., Goulds Pumps, and most recently, President of the Industrial Pump Group Worldwide at ITT Fluid Technology Corporation, a part of ITT Industries. Prior to joining Kodak in 1998, Mr. Rajkowski was employed at Price Waterhouse LLP (now PricewaterhouseCoopers LLP) where he was the Upstate New York Technology Group Managing Partner and an Audit and Business Advisory Services Partner.

There have been no events under any bankruptcy act, no criminal proceedings, and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

---

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Eastman Kodak Company common stock is principally traded on the New York Stock Exchange. There are 129,495 shareholders of record of common stock as of December 31, 1998. See Liquidity and Capital Resources, and Market Price Data in Management's Discussion and Analysis of Financial Condition and Results of Operations.

---

## ITEM 6. SELECTED FINANCIAL DATA

Refer to Summary of Operating Data on page 68.

---

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### SUMMARY

(in millions, except per share data)

	1998	Change	1997	Change	1996
Sales	\$13,406	- 8%	\$14,538	- 9%	\$15,968
Earnings from operations	1,888		130		1,845
Earnings from continuing operations	1,390		5		1,011
Gain on sale of discontinued operations	-		-		277
Net earnings	1,390		5		1,288
Basic earnings per share	4.30		.01		3.82
Diluted earnings per share	4.24		.01		3.76

1998

The Company results for the year included the following:

The sale of its NanoSystems subsidiary, resulting in a pre-tax gain of \$87 million (\$57 million after-tax). See Note 16, Sales of Assets and Divestitures.

The sale of part of its investment in Gretag Imaging Group (Gretag), resulting in a pre-tax gain of \$66 million (\$44 million after-tax). See Note 16, Sales of Assets and Divestitures.

A pre-tax charge of \$132 million (\$87 million after-tax) for asset write-downs and employee severance in the Office Imaging division of the Document Imaging business unit resulting from significant volume reductions by the primary customer for Office Imaging products, Danka Business Systems PLC (Danka) (the "Office Imaging charge"). See Note 16, Sales of Assets and Divestitures.

A pre-tax charge of \$45 million (\$30 million after-tax), primarily for in-process research and development (R&D), associated with the acquisition of the medical imaging business of Imation Corp. (the "Imation charge"). See Note 15, Acquisitions and Joint Ventures.

Excluding the above items, and pre-tax litigation charges of \$35 million (\$23 million after-tax) relating primarily to Health Imaging, net earnings would have been \$1,429 million. Basic earnings per share would have been \$4.42 and diluted earnings per share would have been \$4.37.

1997

The Company results for the year included the following:

A pre-tax charge of \$1,455 million (\$990 million after-tax) for restructuring, asset impairments and other charges. See Note 11, Restructuring Programs.

A pre-tax charge of \$186 million (\$123 million after-tax) for a write-off of in-process R&D associated with the acquisition of Wang Laboratories' software unit (the "Wang charge"). See Note 15, Acquisitions and Joint Ventures.

A pre-tax charge of \$46 million (\$30 million after-tax) taken as a reserve for payments required in connection with the Image Technical Service, Inc. litigation relating to the sale of micrographics and copier parts (the "ITS charge").

Excluding these charges, net earnings would have been \$1,148 million. Basic earnings per share would have been \$3.52 and diluted earnings per share would have been \$3.46.

1996

The Company results for the year included the following:

A pre-tax charge of \$358 million (\$256 million after-tax) for restructuring. See Note 11, Restructuring Programs.

A pre-tax charge of \$387 million (\$252 million after-tax) related to the sale of the Office Imaging sales and services business (the "Office Imaging business"). See Note 16, Sales of Assets and Divestitures.

After-tax income of \$277 million from discontinued operations associated with the sale of the non-imaging health businesses in 1994. See Note 17, Discontinued Operations.

Excluding these items, net earnings would have been \$1,519 million. Basic earnings per share would have been \$4.50 and diluted earnings per share would have been \$4.43.

DETAILED RESULTS OF OPERATIONS  
Sales by Operating Segment  
(in millions)

	1998	Change	1997	Change	1996
Consumer Imaging					
Inside the U.S.	\$ 3,342	- 4%	\$ 3,477	+ 5%	\$ 3,319
Outside the U.S.	3,822	- 9	4,204	- 3	4,340
	-----	---	-----	---	-----
Total Consumer Imaging	7,164	- 7	7,681	-	7,659
	-----	---	-----	---	-----
Kodak Professional					
Inside the U.S.	725	-22	927	+ 1	917
Outside the U.S.	1,115	-17	1,345	- 7	1,450
	-----	---	-----	---	-----
Total Kodak Professional	1,840	-19	2,272	- 4	2,367
	-----	---	-----	---	-----
Health Imaging					
Inside the U.S.	668	- 2	682	- 4	707
Outside the U.S.	858	+ 1	850	- 8	920
	-----	---	-----	---	-----
Total Health Imaging	1,526	-	1,532	- 6	1,627
	-----	---	-----	---	-----
Other Imaging					
Inside the U.S.	1,558	- 7	1,681	-31	2,434
Outside the U.S.	1,318	- 4	1,372	-27	1,881
	-----	---	-----	---	-----
Total Other Imaging	2,876	- 6	3,053	-29	4,315
	-----	---	-----	---	-----
Total Sales	\$13,406	- 8%	\$14,538	- 9%	\$15,968
	=====	===	=====	===	=====

Earnings (Loss) From Operations by Operating Segment - See Note 18, Segment Information.

Net Earnings (Loss) by Operating Segment - See Note 18, Segment Information.

**1998 COMPARED WITH 1997**

**CONSOLIDATED**

Worldwide sales for 1998 were 8% lower than in 1997, largely due to the transfer of a portion of Kodak's graphics business to a joint venture, Kodak Polychrome Graphics, on December 31, 1997 (see Note 15, Acquisitions and Joint Ventures) and the reclassification of certain promotional expenses by the Company (the "promotion reclass," see discussion in Consumer Imaging section below). Excluding these effects, sales decreased 5% from the prior year. In addition, currency changes against the dollar unfavorably affected sales by \$344 million in 1998 compared with 1997. Excluding the effects of currency rate changes and the above items, sales decreased 2%. A significant portion of this decrease resulted from volume declines in emerging markets, reflecting economic conditions.

Overall gross profit margins improved approximately one percentage point from 44.5% in 1997 to 45.6% in 1998, adjusting for the promotion reclass. Excluding \$165 million of charges related to the 1997 restructuring program and \$68 million of the Office Imaging charge recorded to cost of goods sold in 1998, gross profit margins improved from 45.7% in 1997 to 46.1% in 1998. This increase is primarily attributable to cost reductions and manufacturing productivity which more than offset the unfavorable effects of foreign currency rate changes, lower effective selling prices, and volume declines in emerging markets. Goodwill amortization increased to \$116 million in 1998 from \$80 million in 1997 primarily as a result of the Company's acquisitions in China (see Note 15, Acquisitions and Joint Ventures).

Selling, general and administrative (SG&A) expenses for the Company decreased 16% from 26.9% of sales in 1997 to 24.6% of sales in 1998. Adjusting 1997 for the promotion reclass and excluding \$64 million of the Office Imaging charge recorded to SG&A in 1998 and the impact of the graphics business from both years, SG&A decreased 9% from 26.0% of sales to 24.9% of sales. This decrease is primarily attributable to the benefits associated with the Company's cost reduction program.

Excluding the Imation charge in 1998 and the Wang charge in 1997, R&D expenses decreased 16% from 7.2% of sales in 1997 to 6.6% of sales in 1998 as a result of improved expense management and reduced cost structure. See Note 15, Acquisitions and Joint Ventures, for discussion of the Imation charge and the Wang charge and estimated costs to complete in-process R&D projects.

Earnings from operations increased \$1,758 million from the prior year. Excluding from 1997 the \$1,455 million charge for restructuring costs, asset impairments and other charges, and the \$186 million Wang charge, and excluding from 1998 the \$132 million Office Imaging charge and the \$45 million Imation charge, earnings from operations for the Company increased 17%, as cost reductions and manufacturing productivity more than offset lower effective selling prices and the unfavorable effects of foreign currency rate changes.

Other income (charges) increased significantly from \$21 million in 1997 to \$328 million in 1998. This increase is primarily attributable to gains on the sales of NanoSystems and part of the Company's investment in Gretag, gains from sales of real estate, and the divestiture of some relatively small businesses, offset by litigation charges recorded in 1998. Interest expense increased 12% from the prior year, to \$110 million, as a result of higher average borrowings.

The effective tax rates were 34% in both 1998 and 1997, excluding restructuring costs, asset impairments and other charges of \$1,455 million and the related tax benefit of \$465 million from 1997.

From the beginning of the fourth quarter of 1997 through December 31, 1998, approximately 11,950 employees have left the Company under the 1997 and 1996 restructuring programs (see Note 11, Restructuring Programs). In addition, another 800 employees left the Company under a reserve taken in the second quarter of 1997. In connection with the restructuring programs, the Company reduced its operating costs by approximately \$730 million in 1998. This amount includes approximately \$95 million of lower pension and health care costs due to reduced headcount resulting from the restructuring programs. The 1998 savings of \$730 million does not include the benefit of divestitures or the effects of changes in exchange rates, and is net of increased investments. Cost reductions were achieved across all business operations and also reflect the benefits of lower employee compensation. Many of the remaining headcount reductions under the restructuring programs are associated with portfolio actions and business exits which will generate a lower rate of savings in future periods.

In the fourth quarter of 1998, the Company increased its minimum target for the cost reduction program to \$1.2 billion by the end of 1999. Savings from this program will continue to be reflected in earnings, which not only allows the Company to improve its results of operations, but also enhances its competitiveness. In addition, the Company will continue to invest in growth opportunities in both traditional photographic and digital imaging.

In connection with the sale of the Office Imaging business on December 31, 1996, the Company and Danka entered into agreements whereby the Company supplied high-volume copiers and printers to Danka and Danka provided the Company with R&D funding. Danka is the Company's primary customer for Office Imaging products, accounting for approximately 90% of Office Imaging's annual sales.

Financial difficulties on the part of Danka affected its ability to fulfill the original terms of certain of its agreements with the Company in the fourth quarter of 1998. As a result, in December 1998, the Company's supply agreement and certain other agreements with Danka were terminated and interim arrangements for the supply by the Company to Danka of copier equipment, parts and supplies were established on a month-to-month basis. As a result of significant volume reductions by Danka, the Company was required to take action in the fourth quarter of 1998 that resulted in charges for employee severance (800 personnel) and write-downs of working capital and equipment. Such pre-tax charges amounted to \$132 million and were recorded to cost of goods sold (\$68 million) and SG&A expenses (\$64 million). All actions with respect to this charge, including employee terminations, were taken by the Company in 1998. The Company continues to assess its strategic options for its Office Imaging business and may need to take further action in 1999 which could have a material impact on the Company's results of operations.

As described in Note 15, Acquisitions and Joint Ventures, the Company acquired Imation Corp.'s worldwide medical imaging business on November 30, 1998. The business acquired by Kodak generates approximately \$500 million in revenues annually. This strategic acquisition strengthens the Company's Health Imaging segment with "dry" imaging output technology.

As described in Note 15, Acquisitions and Joint Ventures, the Company made investments in two newly formed companies operating in China in 1998. Under terms of agreements announced in 1998, the Company plans to invest more than \$1 billion in China over the next several years. The investment will be used to upgrade technology, improve manufacturing capacity and expand distribution and marketing capability needed to build and support a strong domestic Chinese imaging industry.

On April 30, 1998, the Company and Intel Corporation announced a series of agreements that cover joint development efforts in digital imaging products and platforms, a broad patent cross-license, upgrading of Kodak's Qualex photofinishing laboratories with Intel architecture based scanning equipment, and collaborative consumer-oriented marketing efforts which could amount to \$150 million (each company contributing half) over a three- year period.

On May 19, 1998, the Company and America Online, Inc. (AOL) announced an alliance to offer AOL members an exclusive new online service called "You've Got Pictures!"(sm). The service entails consumers taking pictures with traditional cameras and film, followed by photofinishers developing the film and then scanning and uploading pictures to AOL via Kodak PhotoNet online. Using an integrated feature of their AOL account, AOL members can view their pictures, organize them into an AOL Picture Album and allow others to access their images.

## **CONSUMER IMAGING**

Consumer Imaging segment sales for the year decreased 7%. Adjusting 1997 for the promotion reclass discussed below, segment sales for the year decreased 5%, due to lower effective selling prices, the unfavorable effects of foreign currency rate changes and lower unit volumes. Sales inside the U.S. increased 1%, as higher unit volumes were mostly offset by lower effective selling prices. Sales outside the U.S. decreased 9%, due to the unfavorable effects of foreign currency rate changes, lower unit volumes and lower effective selling prices. Removing from both years sales of Fox Photo, Inc., which was sold in 1998 (see Note 16, Sales of Assets and Divestitures), worldwide segment sales decreased 4% and sales inside the U.S. increased 3%. Excluding the effects of currency rate changes and Fox Photo sales, worldwide segment sales decreased 1% and sales outside the U.S. decreased 5%.

In the Consumer Imaging segment, certain U.S. promotional expenses which are shown as sales price reductions in 1998 were shown as advertising and promotion expenses in 1997 and 1996. The amounts of those expenses were \$164 million in 1997 and approximately \$70 million in 1996. When comparing 1998 to 1997 and 1996, these amounts should be deducted from 1997 and 1996 sales as well as advertising expense.

Worldwide film sales decreased 7% from the prior year, adjusting 1997 for the promotion reclass, due to lower unit volumes, the unfavorable effects of foreign currency rate changes and lower effective selling prices. Sales inside the U.S. decreased 5%, as slightly higher unit volumes were more than offset by lower effective selling prices. Sales outside the U.S. decreased 8%, as higher effective selling prices were more than offset by lower unit volumes and the unfavorable effects of foreign currency rate changes.

Worldwide color paper sales decreased 4% from the prior year, adjusting 1997 for the promotion reclass, as higher unit volumes were more than offset by lower effective selling prices and the unfavorable effects of foreign currency rate changes. Sales inside the U.S. increased 1%, as higher unit volumes were mostly offset by lower effective selling prices. Sales outside the U.S. decreased 7%, as modest increases in unit volumes were more than offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices.

SG&A expenses for the segment decreased 9% from 28.6% of sales in 1997 to 27.4% of sales in 1998, after adjusting 1997 for the promotion reclass. Excluding advertising expenses, SG&A expenses decreased 9% from 19.7% of sales in 1997 to 18.9% of sales in 1998. R&D expenses decreased 9% from 5.3% of sales in 1997 to 5.1% of sales in 1998.

Earnings from operations increased 1%, as cost reductions and manufacturing productivity were almost entirely offset by lower effective selling prices and the unfavorable effects of foreign currency rate changes. Net earnings for the segment increased 8%, as a result of the gain on the sale of part of the Company's investment in Gretag, as well as decreased losses on foreign exchange.

### **KODAK PROFESSIONAL**

Kodak Professional segment sales for the year decreased 19%. Excluding the impact of the graphics business from both years as a result of the joint venture discussed above, segment sales decreased 6%. This decrease is primarily due to the unfavorable effects of foreign currency rate changes, lower unit volumes and lower effective selling prices. Sales inside the U.S. decreased 22%, or 3% excluding the impact of the graphics business from both years, due to lower unit volumes. Sales outside the U.S. decreased 17%, or 8% excluding the impact of the graphics business from both years, due to the unfavorable effects of foreign currency rate changes and lower unit volumes.

SG&A expenses for the segment decreased 41% from 27.6% of sales in 1997 to 20.3% of sales in 1998. Excluding the impact of the graphics business from both years, SG&A expenses decreased 12% from 27.9% of sales in 1997 to 26.2% of sales in 1998. Excluding advertising expenses and the impact of the graphics business from both years, SG&A expenses decreased 11% from 23.9% of sales in 1997 to 22.7% of sales in 1998. Excluding the impact of the graphics business from both years, R&D expenses decreased 2%, increasing slightly from 11.5% of sales in 1997 to 11.9% of sales in 1998.

Earnings from operations increased 16%, as a result of reduced segment operating costs associated with the formation of the Kodak Polychrome Graphics joint venture and improvements in manufacturing productivity, offset by lower effective selling prices and the unfavorable effects of foreign currency rate changes. Net earnings for the segment increased 23%, as a result of improvements in earnings from operations, the Company's earnings from its 50% interest in Kodak Polychrome Graphics and lower foreign exchange losses.

## **HEALTH IMAGING**

Sales of the Health Imaging segment were essentially level with 1997. However, excluding sales from the medical imaging business acquired from Imation in 1998, segment sales decreased 3%, due to the unfavorable effects of foreign currency rate changes and lower effective selling prices. Sales inside the U.S. decreased 2%, or a decline of 5% excluding Imation, due to lower effective selling prices and lower unit volumes. Sales outside the U.S. increased 1%, or a decrease of 2% excluding Imation, as higher unit volumes were more than offset by the unfavorable effects of foreign currency rate changes.

Including one month of results from the medical imaging business acquired from Imation, SG&A expenses decreased 5% from 21.7% of sales in 1997 to 20.7% of sales in 1998. Excluding advertising expenses, SG&A expenses decreased 4% from 20.6% of sales in 1997 to 19.7% of sales in 1998. Excluding the 1998 Imation charge, R&D expenses decreased 13% from 8.0% of sales in 1997 to 6.9% of sales in 1998.

Earnings from operations increased 1%, including the Imation charge. Excluding the Imation charge, earnings from operations increased 15% as a result of cost reductions and manufacturing productivity which more than offset lower effective selling prices and the unfavorable effects of foreign currency rate changes. Net earnings for the segment decreased 4%, due to litigation charges. Excluding the Imation charge, net earnings increased 10%.

## **OTHER IMAGING**

Sales of the Other Imaging segment decreased 6% for the year, primarily as a result of significant declines in Document Imaging (DI) and Commercial & Government Systems. Sales inside the U.S. decreased 7%, due to lower unit volumes and lower effective selling prices. Sales outside the U.S. decreased 4%, due to the unfavorable effects of foreign currency rate changes, lower unit volumes and lower effective selling prices. In the Office Imaging division of DI, sales fell sharply in the fourth quarter as a result of the primary customer for Office Imaging products, Danka, experiencing financial difficulties which resulted in significant volume reductions. In the Business Imaging Systems division of DI, sales declined as a result of portfolio changes which improved earnings performance. In Commercial & Government Systems, sales were negatively impacted by the completion of several large programs in 1997 for which follow-on programs were not fully underway in 1998.

SG&A expenses increased 3% from 20.9% of sales in 1997 to 22.8% of sales in 1998. Excluding advertising expenses, SG&A expenses increased from 18.6% of sales in 1997 to 19.8% of sales in 1998. Excluding the Wang charge, R&D expenses decreased 24% from 9.9% of sales in 1997 to 8.0% of sales in 1998, primarily due to reductions in Digital & Applied Imaging and DI.

Earnings from operations increased \$245 million. Excluding the Wang charge in 1997 and the Office Imaging charge in 1998, earnings from operations increased \$191 million. This increase is primarily attributable to the benefits of portfolio changes in the Business Imaging Systems division and improved performance in Digital & Applied Imaging. Net earnings for the segment increased \$248 million as a result of improvements in earnings from operations and gains on sales of properties.

## **1997 COMPARED WITH 1996**

### **CONSOLIDATED**

Worldwide sales for 1997 were 9% lower than in 1996, largely due to the sale of the Company's Office Imaging business in December 1996 and the significant adverse effects of the stronger U.S. dollar. Currency changes against the dollar unfavorably affected sales by \$558 million in 1997 compared with 1996. Excluding the effects of currency rate changes and the sale of Office Imaging, sales increased 3%.

