



Letter of Comment No: 84  
File Reference: 1204-001

October 31, 2005

Ms. Suzanne Q. Bielstein  
Director - Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**File Reference No. 1204-001**  
**FASB Exposure Draft: Proposed Statement of Financial Accounting Standards,  
*Business Combinations* – a replacement of FASB Statement No. 141**

Dear Ms. Bielstein:

Eastman Kodak Company (Kodak) appreciates the opportunity to comment on the exposure draft (ED) of the FASB's proposed Statement of Financial Accounting Standards, *Business Combinations* – a replacement of FASB Statement No. 141.

Although Kodak generally supports the model elaborated in the ED, we believe certain amendments and clarifications to the proposed standard would ease application of the model in the future. As requested, we have arranged our comments in response to the 19 questions stated in the forepart of the ED.

**Objective, Definition, and Scope**

*Question 1 - Are the objective and the definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?*

We generally support the proposed objective, definition, and scope of the ED. However, please refer to our responses below regarding application of the fair value measurement attribute.

**Definition of a Business**

*Question 2 - Are the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed*

*constitute a business? If not, how would you propose to modify or clarify the definition or additional guidance?*

We believe that the definition of a business included in the ED is generally appropriate. However, as suggested in paragraph B38, the presumption that an asset group is a business if goodwill is present does result in circular logic. Because the measurement attributes for a business differ from those of an asset acquisition and because goodwill is calculated as a residual, one would need to know whether a group of assets constitutes a business before knowing whether goodwill, as defined, is present.

Given that drastically different accounting could result from purchases of two similar groups of assets, depending on whether those groups of assets are determined to constitute a business or not, we suggest adding examples of the application of the definition of a business.

#### **Measuring the Fair Value of the Acquiree**

*Question 3 - In a business combination in which the acquirer holds less than 100 percent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognize 100 percent of the acquisition-date fair value of the acquiree, including 100 percent of the values of identifiable assets acquired, liabilities assumed, and goodwill, which would include the goodwill attributable to the noncontrolling interest? If not, what alternative do you propose and why?*

We understand the basis for conclusions reached and can support that applying the full fair value model in a business combination in which the acquirer holds less than 100 percent of the equity interests of the acquiree at the acquisition date will result in recognition of 100 percent of the acquisition-date fair value of the acquiree, including 100 percent of the values of identifiable assets acquired, liabilities assumed, and goodwill, which includes the goodwill attributable to the noncontrolling interest.

*Question 4 - Do paragraphs A8–A26 provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?*

We believe that paragraphs A8 through A26 provide sufficient guidance for measuring the fair value of an acquiree.

*Question 5 - Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree the best evidence of the fair value of*

*that interest? If not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?*

We agree that the acquisition-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree; including contingent consideration, equity interests issued by the acquirer, and any noncontrolling equity investment in the acquiree that the acquirer owned immediately before the acquisition date, is the best evidence of the fair value of that interest.

While we believe the proposed standard is consistent throughout in its application, we are concerned that this proposed standard is an evolutionary step in a changing accounting model for which many of the other necessary steps in the evolution (i.e. the fair value measurement and liabilities and equity projects) are yet to be completed. We hope that those and other projects will be theoretically consistent with the conclusions reached in this standard or that this model will be revisited if necessary.

*Question 6 - Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?*

We agree with the proposed contingent consideration accounting to be applied subsequent to the acquisition date. However, this accounting highlights the inconsistency in accounting for the acquisition of a business and the acquisition of a group of assets and therefore emphasizes the need for consistent application of the definition of a business.

*Question 7 - Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?*

We disagree. The inclusion of the costs that an acquirer incurs in connection with a business combination should be recognized as a part of the assets acquired and should not be excluded from the measurement of the consideration transferred for the acquiree. This concept is inconsistent with asset acquisition and equity issuance accounting and, in our opinion, would therefore be inappropriate. We believe that acquisition costs should be included in the measurement of an asset, including those acquired in a business combination. We also note that costs of disposing of assets are included in the cost of the assets, for example asset retirement obligations, and believe the costs of acquisition should similarly be included in the asset basis.

### **Measuring and Recognizing the Assets Acquired and the Liabilities Assumed**

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*Question 8 - Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you propose?*

While we theoretically agree with recognition at the acquisition date and measurement at fair value of assets acquired and liabilities assumed as a part of a business combination, we believe that this requirement should be modified as it relates to contingent assets and liabilities.

