

Letter of Comment No: 2/ File Reference: 1099-001

August 1, 2004

Mr. Lawrence W. Smith
Director - Technical Application & Implementation
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Interpretation—Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143, Accounting for Asset Retirement Obligations.

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Dear Mr. Smith:

The Eastman Kodak Company ("Kodak") appreciates the opportunity to respond to the Proposed Interpretation—Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143, Accounting for Asset Retirement Obligations, (Proposed Interpretation). We believe that the Proposed Interpretation should not be issued as it is currently written. We do not believe that the obligating event for the removal and disposal of asbestos, which creates the liability, occurs at the point concluded in the Proposed Interpretation. These views are consistent with our views expressed on the Proposed FASB Staff Position—Applicability of FASB Statement No. 143, Accounting for Asset Retirement Obligations, to Legislative Requirements on Property Owners to Remove and Dispose of Asbestos or Asbestos-Containing Materials. We further elaborate on our views, which are primarily related to removal and disposal of asbestos, below.

Definition of a Liability

The Proposed Interpretation cites FASB Concepts Statement No. 6, Elements of Financial Statements (CON 6) definition and three essential characteristics of a liability. Those characteristics are: "(a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened."

In our opinion the third characteristic is not met until the asbestos is disturbed or management with the appropriate authority decides to disturb the asbestos. In the United States asbestos is regulated under the Occupational, Safety, & Health Administration, Section 1910.1001; the Clean Air Act Section 112 which established the National Emissions Standards for Hazardous Air Pollutnats (NESHAP).

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Based on our understanding of the Asbestos regulations (within the United States and for many other countries), the legal obligation arises upon the disturbance of the asbestos, not the existence of the asbestos.

Accordingly, companies should not record an asset retirement obligation, as described in FASB Statement No. 143, for the removal or disposal of asbestos upon acquisition or construction of the building because no such legal obligation exists. However, companies should record an asset retirement obligation when management with the appropriate authority decides to demolish or renovate the building. We believe that that decision by management is the obligating event.

Benefits and Costs

We are not convinced that the benefits of implementing the Proposed Interpretation, as currently written, will outweigh the costs to implement.

Determining the population of buildings and other structures that contain asbestos and calculating the fair value of such an obligation will involve significant resources. The NESHAP regulations only require companies to inspect for asbestos before they demolish or renovate a building, consequently, if a demolition or renovation was not planned, companies may not know that their buildings contain asbestos. Companies will need to devote significant resources to perform various tests to determine whether or not asbestos exists. Furthermore, to properly apply the fair value measurement model, companies will need to reconstruct historical data, assumptions, and obtain other information. In many cases, some companies will need to commission exhaustive new studies to compile the necessary information.

More specifically, for an appropriate determination of the liability the following variables will need to be considered:

- Population of buildings and other structures that contain asbestos
- · Type of asbestos
- Sale of building with asbestos
 - o Impact to the price of building containing asbestos compared to a building without asbestos
- Remolding
 - o Portion of the asbestos will be impacted if remolding
 - o Timing of the remolding
 - Type of asbestos removed during remolding
- Demolition of the building
 - o Timing of the demolition
 - Type of asbestos

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Each variable will impact the cost model for the liability and the model will be based upon information, which is purely speculative in nature, since in many cases it involves predicting the future. We believe that the costs to formulate the asbestos reserves will be costly and burdensome. In many cases, the above information is not currently maintained and experts must be consulted.

We believe that the expected benefit of improved financial reporting will be minimal. We are not convinced that the Proposed Interpretation will be applied consistently. As evidenced by the answers to the examples provided in Appendix A application of the Proposed Interpretation is based, somewhat, on management's discretion. For example, a different answer was reached in Example 4 than Example 1, 2, and 3 because management of the oil company asserted that the refinery has an indeterminate useful life.

Furthermore, we do not understand how recording an obligation that does not meet the definition of a liability and that may never result in an outflow of operating cash flow (or result in an cash outlay in a future period as great at 30 years) produces more meaningful financial reporting or help the users of financial statements understand the financial position of any entity. Our experience in this area tells us that users (particularly financial analysts that follow our company) "discount" such information by eliminating it from the financial models. We believe that information regarding remote, possible or fairly likely retirement obligations should be disclosed not recorded in the financial statements.

Transition Guidance

While we recommend that that Board reconsider its conclusions described in the Proposed Interpretation, if through its redeliberations the Board retains its current decisions, we support the Proposed Interpretation's transition provisions. We support the cumulative effect of an accounting change method for initial implementation.

We also encourage the Board to maintain the current one-year implementation period. Implementing the Proposed Interpretation will require extensive work for many companies. Companies will need time to obtain the necessary information to implement the measurement provisions of the Proposed Interpretation.

Kodak appreciates the opportunity to comment on the Proposed Interpretation. If you have any questions regarding our comments or would like further information, please contact Gisele Dion, Director of Accounting Research, Policies, and Procedures at 585-724-6246.

Sincerely,

Richard G. Brown, Jr. Corporate Controller

Richard Brown