Removing the impact of the Office Imaging business from both years, overall gross profit margins as a percentage of sales decreased from 49.9% in 1996 to 45.8% in 1997. Excluding from 1997 \$165 million of charges related to the 1997 restructuring program, gross profit margins decreased to 47.0% of sales, as the benefits of higher unit volumes and manufacturing productivity were more than offset by lower effective selling prices, the unfavorable effects of foreign currency rate changes and other charges including preproduction start-up costs and inventory write-offs. Goodwill amortization increased to \$80 million in 1997 from \$66 million in 1996 primarily due to the acquisition of Wang Laboratories' software unit.

Removing the impact of the Office Imaging business from both years, SG&A expenses for the Company decreased 2% from 27.7% of sales in 1996 to 27.5% of sales in 1997, as the favorable effects of foreign currency rate changes more than offset increased expenditures.

R&D expenditures were \$1,044 million (excluding the Wang charge of \$186 million) in 1997 and \$1,028 million in 1996. Excluding the Wang charge, R&D expenses increased 2% from 6.4% of sales in 1996 to 7.2% of sales in 1997 as a result of increased expenditures across operating segments.

Earnings from operations declined 93%. Excluding restructuring costs, asset impairments and other charges totaling \$1,455 million in 1997 and \$358 million in 1996, earnings from operations declined 28% as the benefits of higher unit volumes and manufacturing productivity were more than offset by lower effective selling prices, the Wang charge and the unfavorable effects of foreign currency rate changes. Approximately \$221 million of the decline in earnings from operations was due to currency rate changes.

Excluding from 1996 the \$387 million loss on the sale of the Office Imaging business, other income (charges) decreased from \$181 million in 1996 to \$21 million in 1997, primarily due to lower interest income, the ITS charge and higher losses on foreign exchange.

The effective tax rates were 34% in both 1997 and 1996, excluding restructuring, asset impairments and other charges from both years, and the sale of the Office Imaging business from 1996.

In 1997, the Company's Board of Directors approved a fourth-quarter \$1.5 billion charge for restructuring related to the strategic realignment of the Company's worldwide manufacturing, sales and marketing, R&D, administrative, and photofinishing operations. About half of the charge represented separation payments for approximately 16,100 employees whose positions would be eliminated. The other half of the charge related to asset write-downs and other costs associated with plans to reposition certain non-strategic businesses.

In 1996, the Company's Board of Directors approved a fourth-quarter \$358 million charge for restructuring related to severance and other termination benefits and exit costs associated with the realignment of the Company worldwide. About two-thirds of the charge represented separation payments for approximately 3,900 employees whose positions would be eliminated. The remainder of the charge related to asset write-downs and other costs associated with plans to reposition certain non-strategic businesses. See Note 11, Restructuring Programs.

## **CONSUMER IMAGING**

Consumer Imaging segment sales for the year were level, as higher unit volumes were offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices. Without the effect of currency rate changes, sales increased 4%. Sales increased 5% in the U.S. and decreased 3% outside the U.S. Of the \$158 million increase in the U.S., \$117 million resulted from the inclusion of a full year's revenue in 1997 for Fox Photo, Inc., which was acquired in October 1996.

Worldwide film sales were level, as a 7% volume increase was offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices. U.S. film sales increased 3%, with 5% volume growth partially offset by lower effective selling prices. Outside the U.S., film sales decreased 2%, with 9% volume growth more than offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices.

Worldwide color paper sales decreased 4%, as 8% volume gains were more than offset by lower effective selling prices and the unfavorable effects of foreign currency rate changes. U.S. sales decreased 13%, due to a 7% decline in unit volumes caused by consolidation of the U.S. photofinishing industry, as well as lower effective selling prices. Paper sales outside the U.S. increased 2%, driven by a 17% volume increase partially offset by lower effective selling prices and the unfavorable effects of foreign currency rate changes. Sales increases reflect the impact of continuing growth in emerging markets and new customers gained in Europe.

Earnings from operations decreased 19%, as higher unit volumes were more than offset by lower effective selling prices and the unfavorable effects of foreign currency rate changes. Net earnings for the segment decreased 20%, as a result of the decrease in earnings from operations as well as increased losses on foreign exchange.

### **KODAK PROFESSIONAL**

Sales of the Kodak Professional segment decreased 4%, as higher unit volumes were more than offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices. Sales inside the U.S. increased 1%, due to higher unit volumes. Sales outside the U.S. decreased 7%, as higher unit volumes were more than offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices.

Earnings from operations decreased 11%, primarily due to a functional transfer of R&D expenses from certain operations in the Other Imaging segment. The benefits of manufacturing productivity and higher unit volumes were offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices. Net earnings for the segment decreased 14%, primarily as a result of the decrease in earnings from operations.

### **HEALTH IMAGING**

Sales of the Health Imaging segment decreased 6%, as higher unit volumes were more than offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices. Sales inside the U.S. decreased 4%, as higher unit volumes were more than offset by lower effective selling prices. Sales outside the U.S. decreased 8%, as higher unit volumes were more than offset by the unfavorable effects of foreign currency rate changes and lower effective selling prices.

Earnings from operations decreased 15%, as higher unit volumes and manufacturing productivity were more than offset by lower effective selling prices and the unfavorable effects of foreign currency rate changes. Net earnings for the segment decreased 17%, primarily as a result of the decrease in earnings from operations.

### **OTHER IMAGING**

Sales of the Other Imaging segment decreased 29%, primarily due to the sale of the Office Imaging business. Sales inside the U.S. decreased 31% and sales outside the U.S. decreased 27%. Excluding the effect of the sale of Office Imaging, segment sales were level, as increases in Entertainment Imaging and Digital & Applied Imaging offset decreases in other business units.

Earnings from operations decreased \$273 million, due to the Wang charge, operational losses in the new Eastman Software business unit, and increased losses in the Digital & Applied Imaging business unit. Net earnings decreased \$234 million, as a result of the decrease in earnings from operations, and the ITS charge.

## **YEAR 2000**

In 1996, the Company established a formal global program office to assess the impact of the Year 2000 issue on the software and hardware utilized in the Company's internal operations and included in its product offerings to customers. The assessment addresses software applications, systems software, information technology (IT) infrastructure, embedded manufacturing control technology, and products and services.

Representatives of the global program office and operating divisions meet monthly with the Chief Financial Officer to monitor program status and address issues. In June 1998, an independent third party completed a comprehensive review of the Company's overall Year 2000 program. In October and December 1998 and February 1999, Senior Line Management presented status reports to the Board of Directors.

The project phases include: inventorying affected technology and assessing the impact of the Year 2000 issue; developing solution plans; modification; testing and certification; implementation; and developing contingency plans. All components of software and hardware of the Company are presently in various phases. The Company expects to have its mission-critical IT systems and server infrastructure tested and compliant by the end of the first quarter of 1999, and manufacturing control systems Year 2000 compliant by mid-year 1999. The Company also expects that actively supported products and services, which are presently in the first five phases, will be compliant by the end of August 1999. The product commercialization process has been modified so that it will produce compliant products.

During the fourth quarter of 1998, the project team continued to increase its global mission-critical IT compliance, used mainframe test facilities to simulate remaining mission-critical formal applications, completed assessment and solution plans for the Company's U.S. server network and allocated resources to support the 1999 workplan. The project team drove advances in remediation of products and services, and in compliance of operating divisions and third parties.

The Company relies on third-party suppliers for many systems, products and services including telecommunications and data center support. The Company will be adversely impacted if these suppliers do not make necessary changes to their own systems and products successfully and in a timely manner. The Company has a formalized comprehensive supplier compliance program in place. As a third-party supplier to other companies, the Company has posted its own product compliance plan on its Internet web site ([www.kodak.com/go/year2000](http://www.kodak.com/go/year2000)), which was enhanced during the third quarter of 1998 to support customer and business partner inquiries.

Costs of software and hardware remediation were \$13 million in 1997, \$27 million in 1998, and are estimated to be \$12 million and \$6 million in 1999 and 2000, respectively. These remediation efforts, almost entirely for software, will not materially increase the Company's spending on information technology because some normal development and maintenance work has been postponed. Furthermore, some non-compliant systems will be eliminated in 1999 as the Company installs Year 2000 compliant globally deployed ERP/SAP software in connection with its enterprise resource planning project. A charge for the total cost of customer product modification of \$20 million was accrued in 1997. At December 31, 1998, the Company had a reserve of \$6 million to cover remaining product modifications.

Management of the Company believes it has an effective program in place to resolve the Year 2000 issue in a timely manner. However, since it is not possible to anticipate all possible future outcomes, especially when third parties are involved, there could be "worst-case scenarios" in which the Company would be unable to take customer orders, manufacture and ship products, invoice customers or collect payments. In addition, the Company could be subject to litigation for Year 2000-related product failure, including equipment shutdown or failure to properly date business or medical records, and for health, environmental and safety issues relating to its facilities. The amount of potential liability and lost revenue cannot be reasonably estimated.

The Company has contingency plans for some mission-critical applications and is working on plans for others. For example, plans for the U.S. payroll system have been in place since January 1998, while detailed plans for sensitized goods manufacturing will be completed by mid-year 1999. An Executive Steering Committee is closely monitoring the progress of enterprise and business process contingency plans involving, among other actions, manual workarounds, increased inventories and extra staffing.

## **THE EURO**

The Treaty on European Union provided that an economic and monetary union (EMU) be established in Europe whereby a single European currency, the euro, replaces the currencies of participating member states. The euro was introduced on January 1, 1999, at which time the value of participating member state currencies was irrevocably fixed against the euro and the European Currency Unit (ECU) was replaced at the rate of one euro to one ECU. For the three-year transitional period ending December 31, 2001, the national currencies of member states will continue to circulate but be sub-units of the euro. New public debt will be issued in euro and existing debt may be redenominated into euro. At the end of the transitional period, euro banknotes and coins will be issued, and the national currencies of the member states will cease to be legal tender no later than June 30, 2002. The countries which adopted the euro on January 1, 1999 are Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal, and Spain. Other countries are expected to follow later. The Company has operations in all of these countries.

As a result of the euro conversion, it is probable that selling prices of the Company's products and services will experience downward pressure, as current price variations among countries are reduced due to easy comparability of euro prices across countries. Prices will tend to harmonize, although value added taxes and transportation costs will still justify price differentials. Adoption of the euro will probably accelerate existing market and pricing trends including pan-European buying and general price erosion.

On the other hand, currency exchange and hedging costs will be significantly reduced; lower prices and pan-European buying will benefit the Company in its purchasing endeavors; the number of banks and suppliers needed will be reduced; there will be less variation in payment terms; and it will be easier for the Company to expand into new marketing channels such as mail order and Internet marketing.

The Company is in the process of making changes in areas such as marketing and pricing, purchasing, contracts, payroll, taxes, cash management and treasury operations. Billing systems will be modified so that, in 1999, the Company will be able to show total gross, value added tax, and net in euros on national currency invoices, to enable customers to pay in the new euro currency if they wish to do so. Systems for pricing, payroll and expense reimbursements will continue to use national currencies until year-end 2001. The functional currencies of the Company's operations in affected countries will remain the national currencies until approximately year-end 2000, when they will change to the euro.

The systems costs of adopting the euro are estimated to be less than \$4 million since many non-euro-compliant systems will be eliminated as the Company installs ERP/SAP software in connection with its enterprise resource planning project. The Company plans to be at least minimally euro-compliant when necessary, and is preparing contingency plans to address potential delays in systems implementation.

## **LIQUIDITY AND CAPITAL RESOURCES**

Net cash provided by operating activities in 1998 was \$1,483 million. Net earnings, adjusted for depreciation and amortization, provided \$2,243 million of operating cash. This was partially offset by decreases in liabilities (excluding borrowings) of \$516 million relating primarily to severance payments for restructuring programs, and other changes in working capital. Net cash used in investing activities of \$1,839 million in 1998 was utilized primarily for capital expenditures of \$1,108 million and acquisitions, net of cash acquired, of \$949 million. Net cash provided by financing activities of \$77 million in 1998 was the result of net increases in borrowings of \$776 million, and employee stock options exercised of \$128 million, offset by \$569 million of dividend payments and \$258 million of stock repurchases.

Cash dividends per share of \$1.76, \$1.76 and \$1.60, payable quarterly, were declared in 1998, 1997 and 1996, respectively. Total cash dividends of approximately \$569 million, \$567 million and \$539 million were paid in 1998, 1997 and 1996, respectively.

Net working capital (excluding short-term borrowings) increased to \$939 million from \$909 million at year-end 1997. This increase is primarily attributable to the Imation acquisition, offset somewhat by the decrease in cash as discussed above.

The Company repurchased \$258 million, \$850 million and \$623 million of its shares in 1998, 1997 and 1996, respectively, under the \$2 billion repurchase program initiated in 1996. In 1996, the Company also repurchased \$700 million of its shares under a previous repurchase program. Completion of the \$2 billion stock repurchase program will be funded by available cash reserves and cash from operations. Remaining capacity under the Company's \$2 billion repurchased program at December 31, 1998 is approximately \$269 million.

Total short-term and long-term borrowings were \$2,022 million at year-end 1998 and \$1,196 million at year-end 1997. The Company has access to a \$3.5 billion revolving credit facility expiring in November 2001. The Company also has a shelf registration statement for debt securities with an available balance of \$2.2 billion.

Capital additions in 1998 and 1997 by segment are included in Note 18, Segment Information.

See Note 8, Commitments and Contingencies, for environmental matters and other commitments of the Company.

---

## **OTHER**

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement requires that an entity recognize all derivatives as either assets or liabilities and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. This Statement must be adopted by the Company by the year 2000, but may be adopted in any earlier fiscal quarter, and is not to be applied retroactively. If the Company had adopted SFAS No. 133 in 1998, the impact would not have been material to its results of operations or financial position. The Company has not yet determined when it will adopt this Statement.

Kodak is subject to various laws and governmental regulations concerning environmental matters. See Note 8, Commitments and Contingencies.

**CAUTIONARY STATEMENT PURSUANT TO SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

Certain statements in this report may be forward-looking in nature, or "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this Form 10-K relate to the Company's Year 2000 compliance efforts, including expectations about compliance timetables and costs. Also, references to the Company's \$1.2 billion cost reduction initiative and to expected savings in 1999 are forward-looking statements.

Actual results may differ from those expressed or implied in forward-looking statements. With respect to any forward-looking statements contained in this report, the Company believes that its results are subject to a number of risk factors, including: the Company's ability to implement its product strategies (including its digitization strategy and its plans for digital products and Advantix products), to develop its business in emerging markets, and to assimilate acquisitions quickly; uncertainty in the Company's Office Imaging business; the inherent unpredictability of currency fluctuations; competitive actions, including pricing; the ability to realize cost reductions and operating efficiencies, including the ability to implement headcount reduction programs timely and in a manner that does not unduly disrupt business operations, and the ability to identify and to realize other cost reduction opportunities; the nature and pace of technology substitution; general economic and business conditions; the ability of the Company to identify and address successfully Year 2000 issues in a timely manner, and at costs that are reasonably in line with projections; and the ability of the Company's vendors to identify and address successfully their own Year 2000 issues in a timely manner.

Any forward-looking statements in this report should be evaluated in light of these important risk factors.

---

MARKET PRICE DATA

	1998				1997			
Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st
Price per share:								
High	\$85-1/4	\$88-15/16	\$76-3/16	\$67- 3/4	\$67	\$81-1/4	\$85-1/8	\$94-3/4
Low	70	72-13/16	62-3/4	57-15/16	53-5/16	55-3/4	73-1/8	75-7/8

---

**SUMMARY OF OPERATING DATA**

A summary of operating data for 1998 and for the four years prior is shown on page 68.

---

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates, commodity prices, and interest rates which may adversely affect its results of operations and financial position. In seeking to minimize the risks and/or costs associated with such activities, the Company manages exposures to changes in commodity prices, interest rates and foreign currency exchange rates. See Note 9, Financial Instruments, for further discussion of the Company's policy for managing such exposures.

The majority of foreign currency forward contracts are denominated in Australian, British, French, German, Irish and Spanish currencies. The magnitude and nature of such hedging activities are explained further in Note 9, Financial Instruments. If foreign currency exchange rates at December 31, 1998 and 1997 increased 10%, the Company would incur a \$92 million and \$72 million loss on foreign currency forward contracts outstanding at December 31, 1998 and 1997, respectively. Such losses would be substantially offset by gains from the revaluation or settlement of the underlying positions hedged.

Increased foreign currency exchange rate risk from December 31, 1997 is caused by a higher notional value of contracts to buy French francs offset by a lower notional value of contracts to sell British pounds.

The Company has used silver option and forward contracts to minimize almost all of its exposure to increases in silver prices in 1998 and will continue to do so in 1999. As of December 31, 1998, the Company had open forward contracts hedging the majority of its planned silver requirements for 1999. Based on broker-quoted termination values, if the price of silver decreased 10% from \$5.01 and \$5.99 per troy ounce at December 31, 1998 and 1997, respectively, the fair value of silver forward contracts would be reduced by \$25 million and \$17 million, respectively. Increased silver price risk from December 31, 1997 is caused by a higher notional amount of silver hedging contracts outstanding at December 31, 1998. Such losses in fair value, if realized, would be offset by lower costs of manufacturing silver-containing products.

The Company is exposed to interest rate risk primarily through its borrowing activities and less so through investments in marketable securities. The Company utilizes U.S. dollar-denominated commercial paper and borrowings as well as foreign currency-denominated borrowings to fund its working capital and investment needs. The majority of short-term and long-term borrowings and marketable securities are in fixed rate instruments. There is inherent roll-over risk for borrowings and marketable securities as they mature and are renewed at current market rates. The extent of this risk is not quantifiable or predictable because of the variability of future interest rates and business financing requirements. Using a yield to maturity analysis, if December 31, 1998 interest rates increased 10% (about 49 basis points) with the December 31, 1998 level of short-term and long-term borrowings, there would be decreases in fair value of short-term and long-term borrowings of \$1 million and \$10 million, respectively. If December 31, 1997 interest rates increased 10% (about 51 basis points) with the December 31, 1997 level of debt and marketable securities, there would be decreases in fair value of marketable securities, short-term and long-term borrowings of \$1 million, \$3 million and \$13 million, respectively.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation and integrity of the consolidated financial statements and related notes which appear on pages 30 through 67. These financial statements have been prepared in accordance with generally accepted accounting principles and include certain amounts that are based on management's best estimates and judgments.

The Company's accounting systems include extensive internal controls designed to provide reasonable assurance of the reliability of its financial records and the proper safeguarding and use of its assets. Such controls are based on established policies and procedures, are implemented by trained, skilled personnel with an appropriate segregation of duties, and are monitored through a comprehensive internal audit program. The Company's policies and procedures prescribe that the Company and all employees are to maintain the highest ethical standards and that its business practices throughout the world are to be conducted in a manner which is above reproach.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants, who were responsible for conducting their audits in accordance with generally accepted auditing standards. Their resulting report is shown below.

The Board of Directors exercises its responsibility for these financial statements through its Audit Committee, which consists entirely of non-management Board members. The independent accountants and internal auditors have full and free access to the Audit Committee. The Audit Committee meets periodically with the independent accountants and the Director of Corporate Auditing, both privately and with management present, to discuss accounting, auditing and financial reporting matters.

George M. C. Fisher  
Chairman and  
Chief Executive Officer  
Director  
January 13, 1999

Harry L. Kavetas  
Chief Financial Officer,  
Executive Vice President and  
January 13, 1999

## **REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors and Shareholders of Eastman Kodak Company

In our opinion, the accompanying consolidated financial statements listed in the index appearing under Item 14(a)(1) and (2) on page 71 of this Annual Report on Form 10-K present fairly, in all material respects, the financial position of Eastman Kodak Company and subsidiary companies at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP  
Rochester, New York  
January 13, 1999

Eastman Kodak Company and Subsidiary Companies  
CONSOLIDATED STATEMENT OF EARNINGS

For the Year Ended December 31,

(in millions, except per share data)

	1998	1997	1996
Sales	\$13,406	\$14,538	\$15,968
Cost of goods sold	7,293	7,976	8,327
	-----	-----	-----
Gross profit	6,113	6,562	7,641
Selling, general and administrative expenses	3,303	3,912	4,410
Research and development costs	880	1,044	1,028
Purchased research and development	42	186	-
Restructuring costs and asset impairments	-	1,290	358
	-----	-----	-----
Earnings from operations	1,888	130	1,845
Interest expense	110	98	83
Other income (charges)	328	21	(206)
	-----	-----	-----
Earnings before income taxes	2,106	53	1,556
Provision for income taxes	716	48	545
	-----	-----	-----
Earnings from continuing operations	1,390	5	1,011
Gain on sale of discontinued operations	-	-	277
	-----	-----	-----
NET EARNINGS	\$1,390	\$ 5	\$ 1,288
	=====	=====	=====
Basic earnings per share:			
From continuing operations	\$ 4.30	\$ .01	\$ 3.00
From discontinued operations	-	-	.82
	-----	-----	-----
Basic earnings per share	\$ 4.30	\$ .01	\$ 3.82
	=====	=====	=====
Diluted earnings per share:			
From continuing operations	\$ 4.24	\$ .01	\$ 2.95
From discontinued operations	-	-	.81
	-----	-----	-----
Diluted earnings per share	\$ 4.24	\$ .01	\$ 3.76
	=====	=====	=====
Earnings from continuing operations used in basic and diluted earnings per share	\$1,390	\$ 5	\$ 1,011
Number of common shares used in basic earnings per share			
	323.3	327.4	337.4
Incremental shares from assumed conversion of options	4.5	4.5	5.3
	-----	-----	-----
Number of common shares used in diluted earnings per share	327.8	331.9	342.7
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

Eastman Kodak Company and Subsidiary Companies  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(in millions, except share and per  
share data)

	At December 31,	
	1998	1997
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 457	\$ 728
Marketable securities	43	24
Receivables	2,527	2,271
Inventories	1,424	1,252
Deferred income tax charges	855	958
Other	293	242
	-----	-----
Total current assets	5,599	5,475
	-----	-----
PROPERTIES		
Land, buildings and equipment at cost	13,482	12,824
Less: Accumulated depreciation	7,568	7,315
	-----	-----
Net properties	5,914	5,509
	-----	-----
OTHER ASSETS		
Goodwill (net of accumulated amortization of \$534 and \$473)	1,232	548
Long-term receivables and other noncurrent assets	1,705	1,231
Deferred income tax charges	283	382
	-----	-----
TOTAL ASSETS	\$14,733	\$13,145
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Payables	\$ 3,906	\$ 3,832
Short-term borrowings	1,518	611
Taxes - income and other	593	567
Dividends payable	142	143
Deferred income tax credits	19	24
	-----	-----
Total current liabilities	6,178	5,177
OTHER LIABILITIES		
Long-term borrowings	504	585
Postemployment liabilities	2,962	3,075
Other long-term liabilities	1,032	1,083
Deferred income tax credits	69	64
	-----	-----
Total liabilities	10,745	9,984
	-----	-----
SHAREHOLDERS' EQUITY		
Common stock, par value \$2.50 per share		
950,000,000 shares authorized; issued		
391,292,760 shares in 1998 and 1997	978	978
Additional paid in capital	902	914
Retained earnings	6,163	5,343
Accumulated other comprehensive loss	(111)	(202)
	-----	-----
	7,932	7,033
Treasury stock, at cost		
68,494,402 shares in 1998 and		
68,225,820 shares in 1997	3,944	3,872
	-----	-----
Total shareholders' equity	3,988	3,161
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$14,733	\$13,145
	=====	=====

The accompanying notes are an integral part of these financial statements.

Eastman Kodak Company and Subsidiary Companies  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
(in millions, except number of shares)

	Common Stock*	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Shareholders' Equity December 31, 1995	\$974	\$ 803	\$ 5,189	\$ 88	\$(1,933)	\$5,121
Net earnings	-	-	1,288	-	-	1,288
Other comprehensive loss:						-----
Unrealized holding losses	-	-	-	-	-	(3)
Currency translation adjustments	-	-	-	-	-	(18)
Other comprehensive loss	-	-	-	(21)	-	(21)
Comprehensive income	-	-	-	-	-	1,267
Cash dividends declared	-	-	(539)	-	-	(539)
Retained earnings - other changes	-	-	1	-	-	1
Common stock issued under employee plans (1,718,141 shares)	4	64	-	-	-	68
Treasury stock repurchased (17,625,850 shares)	-	-	-	-	(1,323)	(1,323)
Treasury stock issued under employee plans (1,851,710 shares)	-	(25)	-	-	96	71
Tax reductions - employee plans	-	68	-	-	-	68
Shareholders' Equity December 31, 1996	978	910	5,939	67	(3,160)	4,734
Net earnings	-	-	5	-	-	5
Other comprehensive income (loss):						-----
Unrealized holding gains	-	-	-	-	-	15
Currency translation adjustments	-	-	-	-	-	(247)
Minimum pension liability adjustment (\$57 million pre-tax)	-	-	-	-	-	(37)
Other comprehensive loss	-	-	-	(269)	-	(269)
Comprehensive loss	-	-	-	-	-	(264)
Cash dividends declared	-	-	(577)	-	-	(577)
Retained earnings - other changes	-	-	(24)	-	-	(24)
Treasury stock repurchased (11,315,800 shares)	-	-	-	-	(850)	(850)
Treasury stock issued under employee plans (2,540,868 shares)	-	(31)	-	-	138	107
Tax reductions - employee plans	-	35	-	-	-	35
Shareholders' Equity December 31, 1997	978	914	5,343	(202)	(3,872)	3,161

Eastman Kodak Company and Subsidiary Companies  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY Cont'd.  
(in millions, except number of shares)

	Common Stock*	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Shareholders' Equity December 31, 1997	978	914	5,343	(202)	(3,872)	3,161
Net earnings	-	-	1,390	-	-	1,390
Other comprehensive income (loss):						
Unrealized holding gains arising during the period (\$122 million pre-tax)	-	-	-	-	-	80
Reclassification adjustment for gains included in net earnings (\$66 million pre-tax)	-	-	-	-	-	(44)
Currency translation adjustments	-	-	-	-	-	59
Minimum pension liability adjustment (\$7 million pre-tax)	-	-	-	-	-	(4)
Other comprehensive income	-	-	-	91	-	91
Comprehensive income	-	-	-	-	-	1,481
Cash dividends declared	-	-	(570)	-	-	(570)
Treasury stock repurchased (3,541,295 shares)	-	-	-	-	(258)	(258)
Treasury stock issued under employee plans (3,272,713 shares)	-	(58)	-	-	186	128
Tax reductions - employee plans	-	46	-	-	-	46
Shareholders' Equity December 31, 1998	\$978	\$ 902	\$ 6,163	\$(111)	\$(3,944)	\$3,988

\* There are 100 million shares of \$10 par value preferred stock authorized, none of which have been issued.

Accumulated unrealized holding gains/losses as of December 31, 1998, 1997 and 1996 were \$43 million gain, \$7 million gain and \$8 million loss, respectively. Accumulated translation adjustments as of December 31, 1998, 1997 and 1996 were \$(113) million, \$(172) million and \$75 million, respectively. Accumulated minimum pension liability adjustment as of December 31, 1998 and 1997 was \$(41) million and \$(37) million, respectively.

The accompanying notes are an integral part of these financial statements.

Eastman Kodak Company and Subsidiary Companies  
CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)	For the Year Ended December 31,		
	1998	1997	1996
Cash flows from operating activities:			
Earnings from continuing operations	\$1,390	\$ 5	\$1,011
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	853	828	903
Purchased research and development	42	186	-
Loss on sale of Office Imaging business	-	-	387
Restructuring costs, asset impairments and other charges, net of cash spent	-	1,415	358
Provision (benefit) for deferred income taxes	202	(502)	(17)
(Gain) loss on sale/retirement of assets	(166)	25	65
(Increase) decrease in receivables	(1)	165	15
(Increase) decrease in inventories	(43)	77	(130)
(Decrease) increase in liabilities excluding borrowings	(516)	(349)	18
Other items, net	(278)	230	(126)
	-----	-----	-----
Total adjustments	93	2,075	1,473
	-----	-----	-----
Net cash provided by operating activities	1,483	2,080	2,484
	-----	-----	-----
Cash flows from investing activities:			
Additions to properties	(1,108)	(1,485)	(1,341)
Proceeds from sale of assets	297	109	124
Cash flows related to sales of businesses	(59)	(194)	681
Acquisitions, net of cash acquired	(949)	(341)	(128)
Marketable securities - sales	162	15	59
Marketable securities - purchases	(182)	-	(31)
	-----	-----	-----
Net cash used in investing activities	(1,839)	(1,896)	(636)
	-----	-----	-----
Cash flows from financing activities:			
Net increase (decrease) in borrowings with original maturities of 90 days or less	894	177	(206)
Proceeds from other borrowings	1,133	1,472	1,529
Repayment of other borrowings	(1,251)	(1,526)	(1,420)
Dividends to shareholders	(569)	(567)	(539)
Exercise of employee stock options	128	96	126
Stock repurchase programs	(258)	(850)	(1,323)
	-----	-----	-----
Net cash provided by (used in) financing activities	77	(1,198)	(1,833)
	-----	-----	-----
Effect of exchange rate changes on cash	8	(35)	(2)
	-----	-----	-----
Net (decrease) increase in cash and cash equivalents	(271)	(1,049)	13
Cash and cash equivalents, beginning of year	728	1,777	1,764
	-----	-----	-----
Cash and cash equivalents, end of year	\$ 457	\$ 728	\$1,777
	=====	=====	=====

Eastman Kodak Company and Subsidiary Companies  
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)  
SUPPLEMENTAL CASH FLOW INFORMATION

(in millions)

Cash paid for interest and income taxes for continuing operations was:

	1998	1997	1996
Interest, net of portion capitalized			
of \$41, \$33 and \$29	\$ 90	\$ 81	\$ 78
Income taxes	498	517	275

The following transactions are not reflected in the Consolidated Statement of Cash Flows:

	1998	1997	1996
Contribution of assets to Kodak			
Polychrome Graphics joint venture	\$ -	\$216	\$ -
Liabilities assumed in acquisitions	473	144	128
Minimum pension liability adjustment	4	37	-

The accompanying notes are an integral part of these financial statements.

## **Eastman Kodak Company and Subsidiary Companies**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1: SIGNIFICANT ACCOUNTING POLICIES**

##### **COMPANY OPERATIONS**

Eastman Kodak Company (the Company or Kodak) is engaged primarily in developing, manufacturing, and marketing consumer, professional, health and other imaging products. The Company's products are manufactured in a number of countries in North and South America, Europe, Australia and Asia. The Company's products are marketed and sold in many countries throughout the world.

##### **BASIS OF CONSOLIDATION**

The consolidated financial statements include the accounts of Eastman Kodak Company and its majority owned subsidiary companies. Intercompany transactions are eliminated and net earnings are reduced by the portion of the earnings of subsidiaries applicable to minority interests. The equity method of accounting is used for investments in associated companies which are not controlled by Kodak and in which Kodak's interest is generally between 20% and 50%.

##### **USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at year end and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **FOREIGN CURRENCY**

For most subsidiaries and branches outside the U.S., the local currency is the functional currency and translation adjustments are accumulated in a separate component of shareholders' equity. Translation adjustments are not tax-effected since they relate to investments which are permanent in nature.

For subsidiaries and branches that operate in U.S. dollars or whose economic environment is highly inflationary, the U.S. dollar is the functional currency and gains and losses that result from translation are included in earnings. The effect from foreign currency translation was a gain of \$6 million in 1998, a loss of \$7 million in 1997 and a loss of \$4 million in 1996.

The Company hedges certain foreign currency transactions and firm commitments by entering into forward exchange contracts. Gains and losses associated with currency rate changes on forward contracts hedging foreign currency transactions are recorded currently in earnings. The effects from foreign currency transactions, including related hedging activities, were losses of \$26 million in 1998, \$66 million in 1997, and \$37 million in 1996. Gains and losses related to hedges of firm commitments are deferred and recognized in earnings or as adjustments of carrying amounts when the transactions occur.

## **CASH EQUIVALENTS**

All highly liquid investments with an original maturity of three months or less at date of purchase are considered to be cash equivalents.

## **MARKETABLE SECURITIES AND NONCURRENT INVESTMENTS**

At December 31, 1998, investments of \$26 million included in marketable securities were considered held to maturity. Investments of \$17 million included in marketable securities, and \$112 million of long-term marketable securities and other investments which were included in other noncurrent assets, were considered available for sale.

At December 31, 1997, investments of \$24 million included in marketable securities, and long-term marketable securities of \$26 million which were included in other noncurrent assets, were considered held to maturity. Investments of \$49 million included in other noncurrent assets were considered available for sale.

## **INVENTORIES**

Inventories are valued at cost, which is not in excess of market. The cost of most inventories in the U.S. is determined by the "last-in, first-out" (LIFO) method. The cost of other inventories is determined by the "first-in, first-out" (FIFO) or average cost method, which approximates current cost. The Company provides inventory reserves for excess, obsolete or slow-moving inventory based on changes in customer demand, technology developments or other economic factors.

## **PROPERTIES**

Properties are recorded at cost reduced by accumulated depreciation. Depreciation expense is provided based on historical cost and estimated useful lives ranging from approximately five years to fifty years for buildings and building equipment and three years to twenty years for machinery and equipment. The Company generally uses the straight-line method for calculating the provision for depreciation.

## **GOODWILL**

Goodwill is charged to earnings on a straight-line basis over the period estimated to be benefited, not exceeding fifteen years. The Company regularly assesses all of its long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable, in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This is accomplished by comparing the estimated undiscounted future cash flows of the asset grouping with the respective carrying amount as of the date of assessment. Should aggregate future cash flows be less than the carrying value, a write-down would be required, measured as the difference between the carrying value and the discounted future cash flows.

## **REVENUE**

Revenue is recognized from the sale of film, paper, supplies and equipment (including sales-type leases for equipment) when the product is shipped; from maintenance and service contracts over the contractual period, or as the services are performed; from rentals under operating leases in the month in which they are earned; and from financing transactions at level rates of return over the term of the lease or receivable.

## **RESEARCH AND DEVELOPMENT COSTS**

Product development costs are charged to operations during the period incurred.

## **ADVERTISING**

Advertising costs are expensed as incurred and included in "selling, general and administrative expenses." Advertising expenses amounted to \$756 million, \$988 million and \$1,026 million in 1998, 1997 and 1996, respectively.

## **ENVIRONMENTAL COSTS**

Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate, in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities." Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated.

## **INCOME TAXES**

Income tax expense is based on reported earnings before income taxes. Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes.

## **EARNINGS PER SHARE**

Earnings per share is presented in accordance with the provisions of SFAS No. 128, "Earnings Per Share." Basic earnings per share computations are based on the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per share calculations reflect the assumed exercise and conversion of employee stock options.

## **STOCK-BASED COMPENSATION**

The Company applies Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," which requires compensation costs to be recognized based on the difference, if any, between the quoted market price of the stock on the grant date and the exercise price.

## **SEGMENT REPORTING**

In the fourth quarter of 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," for all periods presented. The Company has four operating segments. The basis for determining the Company's operating segments is the manner in which financial information is used by the Company in its operations. Management operates and organizes itself according to business units which comprise unique products and services across geographic locations.

## **RECLASSIFICATIONS**

Certain reclassifications of 1997 and 1996 financial statement and related footnote amounts have been made to conform with the 1998 presentation.

**NOTE 2: RECEIVABLES**

(in millions)

	1998	1997
Trade receivables	\$2,167	\$1,930
Miscellaneous receivables	360	341
	-----	-----
Total (net of allowances of \$169 and \$112)	\$2,527	\$2,271
	=====	=====

The Company sells to customers in a variety of industries, markets and geographies around the world. Receivables arising from these sales are generally not collateralized. Adequate provisions have been recorded for uncollectible receivables. There are no significant concentrations of credit risk.

**NOTE 3: INVENTORIES**

(in millions)	1998	1997
At FIFO or average cost (approximates current cost)		
Finished goods	\$ 907	\$ 788
Work in process	569	538
Raw materials and supplies	439	460
	-----	-----
	1,915	1,786
LIFO reserve	(491)	(534)
	-----	-----
Total	\$1,424	\$1,252
	=====	=====

Inventories valued on the LIFO method are approximately 57% and 56% of total inventories in 1998 and 1997, respectively.

**NOTE 4: PROPERTIES**

(in millions)	1998	1997
Land	\$ 193	\$ 185
Buildings and building equipment	2,681	2,693
Machinery and equipment	9,764	9,062
Construction in progress	844	884
	-----	-----
	13,482	12,824
Accumulated depreciation	(7,568)	(7,315)
	-----	-----
Net properties	\$ 5,914	\$ 5,509
	=====	=====

**NOTE 5: PAYABLES AND SHORT-TERM BORROWINGS**

(in millions)	1998	1997
Trade creditors	\$ 947	\$ 943
Accrued advertising and promotional expenses	392	322
Employment-related liabilities	897	709
Restructuring programs	312	813
Other	1,358	1,045
	-----	-----
Total payables	\$3,906	\$3,832
	=====	=====

Short-term bank borrowings totaled \$1,518 million at year-end 1998 and \$611 million at year-end 1997. Borrowings included \$1,196 million and \$227 million of commercial paper at year-end 1998 and 1997, respectively. The weighted-average interest rate was 5.5% in 1998 and 6.0% in 1997.

The Company has a \$3.5 billion unused revolving credit facility established in 1996 and expiring in November 2001 which is available to support the Company's commercial paper program and for general corporate purposes. If unused, it has a commitment fee of \$1.9 million per year, at the Company's current credit rating. Interest on amounts borrowed under this facility is calculated at rates based on spreads above certain reference rates.

**NOTE 6: LONG-TERM BORROWINGS**

(in millions)

Description and Interest Rates of 1998 Borrowings	Maturity Dates of 1998 Borrowings	1998	1997
Notes:			
5.27% - 8.25%	1999 - 2004	\$198	\$198
9.20% - 9.95%	2003 - 2021	191	191
Debentures:			
1.35% - 13.75%	1999 - 2004	147	171
Other:			
.05% - 15.8%	2000 - 2021	46	28
		-----	-----
		582	588
Current maturities		(78)	(3)
		-----	-----
Total		\$504	\$585
		=====	=====

Annual maturities (in millions) of long-term borrowings outstanding at December 31, 1998 are as follows: 1999: \$78; 2000: \$68; 2001: \$72; 2002: \$22; 2003: \$282 and 2004 and beyond: \$60.

The Company has a shelf registration statement for debt securities with an available balance of \$2.2 billion.

---

**NOTE 7: OTHER LONG-TERM LIABILITIES**

(in millions)	1998	1997
Deferred compensation	\$ 160	\$ 152
Restructuring programs	102	295
Liabilities related to sales of businesses	172	195
Minority interest in Kodak companies	128	24
Other	470	417
	-----	-----
Total	\$1,032	\$1,083
	=====	=====

**NOTE 8: COMMITMENTS AND CONTINGENCIES****Environmental**

Expenditures for pollution prevention and waste treatment for continuing operations at various manufacturing facilities were as follows:

(in millions)	1998	1997	1996
Recurring costs for managing hazardous substances and pollution prevention	\$ 75	\$ 88	\$ 76
Capital expenditures to limit or monitor hazardous substances and pollutants	25	25	37
Site remediation costs	4	2	3
	----	----	----
Total	\$104	\$115	\$116
	=====	=====	=====

At December 31, 1998 and 1997, the Company's undiscounted accrued liabilities for environmental remediation costs amounted to \$91 million and \$118 million, respectively.

The Company anticipates the above expenditures to increase in the future. However, it is not expected that these costs will have an impact which is materially different from 1998's environmental expenditures on financial position, results of operations, cash flows or competitive position.

A Consent Decree was signed in 1994 in settlement of a civil complaint brought by the U.S. Environmental Protection Agency and the U.S. Department of Justice under which the Company is subject to a Compliance Schedule by which the Company improved its waste characterization procedures, upgraded one of its incinerators, and is evaluating and upgrading its industrial sewer system. The total expenditures required to complete this program are currently estimated to be approximately \$43 million over the next eight years. These expenditures are primarily capital in nature.

The Company is presently 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 seven active 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 also not expected to be material to the Company's financial position or results of operations.

In addition to the foregoing environmental actions, the Company is currently implementing a Corrective Action Program required by the Resource Conservation and Recovery Act (RCRA) at the Kodak Park site in Rochester, NY. As part of this Program, the Company has completed the RCRA Facility Assessment (RFA), a broad-based environmental investigation of the site. While future expenditures associated with any remediation activities could be significant, the Company is currently in the process of completing a number of RCRA Facility Investigations (RFIs) and Corrective Measures Studies (CMS) for areas at the site. Upon completion of these activities, the Company expects to have fully developed estimates of the required remediation costs.

The Clean Air Act Amendments were enacted in 1990. Expenditures to comply with the Clean Air Act implementing regulations issued to date have not been material and have been primarily capital in nature. Future capital expenditures cannot be reasonably estimated at the present time, as many of the regulations to be promulgated pursuant to this Act have not been issued.

The Company has retained certain obligations for environmental remediation and Superfund matters related to the non-imaging health businesses sold in 1994. Actions to fulfill these obligations are not expected to be completed in the near term and costs related to the obligations are included in remediation accruals recorded at December 31, 1998. Included in these obligations are responsibilities for the liabilities associated with the non-imaging health businesses as a PRP in approximately eight active Superfund sites.

### **Other Commitments and Contingencies**

The Company has entered into agreements with several companies which provide Kodak with products and services to be used in its normal operations. The minimum payments for these agreements are approximately \$124 million in 1999, \$106 million in 2000, \$80 million in 2001, \$68 million in 2002, \$68 million in 2003 and \$115 million in 2004 and thereafter.

The Company has also guaranteed debt and other obligations under agreements with certain affiliated companies and customers. At December 31, 1998, these guarantees totaled approximately \$195 million. The Company does not expect that these guarantees will have a material impact on the Company's future financial position or results of operations.

The Company has issued letters of credit totaling \$76 million to ensure the completion of environmental remediations and payment of possible casualty and Workers' Compensation claims.

Rental expense, net of minor sublease income, amounted to \$149 million in 1998, \$182 million in 1997 and \$207 million in 1996. The approximate amounts of noncancelable lease commitments with terms of more than one year, principally for the rental of real property, reduced by minor sublease income, are \$106 million in 1999, \$81 million in 2000, \$58 million in 2001, \$34 million in 2002, \$23 million in 2003 and \$47 million in 2004 and thereafter.

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 position or results of operations.

---

## NOTE 9: FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and the estimated fair values of financial instruments at December 31, 1998 and 1997; ( ) denotes liabilities:

(in millions)	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Marketable securities:				
Current	\$ 43	\$ 43	\$ 24	\$ 24
Long-term	89	89	26	26
Other investments	23	25	49	48
Long-term borrowings	(504)	(540)	(585)	(627)
Foreign currency forwards	9	9	12	(1)
Silver options	-	-	1	17
Silver forwards	-	7	-	15

Marketable securities and other investments are valued at quoted market prices, except for \$3 million and \$25 million of equity investments included in other investments at December 31, 1998 and 1997, respectively, which are reflected at their carrying value because quoted market prices do not exist. The fair values of long-term borrowings were determined by reference to quoted market prices or by obtaining quotes from dealers. The fair values for the remaining financial instruments in the above table are based on dealer quotes and reflect the estimated amounts the Company would pay or receive to terminate the contracts. The carrying values of cash and cash equivalents, receivables, short-term borrowings and payables approximate their fair values.

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates, commodity prices, and interest rates which may adversely affect its results of operations and financial position. In seeking to minimize the risks and/or costs associated with such activities, the Company manages exposures to changes in commodity prices, interest rates and foreign currency exchange rates.

Foreign currency forward contracts are used to hedge certain firm commitments and the currency risk inherent in the deposit-taking and lending activities of the Company's International Treasury Center. Option and forward contracts are used to mitigate the Company's risk to fluctuating commodity prices. The Company's exposure to changes in interest rates results from its investing and borrowing activities used to meet its liquidity needs. Long-term debt is generally used to finance long-term investments, while short-term debt is used to meet working capital requirements. Derivative instruments are not presently used to adjust the Company's interest rate risk profile. The Company does not utilize financial instruments for trading or other speculative purposes, nor does it utilize leveraged financial instruments.

The table below summarizes by major currency the notional amounts of foreign currency forward contracts in U.S. dollars. The counter-currency for the majority of the contracts is the U.S. dollar, while some contracts are cross-currency with one foreign currency traded for another. Foreign currency amounts are translated at rates current at the reporting date. The "buy" amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies, and the "sell" amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies. Substantially all of the Company's foreign currency forward agreements will mature during 1999. The market risk related to foreign currency forward contracts is substantially offset by changes in the valuation and cash flows of the underlying positions hedged.

(in millions)	1998		1997	
	Buy	Sell	Buy	Sell
Australian dollar	\$ -	\$ 65	\$ -	\$ 69
British pound	-	385	-	477
French franc	288	-	105	-
German mark	79	-	54	-
Irish punt	-	83	-	84
Spanish peseta	-	31	-	36
Others	65	31	75	121
	----	----	----	----
Total	\$432	\$595	\$234	\$787
	====	====	====	====

The Company has used silver option and forward contracts to minimize almost all of its exposure to increases in silver prices in 1998 and will continue to do so in 1999. As of December 31, 1998, the Company had open forward contracts hedging the majority of its planned silver requirements for 1999. Silver forwards outstanding at December 31, 1998 have notional amounts of \$241 million. All silver hedging contracts are settled in cash. Gains and losses related to silver hedges are recorded as adjustments to the carrying amount of silver inventory when purchased, and recognized in results of operations as silver-containing products are sold. The market risk related to silver options and forward contracts is substantially offset by changes in the cost of silver purchased.

The Company's financial instrument counterparties are high quality investment or commercial banks with significant experience with such instruments. The Company manages exposure to counterparty credit risk through specific minimum credit standards and diversification of counterparties. The Company has procedures to monitor the credit exposure amounts. The maximum credit exposure at December 31, 1998 was not significant to the Company.

## NOTE 10: INCOME TAXES

The components of earnings (loss) from operations before income taxes and the related provision (benefit) for U.S. and other income taxes were as follows:

(in millions)	1998	1997	1996	
Consoli-	Consoli-	Consoli-	Continuing	
	dated	dated	Operations	dated
Earnings (loss) before income taxes				
U.S.	\$1,578	\$ 328	\$1,125	\$1,190
Outside the U.S.	528	(275)	431	431
	-----	-----	-----	-----
Total	\$2,106	\$ 53	\$1,556	\$1,621
	=====	=====	=====	=====
U.S. income taxes				
Current provision	\$ 351	\$ 388	\$ 286	\$ 206
Deferred provision (benefit)	136	(366)	7	15
Income taxes outside the U.S.				
Current provision	113	130	231	231
Deferred provision (benefit)	61	(115)	(36)	
(36)				
State and other income taxes				
Current provision (benefit)	50	32	45	
(95)				
Deferred provision (benefit)	5	(21)	12	12
	-----	-----	-----	-----
Total	\$ 716	\$ 48	\$ 545	\$ 333
	=====	=====	=====	=====

The difference between the tax provision for continuing and consolidated operations for 1996 was attributable to a tax benefit of \$212 million recorded for discontinued operations.

The differences between the provision for income taxes and income taxes computed using the U.S. federal income tax rate for continuing operations were as follows:

(in millions)	1998	1997	1996
Amount computed using the statutory rate	\$737	\$ 19	\$545
Increase (reduction) in taxes resulting from:			
State and other income taxes	38	7	37
Goodwill amortization	28	18	21
Export sales and manufacturing credits	(39)	(39)	(41)
Operations outside the U.S.	(15)	36	6
Other, net	(33)	7	(23)
	----	----	----
Provision for income taxes	\$716	\$ 48	\$545
	=====	=====	=====

The significant components of deferred tax assets and liabilities were as follows:

(in millions)	1998	1997
Deferred tax assets		
Postemployment obligations	\$1,085	\$1,141
Restructuring programs	177	296
Inventories	139	103
Tax loss carryforwards	95	150
Other	887	845
	-----	-----
Valuation allowance	2,383	2,535
	(95)	(150)
	-----	-----
Total	\$2,288	\$2,385
	=====	=====
Deferred tax liabilities		
Depreciation	\$ 472	\$ 448
Leasing	310	308
Other	456	377
	-----	-----
Total	\$1,238	\$1,133
	=====	=====

The valuation allowance is primarily attributable to certain net operating loss carryforwards outside the U.S. A majority of the net operating loss carryforwards are subject to a five-year expiration period.

Retained earnings of subsidiary companies outside the U.S. were approximately \$1,036 million and \$792 million at December 31, 1998 and 1997, respectively. Retained earnings at December 31, 1998 are considered to be reinvested indefinitely. If remitted, they would be substantially free of additional tax. It is not practicable to determine the deferred tax liability for temporary differences related to these retained earnings.

## **NOTE 11: RESTRUCTURING PROGRAMS**

### **1997 Program**

In December 1997, the Company committed to implement a restructuring program and recorded a pre-tax provision of \$1,455 million for severance and other termination benefits and exit costs related to the strategic realignment of the Company's worldwide manufacturing, sales and marketing, R&D, administrative, and photofinishing operations. The Company recorded \$165 million of the \$1,455 million provision as cost of goods sold, primarily for inventory write-downs and other costs. The remaining \$1,290 million included \$862 million of restructuring costs and \$428 million of asset impairments.

Severance costs for 16,100 personnel included in the restructuring provision resulted from business exits and capacity reductions associated with the realignment of manufacturing (7,950 personnel), and service and photofinishing operations (2,675 personnel); and the consolidation of sales and marketing (1,425 personnel), R&D (1,000 personnel) and administrative (3,050 personnel) functions in various locations of the Company's worldwide operations. Approximately 9,650 personnel had been terminated under this program by the end of 1998. The remaining terminations are expected to be completed by December 31, 1999 and are primarily associated with portfolio actions and business exits.

As a result of capacity reductions and portfolio actions to exit nonstrategic businesses, provisions were recorded to write down assets and provide for costs associated with the shutdown of certain facilities and operations. Activities relating to these actions affected numerous business lines and functional areas around the world. Primary actions involved the reorganization of sensitized goods manufacturing and research labs operations as well as decisions to exit numerous businesses across all operating segments, with a significant portion relating to Consumer Imaging and Other Imaging segment businesses.

As a result of these actions, amounts were recorded relating to severance and termination benefits for employees, costs associated with the demolition or shutdown of facilities as a result of the Company's exit activities and lease cancellation and penalty costs for existing obligations relating to leased facilities. In addition, impairment charges were recorded in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and inventories were written down to net realizable value as a result of the Company's decision to realign its operating facilities and in connection with the exit of non-strategic businesses. The Company also recorded reserves for future estimated losses on existing contractual customer obligations associated with certain businesses being exited, categorized as other costs in the table below.

As of December 31, 1997, the Company had a liability of \$368 million remaining for this program, primarily for severance payments. The Company completed the majority of the actions under this program in 1998, and expects to complete the remaining actions in 1999. The Company believes the amounts accrued under the 1997 and 1996 programs are adequate to cover remaining actions under such programs.

The following table summarizes the costs and activity associated with the 1997 program:

(in millions)	Severance Costs	Shutdown Costs	Lease Cancel- lation & Penalty Costs	Asset Write- downs	Inventory Write-downs & Other Costs	
Total						
Initial Reserve	\$735	\$65	\$62	\$428	\$165	\$1,455
Amounts utilized	468	23	35	428	133	1,087
	----	---	---	----	----	-----
Balance 12/31/98	\$267	\$42	\$27	\$ -	\$ 32	\$ 368
	====	===	===	====	====	=====

### 1996 Program

The Company recorded a pre-tax provision of \$358 million in 1996 for severance and other termination benefits for approximately 3,900 personnel and exit costs related to the realignment of the Company worldwide. The \$358 million provision included \$299 million of restructuring costs primarily for severance and termination benefits. In addition, shutdown costs and lease penalty and cancellation costs of \$59 million included in the \$299 million charge were accrued in connection with the elimination and consolidation of facilities and infrastructure. In addition to this, a \$59 million charge related to asset impairments was recorded as a result of the Company's restructuring actions.

The principal purpose of this program is to eliminate infrastructure and operational inefficiencies and redundancies throughout the Company by taking actions to separate personnel, close facilities and exit non-strategic businesses. A portion of the program includes the restructuring of retail and wholesale photofinishing operations, primarily outside the U.S. Additionally, the plan addressed certain infrastructure activities which supported the Office Imaging business, which was sold to Danka in 1996. Of the 3,900 employees to be terminated, approximately 2,400 relate to administrative and marketing functions, 1,300 are attributed to photofinishing operations and 200 in manufacturing operations.

As of December 31, 1998 and 1997, the Company had a liability of \$46 million and \$225 million, respectively, remaining for this program, primarily for severance payments, most of which will be paid in 1999. Substantially all employees to be terminated under this program have been terminated by the end of 1998.

## **NOTE 12: RETIREMENT PLANS**

Substantially all U.S. employees are covered by a noncontributory plan, the Kodak Retirement Income Plan (KRIP), which is funded by Company contributions to an irrevocable trust fund. The funding policy for KRIP is to contribute amounts sufficient to meet minimum funding requirements as determined by employee benefit and tax laws plus additional amounts the Company determines to be appropriate. Generally, benefits are based on a formula recognizing length of service and final average earnings. Assets in the fund are held for the sole benefit of participating employees and retirees. The assets of the trust fund are comprised of corporate equity and debt securities, U.S. government securities, partnership and joint venture investments, interests in pooled funds, and various types of interest rate and foreign currency financial instruments. Kodak common stock represents approximately 8.0% of trust assets.

The benefit obligation of KRIP excludes amounts for all employees (both retired and active) of the non-imaging health businesses sold in 1994 since those obligations were transferred to the buyers of such businesses. The transfer of assets from the KRIP trust fund to the buyers of the non- imaging health businesses was not completed as of December 31, 1998. The Company retained the obligation for employees of the Office Imaging business as a result of the sale of this business in 1996.

Most subsidiaries and branches operating outside the U.S. have retirement plans covering substantially all employees. Contributions by the Company for these plans are typically deposited under government or other fiduciary- type arrangements. Retirement benefits are generally based on contractual agreements that provide for benefit formulas using years of service and/or compensation prior to retirement. The actuarial assumptions used for these plans reflect the diverse economic environments within the various countries in which the Company operates.

The Company adopted the disclosure provisions of SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," in 1998.

Changes in the Company's benefit obligation, plan assets and funded status for major plans are as follows:

(in millions)	1998		1997	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Change in Benefit Obligation				
Projected benefit obligation at January 1	\$ 6,810	\$1,809	\$ 6,425	\$1,610
Service cost	122	33	122	36
Interest cost	444	118	480	118
Participant contributions	-	13	-	9
Benefit payments	(1,113)	(145)	(705)	(98)
Actuarial loss	224	144	488	229
Curtailments	36	11	-	5
Currency adjustments	-	16	-	(100)
	-----	-----	-----	-----
Projected benefit obligation at December 31	\$ 6,523	\$1,999	\$ 6,810	\$1,809
	=====	=====	=====	=====
Change in Plan Assets				
Fair value of plan assets at January 1	\$ 6,950	\$1,749	\$ 6,709	\$1,673
Actual return on plan assets	706	129	946	226
Employer contributions	-	76	-	35
Participant contributions	-	13	-	9
Benefit payments	(1,113)	(156)	(705)	(97)
Currency adjustments	-	13	-	(97)
	-----	-----	-----	-----
Fair value of plan assets at December 31	\$ 6,543	\$1,824	\$ 6,950	\$1,749
	=====	=====	=====	=====
Funded Status at December 31	\$ 20	\$ (175)	\$ 140	\$ (60)
Unrecognized:				
Transition asset	(232)	(46)	(330)	(55)
Net actuarial loss	256	280	193	107
Prior service cost	94	31	120	39
	-----	-----	-----	-----
Net amount recognized at December 31	\$ 138	\$ 90	\$ 123	\$ 31
	=====	=====	=====	=====

Amounts recognized in the Statement of Financial Position for major plans are as follows:

(in millions)	1998		1997	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Prepaid pension cost	\$ 138	\$ 104	\$ 123	\$ 72
Accrued benefit liability	-	(14)	-	(41)
	-----	-----	-----	-----
Net amount recognized at December 31	\$ 138	\$ 90	\$ 123	\$ 31
	=====	=====	=====	=====

Pension expense for all plans included:

(in millions)	1998		1997		1996	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost	\$ 122	\$ 33	\$ 122	\$ 36	\$ 131	\$ 42
Interest cost	444	118	480	118	476	112
Expected return on plan assets	(551)	(137)	(565)	(134)	(534)	(123)
Amortization of:						
Transition asset	(60)	(9)	(67)	(8)	(66)	(8)
Prior service cost	12	8	13	8	15	9
Actuarial loss	11	5	4	1	35	3
	-----	-----	-----	-----	-----	-----
	(22)	18	(13)	21	57	35
Curtailment charge (credit)	7	1	-	-	14	(3)
Settlement charge (credit)	-	2	-	-	-	(1)
	-----	-----	-----	-----	-----	-----
Net pension expense	(15)	21	(13)	21	71	31
Other plans including unfunded plans	36	46	31	76	31	65
	-----	-----	-----	-----	-----	-----
Total net pension expense	\$ 21	\$ 67	\$ 18	\$ 97	\$ 102	\$ 96
	=====	=====	=====	=====	=====	=====

The Company recorded an \$8 million curtailment loss and a \$2 million settlement charge in 1998 as a result of the reduction in employees in 1998 from the 1997 restructuring program. The Company recorded an \$11 million curtailment loss and a \$1 million settlement credit in 1996 as a result of the sale of the Office Imaging business, which was included in the loss on the sale.

The weighted assumptions used to compute pension amounts for major plans were as follows:

	1998		1997	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate	6.8%	5.8%	7.0%	6.7%
Salary increase rate	4.3%	3.1%	4.5%	3.7%
Long-term rate of return on plan assets	9.5%	8.1%	9.5%	8.5%

The Company also sponsors an unfunded plan for certain U.S. employees, primarily executives. The benefits of this plan are obtained by applying KRIP provisions to all compensation, including amounts being deferred, and without regard to the legislated qualified plan maximums, reduced by benefits under KRIP. At December 31, 1998 and 1997, the projected benefit obligations of this plan amounted to \$232 million and \$222 million, respectively. The Company had recorded long-term liabilities at those dates of \$208 million and \$195 million, respectively. Pension expense recorded in 1998, 1997 and 1996 related to this plan was \$26 million, \$25 million and \$24 million, respectively.

**NOTE 13: NONPENSION POSTRETIREMENT BENEFITS**

The Company provides health care, dental and life insurance benefits to U.S. eligible retirees and eligible survivors of retirees. In general, these benefits are provided to U.S. retirees that are covered by the Company's principal pension plan (KRIP). These benefits are funded from the general assets of the Company as they are incurred. Certain non-U.S. subsidiaries offer health care benefits; however, the cost of such benefits is insignificant to the Company.

Changes in the Company's benefit obligation and funded status are as follows:

(in millions)	1998	1997
Net benefit obligation at beginning of year	\$ 2,366	\$ 2,281
Service cost	19	21
Interest cost	161	159
Plan participants' contributions	3	1
Plan amendments	(158)	-
Actuarial loss	78	55
Curtailments	(29)	-
Benefit payments	(160)	(151)
	-----	-----
Net benefit obligation at end of year	\$ 2,280	\$ 2,366
	=====	=====
Funded status at end of year	\$(2,280)	\$(2,366)
Unrecognized net actuarial loss	443	410
Unrecognized plan amendments	(773)	(788)
	-----	-----
Net amount recognized and recorded at end of year	\$(2,610)	\$(2,744)
	=====	=====

Weighted-average assumptions were as follows:

	1998	1997
Discount rate	6.8%	7.0%
Salary increase rate	4.3%	4.5%
Health care cost trend (a)	7.0%	8.0%

(a) decreasing to 5.0% by 2002

(in millions)	1998	1997	1996
Components of net postretirement benefit cost			
Service cost	\$ 19	\$ 21	\$ 25
Interest cost	161	159	166
Amortization of:			
Prior service cost	(70)	(69)	(71)
Recognized actuarial loss	16	2	8
	-----	-----	-----
	126	113	128
Curtailed credit	(103)	-	(97)
	-----	-----	-----
Total net postretirement benefit cost	\$ 23	\$ 113	\$ 31
	=====	=====	=====

The Company recorded a \$103 million curtailment gain in 1998 as a result of the reduction in employees in 1998 from the 1997 restructuring program. The Company recorded a \$97 million curtailment gain in 1996 as a result of the sale of the Office Imaging business, which was included in the loss on the sale.

In 1998, the Company moved to a new managed-care base health plan in order to effectively manage health care costs while maintaining the quality of care. This change resulted in a reduction of \$25 million for 1998 postretirement benefit costs.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

	1% increase	1% decrease
Effect on total service and interest cost components	\$ 8	\$ (6)
Effect on postretirement benefit obligation	68	(56)

---

#### **NOTE 14: STOCK OPTION AND COMPENSATION PLANS**

The Company's stock incentive plans consist of the 1995 Omnibus Long-Term Compensation Plan (the 1995 Plan), the 1990 Omnibus Long-Term Compensation Plan (the 1990 Plan) and the 1985 Stock Option Plan (the 1985 Plan). The Plans are administered by the Executive Compensation and Development Committee of the Board of Directors.

Under the 1995 Plan, 22 million shares of the Company's common stock may be granted to a variety of employees between February 1, 1995 and December 31, 1999. Option prices are not less than 100% of the per share fair market value on the date of grant, and the options generally expire ten years from the dates of grant, but may expire sooner if the optionee's employment terminates. The 1995 Plan also provides for Stock Appreciation Rights (SARs) to be granted, either in tandem with options or freestanding. SARs allow optionees to receive payment equal to the difference between the Company's stock market price on grant date and exercise date. At December 31, 1998, 221,544 freestanding SARs were outstanding at option prices ranging from \$56.31 to \$71.81.

Under the 1990 Plan, 22 million shares of the Company's common stock were eligible for grant to key employees between February 1, 1990 and January 31, 1995. Option prices could not be less than 50% of the per share fair market value on the date of grant; however, no options below fair market value were granted. The options generally expire ten years from the dates of grant, but may expire sooner if the optionee's employment terminates. The 1990 Plan also provided that options with dividend equivalents, tandem SARs and freestanding SARs could be granted. At December 31, 1998, 65,242 tandem SARs and 131,725 freestanding SARs were outstanding at option prices ranging from \$31.45 to \$44.50.

Under the 1985 Plan, 408,039 options, 21,037 tandem SARs and 7,076 freestanding SARs were outstanding at December 31, 1998, at the option price of \$33.79. The 1985 Plan terms are similar to the 1995 Plan terms.

In April 1998, the Company made a one-time grant of 100 stock options for common stock to all employees of the Company at that date (8,468,100 shares under options). The options were granted at fair market value on the date of grant and expire ten years from the grant date. The options have a two-year vesting period. The Executive Compensation and Development Committee of the Board of Directors approved the one-time grant.

Further information relating to options is as follows:  
(Amounts in thousands, except per share amounts)

	Shares Under Option	Range of Price Per Share
Outstanding on December 31, 1995	21,199	\$30.25 - \$69.50
Granted	3,359	\$68.00 - \$83.44
Exercised	3,411	\$30.25 - \$71.81
Terminated, Canceled or Surrendered	293	\$31.45 - \$75.69
	-----	
Outstanding on December 31, 1996	20,854	\$30.25 - \$83.44
Granted	6,077	\$54.38 - \$92.31
Exercised	2,422	\$30.25 - \$71.81
Terminated, Canceled or Surrendered	305	\$31.45 - \$90.75
	-----	
Outstanding on December 31, 1997	24,204	\$30.25 - \$92.31
Granted	14,546	\$59.00 - \$87.59
Exercised	3,208	\$30.25 - \$82.00
Terminated, Canceled or Surrendered	1,211	\$31.45 - \$83.38
	-----	
Outstanding on December 31, 1998	34,331	\$30.25 - \$92.31
Exercisable on December 31, 1998	15,744	\$30.25 - \$92.31

Pro forma net earnings and earnings per share information, as required by SFAS No. 123, "Accounting for Stock-Based Compensation," has been determined as if the Company had accounted for employee stock options under SFAS No. 123's fair value method. The fair value of these options was estimated at grant date using a Black-Scholes option pricing model with the following weighted- average assumptions:

	1998	1997	1996
Risk free interest rates	5.6%	6.7%	6.3%
Expected option lives	7 years	7 years	7 years
Expected volatilities	27%	25%	25%
Expected dividend yields	2.71%	2.32%	2.25%

The weighted-average fair values of options granted were \$19.94, \$25.76 and \$22.84 for 1998, 1997 and 1996, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period (2-3 years). The Company's pro forma information follows:

(in millions, except per share data)	Year Ended December 31,		
	1998	1997	1996
Net earnings (loss)			
As reported	\$1,390	\$ 5	\$1,288
Pro forma	1,272	(52)	1,262
Basic earnings (loss) per share			
As reported	\$ 4.30	\$ .01	\$ 3.82
Pro forma	3.93	(.16)	3.74
Diluted earnings (loss) per share			
As reported	\$ 4.24	\$ .01	\$ 3.76
Pro forma	3.93	(.16)	3.68

The following table summarizes information about stock options at December 31, 1998:

(Number of options in thousands)

Range of Exercise Prices		Options Outstanding			Options Exercisable	
At Least	Less Than	Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
\$30	- \$45	8,663	3.6	\$38.35	8,463	\$38.24
\$45	- \$60	3,304	5.9	\$54.22	3,299	\$54.21
\$60	- \$75	19,326	8.8	\$68.23	3,163	\$71.88
\$75	- \$90	916	8.5	\$81.15	231	\$81.20
>\$90		2,122	8.2	\$90.19	588	\$90.24
		-----			-----	
		34,331			15,744	
		=====			=====	

## NOTE 15: ACQUISITIONS AND JOINT VENTURES

1998

On March 12, 1998, the Company acquired 51% of PictureVision Inc.'s stock for approximately \$50 million. PictureVision, the leading provider of digital imaging network services and solutions at retail, operates as a subsidiary of the Company. Kodak has integrated the products and activities of its Picture Network, which provides consumers with an Internet-based digital imaging network service, with PictureVision's digital imaging service, PhotoNet. The acquisition has been accounted for as a purchase and, accordingly, the operating results of the business have been included in the accompanying consolidated financial statements from the date of acquisition.

In February 1998, the Company contributed \$308 million to Kodak (China) Company Limited (KCCL), a newly formed company operating in China, in exchange for 80% of the outstanding shares of the company. On March 25 and September 1, 1998, the new company acquired certain manufacturing assets of Shantou Era Photo Material Industry Corporation, a Chinese domestic photographic enterprise, for \$159 million in cash and \$22 million in debt payable in 2003. On March 26, 1998, KCCL acquired certain manufacturing assets of Xiamen Fuda Photographic Materials Company, Ltd., another Chinese domestic photographic enterprise, for \$149 million.

In February 1998, the Company contributed \$32 million to Kodak (Wuxi) Company Limited (KWCL), a newly formed company operating in China, in exchange for 70% of the outstanding shares of the business. On April 2, 1998, KWCL acquired part of the manufacturing assets of Wuxi Aermei Film and Chemical Corporation, a Chinese domestic photographic enterprise, for \$11 million in cash and \$21 million in debt payable in 1999.

The acquisitions by KCCL and KWCL have been accounted for as purchases and, accordingly, the operating results of the acquired companies have been included in the accompanying consolidated financial statements from the dates of acquisition. Substantial portions of the purchase prices were allocated to goodwill, which is being amortized over a ten-year period.

On November 30, 1998, Kodak acquired certain assets and assumed certain liabilities of Imation's medical imaging business, including all of the outstanding shares of Imation's Cemax-Icon subsidiary, for approximately \$530 million. The business acquired by Kodak generates approximately \$500 million in revenues annually. The transaction was accounted for by the purchase method and, accordingly, the operating results of the business have been included in the accompanying consolidated financial statements from the date of acquisition. A substantial portion of the purchase price was allocated to tangible assets and goodwill, which is being amortized over a ten-year period. See discussion regarding in-process R&D charges below.

Upon closing of the Imation acquisition, the civil litigation concerning certain intellectual property disputes between the companies in the United States and Italy was settled. At the same time, the related civil litigation between Kodak and Minnesota Mining & Manufacturing Co. was also settled.

The 1998 and 1997 acquisitions did not have a material impact on the Company's results of operations in those years. Pro forma financial information has not been presented since the acquisitions, both individually and in the aggregate within the respective years, would not have had a material impact on the Company's financial position or results of operations.

#### 1997

On March 17, 1997, the Company acquired the assets and liabilities of the Wang Laboratories' software business unit for approximately \$260 million in cash. The unit is engaged in the development of workflow, imaging, document management and network storage management and desktop software. The transaction was accounted for by the purchase method and, accordingly, the operating results of the business have been included in the accompanying consolidated financial statements from the date of acquisition. Goodwill recorded in connection with the acquisition is being amortized over five years. See discussion regarding in-process R&D charges below.

On September 2, 1997, the Company completed a program to increase its stake in Chinon Industries, Inc. from 12% to 50.1%. The Company's consolidated financial statements include the accounts of Chinon beginning September 2. Kodak and Chinon closely collaborate on the development and production of digital cameras; Chinon also produces Kodak's IL-500 scanner. Kodak and Chinon will continue to collaborate on engineering and development of digital cameras and scanners.

On October 2, 1997, the Company purchased CPI's interest in the Fox Photo, Inc. joint venture for \$10 million in cash and a \$43.9 million note. The two companies formed the venture in October 1996. The transaction was accounted for by the purchase method and, accordingly, the operating results of the venture have been included in the accompanying consolidated financial statements from the date of formation. On September 1, 1998, the Company sold all of its shares of Fox Photo, Inc. as discussed in Note 16, Sales of Assets and Divestitures.

On December 31, 1997, the Company and Sun Chemical Corporation formed a joint venture, Kodak Polychrome Graphics, that supplies film, paper, conventional and computer-to-plate solutions, processing chemistry and digital color proofing products to the global graphics arts market. Each company owns 50% of the venture and shares profits equally. Assets contributed to the joint venture were reclassified to other noncurrent assets on the Consolidated Statement of Financial Position. The Company's investment in the venture is accounted for using the equity method.

## **In-process Research and Development Charges**

In connection with recent business combinations, the Company allocated a portion of the purchase price to acquired in-process R&D totaling \$42 million in the fourth quarter of 1998 related to the Imation acquisition and \$186 million in the first quarter of 1997 related to the Wang acquisition.

The Company used independent professional appraisal consultants to assess and allocate values to the in-process R&D. These allocations represent the estimated fair value based on risk-adjusted future cash flows related to the incomplete projects. At the dates of the respective business combinations, the development of these projects had not yet reached technological feasibility and the R&D in progress had no alternative future uses. Accordingly, these costs were expensed as of the respective acquisition dates.

The valuations were determined by the Company using the income approach. The Company believes that the assumptions used in the forecasts were reasonable at the time of the respective business combinations. No assurance can be given, however, that the underlying assumptions used to estimate expected project sales, development costs or profitability, or the events associated with such projects, will transpire as estimated. For these reasons, actual results may vary from the projected results.

Management expects to continue supporting the viable remaining R&D programs and believes the Company has a reasonable chance of successfully completing the remaining R&D programs. However, there is a risk associated with the completion of the R&D projects and the Company cannot be assured that any will meet with either technological or commercial success.

Without successful completion of the remaining R&D efforts on the acquired in-process technologies, the end result would be to fail to fulfill product design specifications and in turn fail to meet market requirements. As a result, the Company would not realize the future revenues and profits attributed to the acquired R&D. Ultimately, the Company would fail to realize the expected return on such investments. The failure of any particular individual in-process R&D project would not materially impact the Company's financial position or results of operations. Operating results are subject to uncertain market events and risks, which are beyond the Company's control, such as trends in technology, market size and growth, and product introduction or other actions by competitors.

A description of the acquired in-process technology and the estimates of the fair value of in-process R&D made by the Company for each business combination are set forth below.

## **Imation Medical Imaging**

The in-process technology acquired from Imation consists of eight R&D projects within three broad technology groupings: Dry, Imagesetting and Analog, which comprise \$31 million, \$10 million and \$1 million, respectively. The specific nature of the significant technology acquired from Imation, dry technology, is outlined below.

Unlike wet technology used in medical imaging applications, dry technologies require no wet chemistry, wet film processing or darkroom procedures. The dry technology projects include next-generation laser printing systems for high resolution mammography applications, low cost decentralized printing networks with dedicated modality connections and a flexible image acquisition unit with three direct inputs, network input and output. Dry technology projects also include next-generation dry media with improved image stability and lower unit cost.

Estimated net cash inflows from the acquired in-process technology related to Medical Imaging are projected to commence in the year 2000, peak in 2001 and steadily decline through 2007. The in-process technology is expected to be completed by the year 2000.

As of the date of acquisition, \$44 million had been expended to develop these R&D projects. The estimated cost to complete the projects is approximately \$11 million, to be incurred through the year 2000. Remaining efforts on the projects are significant and include most phases of project design, development and testing.

The fair value assigned to purchased in-process technology was determined by estimating the contribution of the purchased in-process technology to developing commercially viable products and estimating the resulting cash flows from the expected product sales of such products. The resulting cash flows were discounted to their present value using a rate of 12%. Cash flows attributable to development efforts, including the completion of developments underway, and future versions of the product that have not yet been undertaken, were excluded in the valuation of in-process R&D. A contributory asset charge was applied for the use of working capital, fixed assets, developed technology and other intangibles. There were no material anticipated changes from historical pricing, margins and expense trends.

Acquired developed technology of approximately \$90 million was capitalized at acquisition date and is being amortized over seven years on a straight- line basis.

## Wang Software

In-process technology acquired from Wang was comprised of several new and next-generation technology projects, which included the creation of significant Desktop/Workgroup Imaging Systems and Production Imaging Systems, as well as Computer Output to Laser Disk (COLD), Document Warehouse, and New Imaging and Workflow technologies. The fair value assigned to the Desktop/Workgroup Imaging Systems and Production Imaging Systems was approximately \$6 million and \$21 million, respectively, while the fair value assigned to COLD, Document Warehouse, and New Imaging and Workflow technologies was approximately \$17 million, \$30 million and \$102 million, respectively. The Company also assessed other in-process technologies, including Storage Management and Document Management technologies, to which it assigned a fair market value of approximately \$10 million.

Unlike proven existing software technology, the above in-process next- generation technology is considered unproven and start-up in nature in the industry. As of the date of acquisition, an estimated \$30 million had been expended to develop these R&D projects. The estimated completion costs to be incurred through the year 1999 were approximately \$50 million. Remaining efforts on the projects are significant and include most phases of project design, development and testing.

The fair value assigned to purchased in-process technology was determined by estimating the contribution of the purchased in-process technology to developing commercially viable products and estimating the resulting cash flows from the expected product sales of such products. The resulting cash flows were discounted to their present value using rates of 17% to 19%. Contributory asset charges were applied for the use of working capital, fixed assets, developed technology and other intangibles. There were no material anticipated changes from historical pricing, margins and expense trends.

Acquired developed technology of approximately \$25 million was capitalized at acquisition date and is being amortized over five years on a straight- line basis.

The in-process R&D projects acquired from Wang are six to twelve months behind the original completion schedule. Additionally, the Document Warehouse project has been discontinued as a result of strategic changes in the Company's portfolio.

---

## NOTE 16: SALES OF ASSETS AND DIVESTITURES

In June 1998, the Company sold part of its investment in Gretag Imaging Group, a Swiss manufacturer of film processing equipment. The proceeds from the sale were \$72 million and resulted in a pre-tax gain of \$66 million in other income(charges).

On September 1, 1998, the Company sold all of its shares of Fox Photo, Inc. to Wolf Camera for an amount approximating the current value of Fox Photo's net assets.

On October 1, 1998, Elan Corporation, plc purchased from Kodak all the assets and liabilities of Kodak's subsidiary NanoSystems L.L.C., a drug delivery company, for approximately \$150 million in a combination of \$137 million cash and warrants to purchase ordinary shares in Elan. The Company recorded a pre-tax gain of \$87 million in other income (charges) on the sale in the fourth quarter of 1998.

In connection with the sale of the Office Imaging business on December 31, 1996, Kodak and Danka entered into agreements whereby Kodak supplied high- volume copiers and printers to Danka and Danka provided Kodak with R&D funding. Danka paid Kodak \$559 million in cash, net of final adjustments, in exchange for certain assets and the assumption of certain operating liabilities. The book value of net assets sold was \$716 million. The Company recorded liabilities for employee separation payments, contract termination payments, and transaction and other costs. As a result of this transaction, the Company recognized a pre-tax loss of \$387 million in other income (charges).

Financial difficulties on the part of Danka affected its ability to fulfill the original terms of certain of its agreements with the Company in the fourth quarter of 1998. As a result, in December 1998, the Company's supply agreement and certain other agreements with Danka were terminated and interim arrangements for the supply by the Company to Danka of copier equipment, parts and supplies were established on a month-to-month basis. As a result of significant volume reductions by Danka, the Company was required to take action in the fourth quarter of 1998 that resulted in charges for employee severance (800 personnel) and write-downs of working capital and equipment. Such pre-tax charges amounted to \$132 million and were recorded to cost of goods sold (\$68 million) and SG&A expenses (\$64 million). All actions with respect to this charge, including employee terminations, were taken by the Company in 1998. The Company continues to assess its strategic options for its Office Imaging business and may need to take further action in 1999 which could have a material impact on the Company's results of operations.

---

**NOTE 17: DISCONTINUED OPERATIONS**

In 1994, the Company sold the pharmaceutical and consumer health businesses of Sterling Winthrop Inc., the household products and do-it-yourself products businesses of L&F Products and the Clinical Diagnostics Division. In computing the net gain from discontinued operations, the Company recorded amounts for environmental exposures, product liabilities, buyer indemnifications, purchase price adjustments, taxes and other items based on the best estimates available at the time the transactions occurred. In 1996, the Company completed negotiations with buyers and filed tax returns associated with the sale of the non-imaging health businesses. As a result of these actions and a further assessment of the liabilities recorded at the time of the sale, the Company recognized a \$277 million after-tax benefit in discontinued operations in 1996, the primary component of which was income and other taxes.

---

**NOTE 18: SEGMENT INFORMATION**

The Consumer Imaging segment derives revenues from photographic film, paper, chemicals, cameras, photoprocessing equipment, and photoprocessing services sold to consumers. The Kodak Professional segment derives revenues from photographic film, paper, chemicals, and digital cameras sold to professional customers and to the Kodak Polychrome Graphics joint venture. The Health Imaging segment derives revenues from medical film and processing equipment sold to health care organizations. The Other Imaging segment derives revenues from motion picture film sold to movie production and distribution companies, copiers, microfilm equipment and media, printers, scanners and other business equipment, document imaging software, and certain digital cameras and media.

Transactions between segments, which are immaterial, are made on a basis intended to reflect the market value of the products, recognizing prevailing market prices and distributor discounts. Differences between the reportable segments' operating results and net assets, and the Company's consolidated financial statement relate primarily to items held at the corporate level, and to other items excluded from segment operating measurements.

Segment financial information is shown below.

(in millions)	1998	1997	1996
<b>Sales:</b>			
Consumer Imaging	\$ 7,164	\$ 7,681	\$ 7,659
Kodak Professional	1,840	2,272	2,367
Health Imaging	1,526	1,532	1,627
Other Imaging	2,876	3,053	4,315
	-----	-----	-----
Consolidated total	\$13,406	\$14,538	\$15,968
	=====	=====	=====
<b>Earnings (loss) from operations:</b>			
Consumer Imaging	\$ 1,080	\$ 1,072	\$ 1,324
Kodak Professional	330	284	319
Health Imaging	321	317	375
Other Imaging	157	(88)	185
	-----	-----	-----
Total of segments	1,888	1,585	2,203
Restructuring costs and asset impairments	-	(1,455)	(358)
	-----	-----	-----
Consolidated total	\$ 1,888	\$ 130	\$ 1,845
	=====	=====	=====
<b>Net earnings (loss) from continuing operations:</b>			
Consumer Imaging	\$ 785	\$ 724	\$ 907
Kodak Professional	237	192	223
Health Imaging	205	213	257
Other Imaging	162	(86)	148
	-----	-----	-----
Total of segments	1,389	1,043	1,535
Restructuring costs and asset impairments	-	(1,455)	(358)
Loss on sale of Office Imaging	-	-	(387)
Gain on sale of NanoSystems	87	-	-
Interest expense	(110)	(98)	(83)
Corporate interest income	27	25	59
Income tax effects on above items and taxes not allocated to segments	(3)	490	245
	-----	-----	-----
Consolidated total	\$ 1,390	\$ 5	\$ 1,011
	=====	=====	=====
<b>Operating net assets:</b>			
Consumer Imaging	\$ 4,856	\$ 4,009	\$ 4,060
Kodak Professional	1,591	1,370	1,555
Health Imaging	1,135	588	612
Other Imaging	1,173	887	1,026
	-----	-----	-----
Total of segments	8,755	6,854	7,253
LIFO inventory reserve	(491)	(534)	(589)
Cash and marketable securities	500	752	1,796
Dividends payable	(142)	(143)	(133)
Net deferred income tax assets and tax liabilities	457	685	147
Noncurrent other postemployment liabilities	(2,455)	(2,593)	(2,618)
Other corporate net assets	(614)	(664)	(22)
	-----	-----	-----
Consolidated net assets (1)	\$ 6,010	\$ 4,357	\$ 5,834
	=====	=====	=====

(1) Consolidated net assets may be derived from the Consolidated Statement of Financial Position, as follows:

(in millions)	1998	1997	1996
Total assets	\$14,733	\$13,145	\$14,438
Total liabilities	10,745	9,984	9,704
Less: Short-term borrowings	(1,518)	(611)	(541)
Less: Long-term borrowings	(504)	(585)	(559)
	-----	-----	-----
Non-interest-bearing liabilities	8,723	8,788	8,604
	-----	-----	-----
Consolidated net assets	\$ 6,010	\$ 4,357	\$ 5,834
	=====	=====	=====
Depreciation expense:			
Consumer Imaging	\$ 401	\$ 387	\$ 344
Kodak Professional	117	119	124
Health Imaging	51	61	68
Other Imaging	168	181	301
	-----	-----	-----
Consolidated total	\$ 737	\$ 748	\$ 837
	=====	=====	=====
Goodwill amortization expense:			
Consumer Imaging	\$ 77	\$ 52	\$ 43
Kodak Professional	10	7	12
Health Imaging	8	4	5
Other Imaging	21	17	6
	-----	-----	-----
Consolidated total	\$ 116	\$ 80	\$ 66
	=====	=====	=====
Capital additions:			
Consumer Imaging	\$ 622	\$ 796	\$ 599
Kodak Professional	143	234	201
Health Imaging	88	91	82
Other Imaging	255	364	459
	-----	-----	-----
Consolidated total	\$ 1,108	\$ 1,485	\$ 1,341
	=====	=====	=====

Sales to external customers attributed to (2):

The United States	\$ 6,417	\$ 6,890	\$ 7,453
Europe, Middle East and Africa	3,701	4,036	4,664
Asia Pacific	2,009	2,333	2,453
Canada and Latin America	1,279	1,279	1,398
	-----	-----	-----
Consolidated total	\$13,406	\$14,538	\$15,968
	=====	=====	=====

(2) Sales are reported in the geographic area in which they originate.

Long-lived assets located in:

The United States	\$ 4,044	\$ 4,007	\$ 3,892
Europe, Middle East and Africa	861	818	807
Asia Pacific	704	386	403
Canada and Latin America	305	298	320
	-----	-----	-----
Consolidated total	\$ 5,914	\$ 5,509	\$ 5,422
	=====	=====	=====

## NOTE 19: QUARTERLY SALES AND EARNINGS DATA - UNAUDITED

4th Qtr.    3rd Qtr.    2nd Qtr.    1st Qtr.  
(in millions, except per share data)

1998

Sales	\$3,563	\$3,391	\$3,541	\$2,911
Gross profit	1,463	1,611	1,713	1,326
Net earnings	272(1)	398	495(2)	
225(3)				
Basic earnings per share	.84	1.23	1.53	.70
Diluted earnings per share	.83	1.21	1.51	.69

1997

Sales	\$3,779	\$3,773	\$3,853	\$3,133
Gross profit	1,506	1,728	1,838	1,490
Net (loss) earnings	(744)(4)	232(5)	368	
149(6)				
Basic (loss) earnings per share (7)	(2.29)	.71	1.12	.45
Diluted (loss) earnings per share (7)	(2.29)	.71	1.11	.44

- (1) Includes \$17 million of litigation charges, which reduced net earnings by \$11 million; \$132 million of Office Imaging charges, which reduced net earnings by \$87 million; \$45 million primarily for a write-off of in-process R&D associated with the Imation acquisition, which reduced net earnings by \$30 million; and a gain of \$87 million on the sale of NanoSystems, which increased net earnings by \$57 million.
- (2) Includes a gain of \$66 million on the sale of part of the Company's investment in Gretag, which increased net earnings by \$44 million.
- (3) Includes \$18 million of litigation charges, which reduced net earnings by \$12 million.
- (4) Includes \$1,455 million of restructuring costs, asset impairments and other charges, which reduced net earnings by \$990 million.
- (5) Includes a \$46 million charge in connection with the Image Technical Service, Inc. litigation relating to the sale of micrographics and copier parts, which reduced net earnings by \$30 million.
- (6) Includes \$186 million for a write-off of in-process R&D associated with the Wang acquisition, which reduced net earnings by \$123 million.
- (7) Each quarter is calculated as a discrete period and the sum of the four quarters does not equal the full year amount.

SUMMARY OF OPERATING DATA  
 Eastman Kodak Company and Subsidiary Companies  
 (Dollar amounts and shares in millions, except per share data)

	1998	1997	1996	1995	1994
Sales from continuing operations	\$13,406	\$14,538	\$15,968	\$14,980	\$13,557
Earnings from operations	1,888	130	1,845	1,941	1,309
Earnings from continuing operations after tax before extraordinary items	1,390(1)	5(3)	1,011(5)	1,252	554(6)
Earnings from discontinued operations after tax before extraordinary items	-	-	277	-	269
Net earnings	1,390(1)	5(3)	1,288(5)	1,252	557(6)

EARNINGS AND DIVIDENDS

Net earnings					
- % of sales	10.4%	0.0%	8.1%	8.4%	4.1%
- % return on average shareholders' equity	38.9%	0.1%	26.1%	27.4%	15.1%
Basic earnings from continuing operations per share (7)	4.30	.01	3.00	3.67	1.65
Basic earnings per share (7)	4.30	.01	3.82	3.67	1.66
Diluted earnings from continuing operations per share	4.24	.01	2.95	3.62	1.64
Diluted earnings per share	4.24	.01	3.76	3.62	1.65
Cash dividends declared					
- on common shares	570	577	539	547	537
- per common share	1.76	1.76	1.60	1.60	1.60
Common shares outstanding at year end	322.8	323.1	331.8	345.9	339.8
Shareholders at year end	129,495	135,132	137,092	143,574	151,349

STATEMENT OF FINANCIAL

POSITION DATA

Working capital (8)	\$ 939	\$ 909	\$ 2,089	\$ 3,252	\$ 2,319
Properties - net	5,914	5,509	5,422	5,377	5,292
Total assets	14,733	13,145	14,438	14,477	14,968
Short-term borrowings	1,518	611	541	586	371
Long-term borrowings	504	585	559	665	660
Total shareholders' equity	3,988	3,161	4,734	5,121	4,017

SUPPLEMENTAL INFORMATION

Sales - Consumer Imaging	\$ 7,164	\$ 7,681	\$ 7,659	\$ 6,830	\$ 5,919
- Kodak Professional	1,840	2,272	2,367	2,358	2,444
- Health Imaging	1,526	1,532	1,627	1,605	1,556
- Other Imaging	2,876	3,053	4,315	4,187	3,638
Research and development costs	880(2)	1,044(4)	1,028	935	859
Depreciation	737	748	837	807	836
Taxes (excludes payroll, sales and excise taxes)	809	164	663	796	567
Wages, salaries and employee benefits	4,306	4,985	5,110	5,025	4,690
Employees at year end					
- in the U.S.	46,300	54,800	53,400	54,400	54,300
- worldwide	86,200	97,500	94,800	96,600	96,300

(see footnotes on next page)

**SUMMARY OF OPERATING DATA**  
**Eastman Kodak Company and Subsidiary Companies**

(footnotes for previous page)

(1) Includes \$35 million of litigation charges, which reduced net earnings by \$23 million; \$132 million of Office Imaging charges, which reduced net earnings by \$87 million; \$45 million primarily for a write-off of in-process R&D associated with the Imation acquisition, which reduced net earnings by \$30 million; a gain of \$87 million on the sale of NanoSystems, which increased net earnings by \$57 million; and a gain of \$66 million on the sale of part of the Company's investment in Gretag, which increased net earnings by \$44 million.

(2) Excludes a \$42 million charge for the write-off of in-process R&D associated with the Imation acquisition.

(3) Includes \$1,455 million of restructuring costs, asset impairments and other charges, which reduced net earnings by \$990 million; \$186 million as a write-off of in-process R&D associated with the Wang acquisition, which reduced net earnings by \$123 million; and a \$46 million litigation charge, which reduced net earnings by \$30 million.

(4) Excludes a \$186 million charge for the write-off of in-process R&D associated with the Wang acquisition.

(5) Includes \$358 million of restructuring costs, which reduced net earnings by \$256 million, and a \$387 million loss related to the sale of the Office Imaging business, which reduced net earnings by \$252 million.

(6) Includes \$340 million of restructuring costs from continuing operations, which reduced net earnings by \$254 million, and a \$110 million loss on the extinguishment of certain financial instruments, which reduced net earnings by \$80 million. Net earnings were also reduced by \$266 million of extraordinary losses related to the early extinguishment of debt.

(7) Based on weighted-average number of shares outstanding.

(8) Excludes short-term borrowings.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

---

**PART III**

**ITEMS 10(a), 11 AND 12. DIRECTORS OF THE REGISTRANT**

**EXECUTIVE COMPENSATION  
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND  
MANAGEMENT**

Responses to the above items, as contained in the Notice of 1999 Annual Meeting and Proxy Statement, which will be filed within 120 days of the Company's fiscal year end, are hereby incorporated by reference in this Annual Report on Form 10-K.

**ITEM 10(b). EXECUTIVE OFFICERS OF THE REGISTRANT**

The executive officers list is contained in PART I under the caption "Executive Officers of the Registrant" on page 9.

---

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

None to report.

---

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

	Page No.
(a) 1. Consolidated financial statements:	
Report of independent accountants	29
Consolidated statement of earnings	30
Consolidated statement of financial position	31
Consolidated statement of shareholders' equity	32-33
Consolidated statement of cash flows	34-35
Notes to financial statements	36-67
2. Financial statement schedules:	
II - Valuation and qualifying accounts	73

All other schedules have been omitted because they are not applicable or the information required is shown in the financial statements or notes thereto.

#### 3. Additional data required to be furnished:

Exhibits required as part of this report are listed in the index appearing on pages 74 through 78. The management contracts and compensatory plans and arrangements required to be filed as exhibits to this form pursuant to Item 14(c) of this report are listed on pages 75 through 78, Exhibit Numbers (10)A - (10)Q.

#### (b) Report on Form 8-K.

No reports on Form 8-K were filed or required to be filed during the quarter ended December 31, 1998.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

By:  
George M. C. Fisher, Chairman  
and Chief Executive Officer

By:  
Harry L. Kavetas, Chief Financial  
Officer and Executive Vice  
President

E. Mark Rajkowski  
Controller

Date: March 10, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Richard S. Braddock, Director

Harry L. Kavetas, Director

Daniel A. Carp, Director

Delano E. Lewis, Director

Martha Layne Collins, Director

Paul H. O'Neill, Director

Alice F. Emerson, Director

John J. Phelan, Jr., Director

George M. C. Fisher, Director

Laura D'Andrea Tyson, Director

Paul E. Gray, Director

Richard A. Zimmerman, Director

Durk I. Jager, Director

Date: March 10, 1999

Eastman Kodak Company and Subsidiary Companies  
Valuation and Qualifying Accounts  
(in millions)

	Balance at Beginning of Period	Additions Charged to Earnings	Deductions Amounts Written Off	Balance at End of Period
Year ended December 31, 1998				
Deducted in the Statement of Financial Position:				
From Current Receivables				
Reserve for doubtful accounts	\$ 85	\$61	\$ 4	\$142
Reserve for loss on returns and allowances	27	13	13	27
	----	---	---	----
TOTAL	\$112	\$74	\$17	\$169
	=====	====	===	=====
From Long-Term Receivables and Other Noncurrent Assets				
Reserve for doubtful accounts	\$ 10	\$ 1	\$ 1	\$ 10
	=====	===	===	=====
Year ended December 31, 1997				
Deducted in the Statement of Financial Position:				
From Current Receivables				
Reserve for doubtful accounts	\$ 70	\$50	\$35	\$ 85
Reserve for loss on returns and allowances	20	18	11	27
	----	---	---	----
TOTAL	\$ 90	\$68	\$46	\$112
	=====	===	===	=====
From Long-Term Receivables and Other Noncurrent Assets				
Reserve for doubtful accounts	\$ 6	\$ 5	\$ 1	\$ 10
	=====	===	===	=====
Year ended December 31, 1996				
Deducted in the Statement of Financial Position:				
From Current Receivables				
Reserve for doubtful accounts	\$ 85	\$53	\$68	\$ 70
Reserve for loss on returns and allowances	19	10	9	20
	----	---	---	----
TOTAL	\$104	\$63	\$77	\$ 90
	=====	===	===	=====
From Long-Term Receivables and Other Noncurrent Assets				
Reserve for doubtful accounts	\$ 14	\$ 3	\$11	\$ 6
	=====	===	===	=====

Index to Exhibits

Exhibit  
Number

Page

- (3) A. Certificate of Incorporation.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 25, 1988, Exhibit 3.)
- B. By-laws, as amended through February 12, 1999. 79
- (4) A. Indenture dated as of January 1, 1988 between Eastman Kodak Company as issuer of (i) 9 3/8% Notes Due 2003, (ii) 9.95% Debentures Due 2018, (iii) 9 1/2% Notes Due 2008, (iv) 9.20% Debentures Due 2021, and (v) 7 1/4% Notes Due 1999, and The Bank of New York as Trustee.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 25, 1988, Exhibit 4.)
- B. First Supplemental Indenture dated as of September 6, 1991 and Second Supplemental Indenture dated as of September 20, 1991, each between Eastman Kodak Company and The Bank of New York as Trustee, supplementing the Indenture described in A.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1991, Exhibit 4.)
- C. Third Supplemental Indenture dated as of January 26, 1993, between Eastman Kodak Company and The Bank of New York as Trustee, supplementing the Indenture described in A.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1992, Exhibit 4.)
- D. Fourth Supplemental Indenture dated as of March 1, 1993, between Eastman Kodak Company and The Bank of New York as Trustee, supplementing the Indenture described in A.  
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1993, Exhibit 4.)

Eastman Kodak Company and certain subsidiaries are parties to instruments defining the rights of holders of long-term debt that was not registered under the Securities Act of 1933. Eastman Kodak Company has undertaken to furnish a copy of these instruments to the Securities and Exchange Commission upon request.

Exhibit  
Number

- (10) A. Eastman Kodak Company Retirement Plan for Directors, as amended effective January 1, 1996. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1995, Exhibit 10.)
- B. Eastman Kodak Company Insurance Plan for Directors. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 29, 1985, Exhibit 10.)
- C. Eastman Kodak Company Deferred Compensation Plan for Directors, as amended and restated effective July 10, 1997. (Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997, Exhibit 10.)
- D. Eastman Kodak Company 1985 Long-Term Performance Award Plan, as amended effective December 31, 1993. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1993, Exhibit 10.)
- E. 1982 Eastman Kodak Company Executive Deferred Compensation Plan, as amended effective November 1, 1996. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1996, Exhibit 10.)
- F. Eastman Kodak Company 1985 Stock Option Plan, as amended effective April 16, 1998. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1996, and the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, and the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998, Exhibit 10.)
- G. Eastman Kodak Company 1990 Omnibus Long-term Compensation Plan, as amended effective April 16, 1998. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1996, and the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, and the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998, Exhibit 10.)

Eastman Kodak Company and Subsidiary Companies Index to Exhibits (continued)

Exhibit  
Number

H. Eastman Kodak Company Management Variable Compensation Plan, as amended effective May 13, 1998. (Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, and the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998, and the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998, Exhibit 10.)

I. Eastman Kodak Company 1995 Omnibus Long-Term Compensation Plan, as amended effective October 8, 1998. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1996, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998, the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998, and the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998, Exhibit 10.)

J. Kodak Executive Financial Counseling Program. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1992, Exhibit 10.)

K. Personal Umbrella Liability Insurance Coverage.

Eastman Kodak Company provides \$5,000,000 personal umbrella liability insurance coverage to its directors and approximately 160 key executives. The coverage, which is insured through The Mayflower Insurance Company, Ltd., supplements participants' personal coverage. The Company pays the cost of this insurance. Income is imputed to participants. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1995.)

L. Kodak Executive Health Management Plan, as amended effective January 1, 1995. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1995.)

Eastman Kodak Company and Subsidiary Companies Index to Exhibits (continued)

Exhibit  
Number

M. George M. C. Fisher Employment Agreement dated October 27, 1993. \$4,000,000 Promissory Note dated November 2, 1993. \$4,284,400 Promissory Note dated November 2, 1993. Notice of Award of Restricted Stock dated November 11, 1993, as amended. Notice of Award of Incentive Stock Options dated November 11, 1993. Notice of Award of Non-Qualified Stock Options dated November 11, 1993. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1993.)

Amendment No. 1 to Employment Agreement dated as of April 4, 1994. (Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1994, Exhibit 10.)

Amendment No. 2 to Employment Agreement dated as of February 25, 1997. Notice of Award of Restricted Stock dated February 25, 1997. Notice of Award of Incentive Stock Options dated February 25, 1997. Notice of Award of Non-Qualified Stock Options dated February 25, 1997. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1996.)

N. Harry L. Kavetas Employment Agreement dated as of February 11, 1994, Notice of Award of Non-Qualified Stock Options, Notice of Award of Incentive Stock Options, and Notice of Award of Restricted Stock, each dated February 15, 1994. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)

Amendment No. 1 to Employment Agreement dated as of January 21, 1997. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1996.)

Amendment No. 2 to Employment Agreement dated as of March 3, 1997. Notice of Award of Restricted Stock dated March 4, 1997. Notice of Award of Incentive Stock Options dated March 4, 1997. Notice of Award of Non-Qualified Stock Options dated March 4, 1997 under the Eastman Kodak Company 1995 Omnibus Long-Term Compensation Plan. Notice of Award of Non-Qualified Stock Options dated March 4, 1997 under the Eastman Kodak Company 1997 Stock Option Plan. (Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1996.)

Eastman Kodak Company and Subsidiary Companies Index to Exhibits (continued)

Exhibit  
Number  
Page

O. Eastman Kodak Company 1997 Stock Option Plan, as amended effective May 1, 1998. (Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, and the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998, Exhibit 10.)

P. Eric Steenburgh Agreement dated March 12, 1998. (Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998,

Exhibit 10.)

Q. Richard T. Bourns Agreement dated January 28, 1999	94
(12) Statement Re Computation of Ratio of Earnings to Fixed Charges.	99
(21) Subsidiaries of Eastman Kodak Company.	100
(23) Consent of Independent Accountants.	102
(27) Financial Data Schedule - Submitted with the EDGAR filing as a second document to this Form 10-K.	

(99) Eastman Kodak Employees' Savings and Investment Plan Annual Report on Form 11-K for the fiscal year ended December 30, 1998 (to be filed by amendment).

**Exhibit (3) B.**

**EASTMAN KODAK COMPANY**

**A New Jersey Corporation**

**BY-LAWS**

**AS AMENDED THROUGH FEBRUARY 12, 1999**

**EASTMAN KODAK COMPANY**

**A New Jersey Corporation**

**BY-LAWS**

**Article 1**

**SHAREHOLDERS**

Section 1. Annual Meeting.

The annual meeting of the shareholders of the corporation, for the election of directors and for the transaction of such other business as may properly come before the meeting, shall be held on such date in May in each year at such hour and place as shall be fixed by the Board of Directors.

Section 2. Notice of Annual Meeting.

Notice of the annual meeting of shareholders shall be given by mail or any other method permitted by law, not less than ten (10) nor more than sixty (60) days before the meeting, to each shareholder of record of the corporation entitled to vote at such meeting.

Section 3. Special Meetings.

Special meetings of the shareholders, except where otherwise provided by law or these by-laws, may be called to be held at such place and time as shall be fixed by the Board of Directors or by the Chairman of the Board of Directors or by the President and shall be called by the Chairman of the Board of Directors or by the President or by the Secretary at the request in writing of a majority of the members of the Board of Directors or at the request in writing of shareholders owning and holding, in the aggregate, shares entitled to at least one-tenth of the total number of votes represented by the entire amount of capital stock of the corporation issued and outstanding and entitled to vote at such meeting. Such request shall state the purpose or purposes of the proposed meeting.

#### Section 4. Notice of Special Meetings.

Notice of each special meeting of the shareholders shall be given in the manner required by law and by mailing, not less than ten (10) nor more than sixty (60) days before the meeting, a copy of the notice of such meeting, stating the purpose or purposes for which the same is called, to each shareholder of record of the corporation entitled to vote at such meeting, directed to him at his address as it appears on the stock books of the corporation.

#### Section 5. Quorum.

Unless otherwise provided by law or in the Certificate of Incorporation, the holders of shares entitled to cast a majority of the votes at a meeting of shareholders shall constitute a quorum at such meeting. Any action, other than the election of directors, shall be authorized by a majority of the votes cast at the meeting by the holders of shares entitled to vote thereon, unless a greater plurality is required by law or the Certificate of Incorporation. Less than a quorum may adjourn the meeting. No notice of an adjournment of the meeting shall be necessary if the Board of Directors does not fix a new record date for the adjourned meeting and if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken and at the adjourned meeting only such business is transacted as might have been transacted at the original meeting.

#### Section 6. Qualifications of Voters.

At each meeting of the shareholders, each holder of record of each outstanding share of common stock of the corporation shall be entitled to one vote on each matter submitted to a vote.

The Board of Directors of the corporation may fix in advance a date not less than ten (10) nor more than sixty (60) days preceding the date of any meeting of shareholders and not exceeding sixty (60) days preceding the date for the payment of any dividend, or for the allotment of any rights, or for the purpose of any other action, as a record date for the determination of shareholders entitled to notice of and to vote at any such meeting or to express consent to or dissent from any proposal without a meeting, or for the purpose of determining shareholders entitled to receive payment of any such dividend or allotment of any right, or for the purpose of any other action, and in each case only shareholders of record at the close of business on the date so fixed shall be entitled to such notice of and vote at such meeting or to consent to or dissent from any proposal without a meeting, or to receive payment of such dividend or allotment of rights or take any other action, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after any such record date fixed as aforesaid.

## Section 7. Voting.

The vote for the election of directors may be taken by ballot and shall be taken by ballot if requested by a shareholder and the vote upon any question before the meeting may be taken by ballot, each of which shall state the name of the shareholder voting, if the shareholder is voting in person, or if voting by proxy, then the name of such proxy, the number of shares of each class voted by him, and the number of his votes. A shareholder may vote either in person or by proxy.

## Section 8. Selection of Inspectors.

The Board of Directors may, in advance of any shareholders' meeting, appoint one or more inspectors to act at the meeting or any adjournment thereof. If inspectors are not so appointed, or if so appointed and any inspector fails to qualify or fails to appear or act and the vacancy is not filled by the Board of Directors in advance of the meeting, the person presiding at the meeting may, and on the request of any shareholder entitled to vote thereat shall, make such appointment. No person shall be elected a director at a meeting at which he has served as an inspector.

## Section 9. Duties of Inspectors.

The inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all shareholders.

## **Article 2**

### **DIRECTORS**

#### Section 1. Directors and Their Term of Office.

The Board of Directors of the corporation shall consist of as many members, not less than nine (9) nor more than eighteen (18), as may from time to time be fixed by the Board of Directors. They shall, respectively, be at all times bona fide shareholders of the corporation. The directors shall be divided into three classes: Class I, Class II and Class III, each such class, as nearly as possible, to have the same number of directors. The term of office of the initial Class I directors shall expire at the annual meeting of the shareholders in 1988, the term of office of the initial Class II directors shall expire at the annual meeting of the shareholders in 1989, and the term of office of the initial Class III directors shall expire at the annual meeting of the shareholders in 1990.

#### Section 2. Election of Directors.

A class of directors of the corporation whose term is expiring, shall be elected at the annual meeting of the shareholders or at any meeting of the shareholders held in lieu of such annual meeting, which meeting, for the purposes of these by-laws, shall be deemed the annual meeting. At each annual meeting of the shareholders held after 1987, the directors chosen to succeed those whose terms have then expired shall be identified as being of the same class as the directors they succeed and shall be elected by the shareholders for a term expiring at the third succeeding annual meeting of the shareholders.

#### Section 3. Vacancies.

In the event of a vacancy occurring in the Board of Directors, the remaining directors, by affirmative vote of a majority thereof, expressed at a duly called meeting of the directors, may fill such vacancy until the next succeeding annual meeting of shareholders including one resulting from an increase in the number of directors as provided in Section 5 of the Certificate of Incorporation.

#### Section 4. Compensation.

Directors may receive from the corporation such reasonable compensation for their services as such or for their services to the corporation in any other capacity, including a fixed sum and expenses for attendance at meetings of the Board and at meetings of committees of the Board as shall be determined from time to time by the Board of Directors.

#### Section 5. Regular Meetings of Directors.

The Board of Directors shall by resolution provide for the scheduling of regular meetings of the Board.

Section 6. Notice of Regular Meetings of Directors.

No notice shall be required to be given of any regular meeting of the Board of Directors except as the Board may require.

Section 7. Special Meetings of Directors.

Special meetings of the Board of Directors may be called at any time by the Chairman of the Board, the President or any two members of the Board and may be held at any time and place within or without the State of New Jersey.

Section 8. Notice of Special Meetings of Directors.

Notice of each special meeting of the Board of Directors, stating the time, place, and purpose or purposes thereof, shall be given by the Chairman of the Board, the President, the Secretary or any two members of the Board to each member of the Board not less than two (2) days by mail or one (1) day by telegraph or telephone prior to the date specified for such meeting. Special meetings of the Board of Directors may also be held at any place and time, without notice, by unanimous consent of all the members or provided all the members are present at such meeting.

Section 9. Quorum.

At any meeting of the Board of Directors a quorum shall consist of one- third of the total number thereof and, except as otherwise provided by law or these by-laws, a majority of such quorum shall decide any question that may come before the meeting. A majority of the members present at any regular or special meeting, although less than a quorum, may adjourn the same from time to time, without notice other than announcement at the meeting, until a quorum is present. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally called.

Section 10. Action of Directors or Committees Without a Meeting or When Members are in Separate Places.

Any action required or permitted to be taken pursuant to authorization voted at a meeting of the Board of Directors or any committee of the Board may be taken without a meeting if, prior or subsequent to such action, all members of the Board or of such committee, as the case may be, consent thereto in writing and such written consents are filed with the minutes of the proceedings of the Board or committee. Any or all directors may participate in a meeting of the Board or in a meeting of a committee of the Board by means of a conference telephone or any means of communication by which all persons participating in the meeting are able to hear each other as though he or they were present in person at such meeting.

## Section 11. Common Directorship and Directors' Personal Interest.

No contract or other transaction between the corporation and one or more of its directors, or between the corporation and any other corporation, firm or association of any type or kind in which one or more of this corporation's directors are directors or are otherwise interested, shall be void or voidable solely by reason of such common directorship or interest, or solely because such director or directors are present at the meeting of the Board or a committee thereof which authorizes or approves the contract or transaction, or solely because his or their votes are counted for such purpose, (1) if the contract or other transaction is fair and reasonable as to the corporation at the time it is authorized, approved or ratified; (2) or the fact of the common directorship or interest is disclosed or known to the Board or committee and the Board or committee authorizes, approves or ratifies the contract or transaction by a vote sufficient for the purpose without counting the vote or votes of such common or interested director or directors; (3) or the fact of the common directorship or interest is disclosed or known to the shareholders and they authorize, approve, or ratify the contract or transaction.

Common or interested directors may be counted in determining the presence of a quorum at a Board or committee meeting at which a contract or transaction described in this by-law is authorized, approved or ratified.

## Section 12. Standard of Care and Reliance upon Opinions of Counsel, Reports, etc.

Directors and members of any committee of the Board of Directors shall discharge their duties to the corporation when they act in good faith and with that degree of diligence, care and skill which ordinarily prudent men would exercise under similar circumstances in like positions. In discharging their duties, directors and members of any such committee shall not be liable if, acting in good faith, they rely (a) upon the opinion of counsel for the corporation, or (b) upon written reports setting forth financial data concerning the corporation and prepared by an independent public accountant or certified public accountant or firm of such accountants, or (c) upon financial statements, books of account or reports of the corporation represented to them to be correct by the President, the officer of the corporation having charge of its books of account, or the person presiding at a meeting of the Board.

## **Article 3**

### **EXECUTIVE COMMITTEE**

#### Section 1. Members of Executive Committee and Their Term of Office.

There may be an Executive Committee, consisting of three (3) or more directors, one of whom shall be the President of the Corporation, appointed by the Board of Directors. They shall be appointed for the term of one (1) year but shall hold office until their successors are elected and have qualified. Any member of the Executive Committee, however, may be removed by the affirmative vote of a majority of the members of the Board of Directors.

#### Section 2. Vacancies.

In the event of a vacancy occurring in the Executive Committee, the Board of Directors, by resolution adopted by a majority of the entire board, shall fill such vacancy for the unexpired term.

#### Section 3. Powers of Executive Committee.

Subject to such limitations and regulations as may be prescribed by law, including any pertinent section of the New Jersey Business Corporation Act, or these by-laws or by the Board of Directors, the Executive Committee shall have and may exercise all the authority of the Board of Directors in the intervals between the meetings of the Board.

#### Section 4. Regular Meetings.

Regular meetings of the Executive Committee shall be held on such days and at such hours as the Committee may by resolution fix and determine.

#### Section 5. Notice of Regular Meetings.

No notice shall be required to be given of any regular meeting of the Executive Committee.

#### Section 6. Special Meetings.

Special meetings of the Executive Committee may be called at any time by the Chairman of the Committee, the President or by any two members of the Committee and may be held at any place within or without the State of New Jersey and at any time.

## Section 7. Notice of Special Meetings.

Notice of each special meeting of the Executive Committee, stating the time, place, and purpose or purposes thereof, shall be given by the Chairman of the Committee, the President or by the Secretary or by any two members of the Committee to each member of the Committee not less than two (2) days by mail or one (1) day by telegraph or telephone prior to the date specified for such meeting. Special meetings of the Executive Committee may also be held at any place and time, without notice, by unanimous consent of all the members or provided all the members are present at such meeting.

## Section 8. Quorum.

At any meeting of the Executive Committee a majority of the entire Committee shall constitute a quorum and, except where otherwise provided by law or these by-laws, a majority of such quorum shall decide any question that may come before the meeting. A majority of the members present at any regular or special meeting, although less than a quorum, may adjourn the same from time to time, without notice other than announcement at the meeting, until a quorum is present. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally called.

## **Article 4**

### **OFFICERS**

#### Section 1. Officers Enumerated.

The officers of the corporation shall be a Chairman of the Board of Directors, a President, one or more Vice-Presidents, a Secretary, a Treasurer, a General Comptroller, and one or more Assistant Vice- Presidents, Assistant Secretaries, Assistant Treasurers, and Assistant Comptrollers, all of whom shall be elected annually by the Board of Directors. The Chairman of the Board and the President shall be directors of the corporation.

#### Section 2. Other Officers and Committees.

The Board may by resolution appoint such other officers, managers, agents, employees, or committees as it shall deem necessary, who shall hold their offices for such terms and shall have such powers and perform such duties in the management of the property and affairs of the corporation as shall be prescribed from time to time by the Board of Directors or in the by-laws. Any person may hold more than one office. The Board may also designate the officer who shall be the chief executive officer of the corporation.

### Section 3. Term of Office.

The enumerated officers of the corporation shall be elected for the term of one (1) year but shall hold office until their successors are elected and have qualified. Any officer, however, may be removed at any time by the affirmative vote of a majority of the whole Board of Directors expressed at any duly called regular or special meeting of the Board of Directors.

### Section 4. Vacancies.

If any vacancy shall occur among the officers of the corporation, the Board of Directors may fill such vacancy for the unexpired term.

### Section 5. The Chairman of the Board of Directors.

The Chairman of the Board of Directors shall preside at all meetings of the Board of Directors and at all meetings of the shareholders and shall perform such other duties as the Board of Directors may properly direct.

### Section 6. The President.

The President shall have the general powers and duties of supervision and management of the property and affairs of the corporation which usually pertain to his office, and shall perform all such other duties as the Board of Directors may properly direct. In the absence of the Chairman of the Board, he shall preside at all meetings of the Board of Directors and at all meetings of the shareholders.

### Section 7. The Vice-Presidents.

The Vice-President, and each Vice-President if there be more than one, shall have such powers and perform such duties as usually pertain to such office or as the Board of Directors may properly direct. In the absence or disability of the President, the Vice-President designated by the Board of Directors shall perform the duties and exercise the powers of the President.

### Section 8. The Secretary.

The Secretary shall issue notices of all meetings of shareholders and of the directors and of the Executive Committee where notices of such meetings are required by law or these by-laws. He shall keep the minutes of meetings of shareholders and of the Board of Directors and of the Executive Committee. He shall sign such instruments as require his signature and shall perform such other duties as usually pertain to his office and as the Board of Directors may properly direct.

Section 9. The Treasurer.

The Treasurer shall have the care and custody of all the moneys and securities of the corporation. He shall cause to be entered in books of the corporation to be kept for that purpose, full and accurate accounts of all moneys received and paid on account of the corporation. He shall sign such instruments as require his signature and shall perform such other duties as usually pertain to his office and as the Board of Directors shall properly direct.

Section 10. The General Comptroller.

The General Comptroller shall have the custody and operation of the accounting books and records of the corporation and shall establish and maintain adequate systems of internal control and audit to safeguard the assets of the corporation and shall perform such other duties as usually pertain to his office and as the Board of Directors may properly direct.

Section 11. Assistant Vice-Presidents, Assistant Secretaries, Assistant Treasurers and Assistant Comptrollers.

The duties of the Assistant Vice-Presidents, Assistant Secretaries, Assistant Treasurers and Assistant Comptrollers shall be such as usually pertain to their respective offices and as may be properly required of them by the Board of Directors from time to time.

Section 12. Salaries.

The Board of Directors shall have the authority to fix the salaries of all officers of the corporation.

## **Article 5**

### **INDEPENDENT ACCOUNTANTS**

The Board of Directors shall annually elect independent accountants, and such independent accountants shall serve for one year or until removed by the Board of Directors, whichever occurs first. The annual election of independent accountants shall be subject to ratification by the shareholders. If the shareholders fail to ratify the independent accountants elected by the Board of Directors, the Board of Directors shall elect other independent accountants, who shall serve the remainder of the one-year term for which the independent accountants not ratified by the shareholders had been elected or until removed by the Board of Directors, whichever occurs first. No representative of the corporation's independent accountants shall be a director or officer of the corporation. The independent accountants shall perform such work, render such reports, and make such certificates in connection with the books and accounts and financial affairs of the corporation as the Board of Directors may from time to time direct, and, for that purpose, shall have access at all reasonable times to the records, books, accounts, and vouchers of the corporation, and shall be entitled to require such information and explanations as may be reasonably necessary in the performance of their duties.

## **Article 6**

### **CAPITAL STOCK**

#### **Section 1. Stock Certificates.**

Certificates of stock shall be issued only in numerical order. They shall be signed by or bear the facsimile signatures of the Chairman of the Board, the President, or one of the Vice-Presidents and the Secretary, the Treasurer, Assistant Secretary or Assistant Treasurer. They shall also be signed by or bear the facsimile signature of one of the Transfer Agents and of one of the Registrars of the corporation as permitted or required by law. In case any officer, Transfer Agent or Registrar who has signed or whose facsimile signature has been placed upon any such certificate shall have ceased to be such officer, Transfer Agent or Registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such signatory had not ceased to be such at the date of its issue.

## Section 2. Transfer of Shares.

Transfers of shares, except where otherwise provided by law or these by-laws, shall be made on the books of the corporation pursuant to authority granted by power of attorney duly executed and filed by the holder thereof with one of the Transfer Agents, upon surrender of the certificate or certificates of such shares and in accordance with the provisions of the Uniform Commercial Code as adopted in New Jersey as amended from time to time.

## Section 3. Transfer Agents and Registrars.

The Board of Directors may at any time appoint one or more Transfer Agents and/or Registrars for the transfer and/or registration of shares of stock, and may from time to time by resolution fix and determine the manner in which shares of stock of the corporation shall be transferred and/or registered by such Transfer Agent or Agents and Registrar or Registrars, respectively.

## Section 4. Lost, Stolen or Destroyed Certificates.

Where a certificate for shares has been lost, apparently destroyed, or wrongfully taken and the owner thereof fails to so notify the corporation or the Transfer Agent within a reasonable time after he has notice of the fact and the Transfer Agent or the corporation registers a transfer of the shares before receiving such a notification, the owner shall be precluded from asserting against the corporation any claim for registering the transfer of such shares or any claim to a new certificate.

Subject to the foregoing, where the owner of shares claims that the certificate representing such shares has been lost, destroyed, or wrongfully taken, the corporation shall issue a new certificate in place of the original certificate if the registered owner thereof, or his legal representative, (a) requests the issue of a new certificate before the corporation has notice that the certificate has been acquired by a bona fide purchaser; (b) makes proof in such form as the corporation may prescribe of his ownership of the shares represented by the certificate and that the certificate has been lost, destroyed or wrongfully taken; (c) files either (i) an assumption of liability by a surety approved by the corporation under a blanket lost instrument indemnity bond, substantially in the form approved by the corporation, or (ii) an indemnity bond in such form and with such surety and in such amount (open or specified) as may be approved by the corporation, indemnifying the corporation and its transfer agents and registrars against all loss, cost and damage which may arise from issuance of a new certificate in place of the original certificate; and (d) satisfies any other reasonable requirements imposed by the corporation. Approvals or any requirements pursuant to this section by the corporation may be granted or imposed by the President, and Vice-President, the Secretary, any Assistant Secretary, or any other officer as authorized by the Board of Directors.

## **Article 7**

### **DIVIDENDS AND FINANCES**

#### Section 1. Dividends.

Dividends may be declared by the Board of Directors and paid by the corporation at such times as the Board of Directors may determine, all pursuant to the provisions of the New Jersey Business Corporation Act.

Before payment of any dividend or making of any distribution of net profits there may be set aside out of the net profits of the corporation such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper and for such purposes as the Board shall think conducive to the interests of the corporation.

#### Section 2. Finances.

All funds of the corporation not otherwise employed shall be deposited in its name in, and shall be subject to application or withdrawal from, banks, trust companies or other depositories to be selected in accordance with and in such manner and under such conditions as may be authorized by, or pursuant to the authority of, resolution of the Board of Directors. All checks, notes, drafts and other negotiable instruments of the corporation shall be signed by such officer or officers, agent or agents, employee or employees as may be authorized by, or pursuant to the authority of, resolution of the Board of Directors. No officers, agents, or employees of the corporation, either singly or together, shall have power to make any check, note, draft, or other negotiable instrument in the name of the corporation or to bind the corporation thereby, except as may be authorized in accordance with the provisions of this section.

## **Article 8**

### **GENERAL**

#### Section 1. Form of Seal.

The seal of the corporation shall be circular in form, with the words and figures "Eastman Kodak Company, Incorporated, 1901" in the outer circle, and a monogram of the letters EKC in the inner circle.

## Section 2. Indemnification of Directors, Officers and Employees.

To the full extent authorized or permitted by law, the corporation shall indemnify against his expenses and liabilities any person who is or was a director, officer, employee or agent of this corporation, or who is or was serving at the request of this corporation as a director, officer, trustee, employee or agent of any other enterprise, or the legal representative of any such person, and who is or was a party to or threatened to be made a party to any proceeding, civil, criminal or otherwise in respect of any past, present or future matter, by reason of the fact that such person is or was serving in any of the foregoing capacities. The determination as to whether an applicant has met the standards to entitle him to indemnification shall be made by a Committee of Directors, not less than three, appointed by the Board of Directors for the purpose, none of whom shall be parties to the proceedings, or if there are not at least three directors who are not parties to the proceedings, or if there are three such directors and the Board so directs, the determination shall be made in a written opinion by independent legal counsel designated by the Board of Directors. The question of indemnification shall not be submitted to shareholders unless so directed by the Board of Directors.

### **Article 9**

#### **AMENDMENTS**

Except as may otherwise be required by law or by the Certificate of Incorporation, these by-laws may be amended, altered, or repealed, in whole or in part, by a vote of a majority of the members of the Board of Directors at the time in office at any regular or special meeting of the Board of Directors. The shareholders, by a majority of the votes cast at a meeting of the shareholders, may adopt, alter, amend or repeal the by-laws whether made by the Board of Directors or otherwise.

**Exhibit (10) Q.**

January 28, 1999

TO: Richard T. Bourns

RE: Retirement

Dear Dick:

Once signed by both parties, this letter shall constitute an agreement between Eastman Kodak Company ("Kodak") and you. Its purpose is to confirm the terms of your retirement from Kodak.

1. Retirement Date

It is hereby agreed that you will voluntarily terminate your employment on January 31, 1999 (the "Termination Date"). It is further agreed that you will retire from Kodak on February 1, 1999.

2. Responsibilities

During the remainder of your employment by Kodak, you will perform the duties and responsibilities assigned to you by the Chief Operating Office.

3. Stock Options

Subject to your satisfaction of the terms of this letter agreement, your termination of employment will be treated as an "Approved Reason" and a "Permitted Reason" for purposes of any nonqualified stock options to acquire Eastman Kodak Company common stock held by you at the time of your termination of employment. Consequently, you will not forfeit any Kodak stock options by virtue of your termination of employment. Rather, unless sooner forfeited, they will vest per their terms and expire on their scheduled expiration date.

4. Alarm System

Subject to your satisfaction of the terms of this letter agreement, you will be permitted to retain the alarm system that is presently installed in your residence at 575 Colby Road, Spencerport, NY. After your retirement, you will, however, be solely responsible for paying any service related fees associated with the alarm system.

## 5. Performance Stock Program

Upon your termination of employment, the awards you have earned and deferred under the Performance Stock Program (the "Program"), i.e., the awards for the 1993-1995 Restricted Stock Subplan to the Eastman Kodak Company 1990 Omnibus Long-Term Compensation Plan and the 1995-1996 Performance Cycle of the Performance Stock Program under the Eastman Kodak Company 1995 Omnibus Long-Term Compensation Plan (the "1995 Omnibus Plan"), will be paid to you pursuant to the terms of such program. That is, payment will be made in a single sum or in annual installments at the discretion of the Committee.

Recognizing that your termination of employment will be for "Retirement" under the terms of the Program, you will remain eligible for awards under the Program's 1996-1998, 1997-1999 and 1998-2000 Performance Cycles, provided awards are paid for such cycles. Any award earned for these three cycles will be paid in the form of shares of Kodak common stock, not subject to any restrictions. The awards you earn for the 1997-1999 and 1998-2000 Performance Cycles will be pro-rated based upon your length of service during such cycles.

Please keep in mind that under the terms of 1995 Omnibus Plan, all awards are, until paid, subject to forfeiture under Section 14.3 entitled "Noncompetition."

## 6. Wage Dividend

You will be eligible for any Wage Dividend payable for the 1998 Performance Period based upon your participating compensation for this period. This award will be paid, subject to withholding for all applicable income and payroll taxes, in cash at the same time the plan's other participants receive their award for the 1998 Performance Period.

## 7. Management Variable Compensation Plan.

You will remain eligible for an award under the Management Variable Compensation Plan for the 1998 Performance Period. If awards are paid for such period, whether you receive an award, and if so the size of such award, will be based upon your achievement of your performance commitments for 1998. Any award earned by you will be paid, subject to withholding for all applicable income and payroll taxes, at the same time the plan's participants receive their awards for the 1998 Performance Period.

## 8. Financial Counseling

You will, at Kodak's expense, continue to be eligible to participate in Kodak's financial counseling program for the two-year period commencing upon the Termination Date. The payment of these expenses on your behalf will be treated as ordinary income to you and reported accordingly.

## 9. Post-Retirement Survivor Income Benefit

As you know, upon your retirement you will be eligible for a post-retirement survivor income benefit under the Family Protection Program ("FPP"). The post-retirement income benefit will provide a monthly income benefit to your spouse for life should you predecease her after you retire. If FPP is ever amended or terminated to either limit or eliminate the post-retirement survivor income benefit, Kodak agrees to continue to provide this benefit to you. The benefit will be provided on substantially the same terms and conditions (e.g., amount and duration) as if it were still being provided under the terms of FPP. Kodak will not have an obligation to fund the benefit and, consequently, the benefit may at Kodak's discretion be paid from the company's assets.

## 10. Benefits Not Benefits Bearing

In no event shall any of the benefits payable under this letter agreement be "benefits bearing." In other words, the amount of these benefits will not be taken into account, nor considered for any reason, for purposes of determining any company provided benefits or compensation to which you may become eligible, including, by way of illustration and not by way of limitation, the wage dividend.

## 11. Release

In consideration for the benefits under Sections 3, 4, 8 and 9 of this letter agreement, you hereby agree to execute immediately prior to your termination of employment the release annexed hereto as Addendum A. In the event you either fail to sign the Addendum A or, once signed, make an effective revocation of Addendum A, you will not be entitled to benefits under Sections 3, 4, 8 and 9 of this letter agreement.

## 12. Continued Cooperation

Following your retirement, Kodak may need your continued cooperation and involvement with various pieces of litigation and other legal matters which are now pending or which may arise after your retirement. As partial consideration for the benefits under this letter agreement, you agree, at Kodak's request from time to time, to cooperate with Kodak in its efforts to defend and/or pursue any such litigation or other legal matters. You further agree that you will provide this assistance to Kodak at no additional remuneration beyond those benefits already being provided to you under the terms of this letter agreement. Furthermore, in the event of your breach of this letter agreement, and regardless of whatever actions or remedies Kodak pursues as a result thereof, you agree to continue to perform the services required of you under this Section 12 of the letter agreement. When performing these services at Kodak's request, Kodak agrees to reimburse you for the reasonable travel and lodging expenses you incur upon submission of such documentation as is normally required of Kodak employees in

receiving reimbursement for similar types of expenses. By way of illustration and not by way of limitation, the types of services that may be requested of you under this Section 12 include: attending strategy sessions, attending preparations for trial, appearing at depositions, executing affidavits and testifying at trials.

### 13. Employees' Agreement

During your employment by Kodak, you signed an "Eastman Kodak Company Employee's Agreement" in which you reaffirmed your obligation not to disclose company trade secret, confidential or proprietary information. Further, you agreed not to engage in work or activities on behalf of a competitor of Kodak's in the field in which you were employed by Kodak for a period of two (2) years following termination of your employment by Kodak. By signing this letter agreement, you reaffirm the Employee's Agreement and agree that it is, and will be at the time of your termination, in full force and effect, without amendment or modification.

To the extent you locate one or more opportunities in any field or fields in which you have worked for Kodak, Kodak agrees, upon your request, to promptly review the terms of each such employment opportunity to determine whether such opportunity is in Kodak's opinion violative of the terms of the Employee's Agreement. All such requests should be submitted directly to my attention.

### 14. Miscellaneous

A. Confidentiality. You will agree to keep the existence of this letter confidential except that you may review it with your attorney, financial advisor, spouse, or adult children, or with my designee or me.

B. Unenforceability. If any portion of this letter agreement is deemed to be void or unenforceable by a court of competent jurisdiction, the remaining portions will remain in full force and effect to the maximum extent allowed by law. The parties intend and desire that each portion of this letter agreement be given the maximum possible effect allowed by law.

C. Headings. The heading of the several sections of this letter agreement have been prepared for convenience and reference only and shall not control, affect the meaning, or be taken as the interpretation of any provision of this letter agreement.

D. Applicable Law. All matters pertaining to this letter agreement (including its interpretation, application, validity, performance and breach) shall be governed by, construed and enforced in accordance with the laws of the State of New York without giving effect to principles of conflicts of laws.

E. Amendment. This letter agreement may not be changed, modified, or amended, except in a writing signed by both you and Kodak that expressly acknowledges that it is changing, modifying or amending this letter agreement.

F. Counterparts. This letter agreement may be executed in any number of duplicate originals, each of which shall be deemed an original, and said duplicate originals shall constitute but one and the same instrument.

Your signature below means that:

1. You have had ample opportunity to discuss the terms and conditions of this letter agreement with an attorney and/or financial advisor of your choice and as a result fully understand its terms and conditions; and
2. You accept the terms and conditions set forth in this letter agreement; and
3. This letter agreement, including in particular its reference regarding the continuing effectiveness of the Employees' Agreement, supersedes and replaces any and all agreements or understandings whether written or oral that you may have with Kodak, or any subsidiaries or affiliates, concerning any special or other separation, retirement or compensation arrangement.

If you find the foregoing acceptable, please sign your name on the signature line provided below and return the original signed copy of this letter directly to my attention. Thank you.

Very truly yours,

**Michael P. Morley**

MPM:llh  
Enclosure

Signed: \_\_\_\_\_  
Richard T. Bourns

Dated: \_\_\_\_\_

Eastman Kodak Company and Subsidiary Companies  
 Computation of Ratio of Earnings to Fixed Charges  
 (in millions, except for ratios)

	Year Ended December 31				
	1998	1997	1996	1995	1994
Earnings from continuing operations before provision for income taxes	\$2,106	\$ 53	\$1,556	\$1,926	\$1,002
Add:					
Interest expense	110	98	83	78	535
Share of interest expense of 50% owned companies	7	5	2	1	-
Interest component of rental expense (1)	50	61	81	63	66
Amortization of capitalized interest	24	23	22	22	25
	-----	-----	-----	-----	-----
Earnings as adjusted	\$2,297	\$ 240	\$1,744	\$2,090	\$1,628
	=====	=====	=====	=====	=====
Fixed charges					
Interest expense	110	98	83	78	535
Share of interest expense of 50% owned companies	7	5	2	1	-
Interest component of rental expense (1)	50	61	81	63	66
Capitalized interest	41	33	29	30	35
	-----	-----	-----	-----	-----
Total fixed charges	\$ 208	\$ 197	\$ 195	\$ 172	\$ 636
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges	11.0x	1.2x(2)	8.9x(3)	12.2x	2.6x(4)
(1) Interest component of rental expense is estimated to equal 1/3 of such expense, which is considered a reasonable approximation of the interest factor.					
(2) The ratio is 8.6x before deducting restructuring costs, asset impairments and other charges of \$1,455 million.					
(3) The ratio is 12.8x before deducting restructuring costs of \$358 million and the loss on the sale of the Office Imaging business of \$387 million.					
(4) The ratio is 3.1x before deducting restructuring costs of \$340 million.					

Subsidiaries of Eastman Kodak Company Companies Consolidated	Organized Under Laws of
Eastman Kodak Company	New Jersey
Eastman Kodak International Sales Corporation	Barbados
Torrey Pines Realty Company, Inc.	Delaware
The Image Bank, Inc.	New York
Cinesite, Inc.	Delaware
FPC Inc.	California
Qualex Inc.	Delaware
Qualex Canada Photofinishing Inc.	Canada
Eastman Software Inc.	Delaware
Jamieson Film Company	Delaware
PictureVision Inc.	Delaware
Eastman Gelatine Corporation	Massachusetts
Eastman Canada Inc.	Canada
Kodak Canada Inc.	Canada
Kodak (Export Sales) Ltd.	Hong Kong
Kodak Argentina S.A.I.C.	Argentina
Kodak Brasileira C.I.L.	Brazil
Kodak Chilena S.A.F.	Chile
Kodak Caceo Ltd.	Delaware
Kodak Panama, Ltd.	New York
Kodak Americas, Ltd.	New York
Kodak Venezuela, S.A.	Venezuela
Kodak (Near East), Inc.	New York
Kodak (Singapore) Pte. Limited	Singapore
Kodak Philippines, Ltd.	New York
Kodak Limited	England
Cinesite (Europe) Limited	England
Kodak India Limited	India
Kodak Polska Sp.zo.o	Poland
Kodak International Finance Ltd.	England
Kodak AO	Russia
Kodak (Ireland) Manufacturing Limited	Ireland
Kodak Ireland Limited	Ireland
Kodak-Pathe SA	France
Kodak A.G.	Germany
E. K. Holdings, B.V.	Netherlands
Kodak Korea Limited	South Korea
Kodak Far East Purchasing, Inc.	New York
Kodak New Zealand Limited	New Zealand
Kodak (Australasia) Pty. Ltd.	Australia
Kodak (Kenya) Limited	Kenya
Kodak (Egypt) S.A.E.	Egypt
Kodak (Malaysia) S.B.	Malaysia
Kodak Taiwan Limited	Taiwan

## Companies Consolidated

Organized  
Under Laws of

Eastman Kodak Company	
Eastman Kodak International Capital	
Company, Inc.	Delaware
Kodak de Mexico S.A. de C.V.	Mexico
Kodak Export de Mexico, S. de R.L. de C.V.	Mexico
Kodak Mexicana S.A. de C.V.	Mexico
Industria Mexicana de Fotocopiadoras,	
S.A. de C.V.	Mexico
N.V. Kodak S.A.	Belgium
Kodak a.s.	Denmark
Kodak Norge A/S	Norway
Kodak SA	Switzerland
Kodak (Far East) Limited	Hong Kong
Kodak (Thailand) Limited	Thailand
Kodak G.m.b.H.	Austria
Kodak Kft.	Hungary
Kodak Oy	Finland
Kodak Nederland B.V.	Netherlands
Kodak S.p.A.	Italy
Kodak Portuguesa Limited	New York
Kodak S.A.	Spain
Kodak AB	Sweden
Eastman Kodak (Japan) Ltd.	Japan
Kodak Japan Ltd.	Japan
Kodak Imagex K.K.	Japan
K.K. Kodak Information Systems	Japan
Kodak Japan Industries Ltd.	Japan
Kodak (China) Limited	Hong Kong
Kodak Electronic Products (Shanghai) Co., Ltd.	China
BASO Precision Optics, Ltd.	Taiwan
K.H. Optical Company Limited	Hong Kong
Kodak Photographic Equipment (Shanghai) Co., Ltd.	China
Kodak (China) Co. Ltd.	China
Kodak (WUXI) Co. Ltd.	China

Note: Subsidiary Company names are indented under the name of the parent company.

**Exhibit (23)**

**CONSENT OF INDEPENDENT ACCOUNTANTS**

We hereby consent to the incorporation by reference in the Prospectuses constituting part of the Registration Statements on Form S-3 (No. 33-48258, No. 33-49285, No. 33-64453, and No. 333-31759), Form S-4 (No. 33-48891), and S-8 (No. 33-5803, No. 33-35214, No. 33-56499, No. 33-65033, No. 33-65035, No. 333-57729, No. 333-57659, No. 333-57663, No. 333-57665, and No. 333-23371) of Eastman Kodak Company of our report dated January 13, 1999, appearing on page 29 of this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP  
Rochester, New York  
March 10, 1999

**ARTICLE 5**

This schedule contains summary financial information extracted from the 1998 form 10-K of Eastman Kodak Company, and is qualified in its entirety by reference to such financial statements.

CIK: 0000031235

NAME: EASTMAN KODAK COMPANY

MULTIPLIER: 1,000,000

CURRENCY: U.S. DOLLARS

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	DEC 31 1998
EXCHANGE RATE	1.0
CASH	457
SECURITIES	43
RECEIVABLES	2527
ALLOWANCES	169
INVENTORY	1424
CURRENT ASSETS	5599
PP&E	13482
DEPRECIATION	7568
TOTAL ASSETS	14733
CURRENT LIABILITIES	6178
BONDS	504
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	978
OTHER SE	3010
TOTAL LIABILITY AND EQUITY	14733
SALES	13406
TOTAL REVENUES	13406
CGS	7293
TOTAL COSTS	7293
OTHER EXPENSES	3897
LOSS PROVISION	75
INTEREST EXPENSE	110
INCOME PRETAX	2106
INCOME TAX	716
INCOME CONTINUING	1390
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1390
EPS PRIMARY	4.30
EPS DILUTED	4.24

---

**End of Filing**

Powered By **EDGAR**  
Online

© 2005 | EDGAR Online, Inc.