Paragraph 35 of the ED proposes that "The acquirer shall recognize as of the acquisition date an asset or liability for a contingency acquired in a business combination if it meets the definition of an asset or liability in Concepts Statement 6 even if that contingency does not meet the recognition criteria in Statement 5, as amended by this Statement." When a multinational entity is acquired, there could be a significant amount of contingencies assumed that are reasonably expected to embody a responsibility to transfer assets. The amount of effort to determine a fair value for each of those contingent liabilities would be significant. The effort that would be required in each period subsequent to the acquisition to segregate contingent assets and liabilities acquired in a business combination and those that were not acquired in a business combination and to monitor and measure all of the various inputs that an appropriate fair value calculation would require, for each contingency, could be a time consuming and costly task adding complexity to financial accounting processes. Therefore, we suggest that an exception be added to the fair value measurement principle for contingent assets and liabilities that are acquired or assumed as a part of a business combination.

If an exception is not added to the fair value measurement principle, we suggest clarifying paragraph 36(a) of the ED to indicate that a contingency acquired as a part of a business combination would not be required to be measured at fair value subsequent to the acquisition date if it did not meet the recognition criteria as of the date of the acquisition. We would also suggest adding examples demonstrating the application of this principle to the initial and subsequent measurement of environmental remediation liabilities.

*Question 9 - Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?*

Please refer to our response to Question 8.

**Additional Guidance for Applying the Acquisition Method to Particular Types of Business Combinations**

*Question 10 – Is it appropriate for the acquirer to recognize in income any gain or loss on previously acquired noncontrolling equity investments on the date it obtains control of the acquiree? If not, what alternative do you propose and why?*

We understand the Board's conclusion that gaining control of a business is a remeasurement event and therefore can support that it is appropriate for the acquirer to recognize in income any gain or loss on previously acquired noncontrolling equity investments on the date it obtains control of the acquiree.

*Question 11 – Do you agree with the proposed accounting for business combinations in which the consideration transferred for the acquirer's interest in the acquiree is less than the fair value of that interest? If not, what alternative do you propose and why?*

We agree with the proposed accounting.

*Question 12 – Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date? If so, in what circumstances?*

We agree with the proposed accounting to include overpayments in goodwill.

**Measurement Period**

*Question 13 – Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?*

While we understand the conceptual merits of requiring that comparative information for prior periods presented in financial statements be adjusted for the effects of measurement period adjustments, we are concerned about the additional effort and complexity this requirement will add to the financial reporting process. We support robust disclosure of the effects of measurement period adjustments and believe such disclosures could obviate the need for adjustments to prior periods.

**Assessing What Is Part of the Exchange for the Acquiree**

*Question 14 – Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and*

*liabilities assumed or incurred are not part of the exchange for the acquiree? If not, what other guidance is needed?*

We believe the guidance provided is sufficient.

**Disclosures**

*Question 15 - Do you agree with the disclosure objectives and the minimum disclosure requirements? If not, how would you propose amending the objectives or what disclosure requirements would you propose adding or deleting, and why?*

We agree with the disclosure objectives and requirements.

**The IASB's and the FASB's Convergence Decisions**

*Question 16 – Do you believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognized separately from goodwill? If not, why? Do you have any examples of an intangible asset that arises from legal or contractual rights and has both of the following characteristics:*

- a. The intangible asset cannot be sold, transferred, licensed, rented, or exchanged individually or in combination with a related contract, asset, or liability*
- b. Cash flows that the intangible asset generates are inextricably linked with the cash flows that the business generates as a whole?*

We believe that intangible assets that are identifiable should be recognized separately from goodwill.

*Question 17 – Do you agree that any changes in acquirer's deferred tax benefits that become recognizable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination? If not, why?*

No, we do not agree that changes in the acquirer's deferred tax benefits that become recognizable because of the business combination should be accounted for separately from the business combination. There are many synergies that are acquired as a part of the acquisition of another business. The separation of this particular synergy from business combination accounting is inconsistent with the accounting for other synergies acquired. It should also be noted that one of the few exceptions to the proposed business combination model relates to Statement 109. It seems inconsistent to continue to apply most of the concepts of Statement 109 while choosing to ignore others.

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Although we do consider international convergence an important activity that should be applied in all instances in which the underlying theory is supportive, we are confused by the theoretical support for such a change in Statement 109. As we have stated above, business combinations usually are effected to take advantage of a large number of potential synergies. These synergies can result from economies of scale, enhancing a particular business process for which a competitor (acquired) excels, or for tax benefits. These synergies are the very definition of theoretical goodwill. To exclude one motivating benefit from business combination accounting, while retaining others, seems inappropriate to us.

*Question 18 -- Do you believe it is appropriate for the IASB and the FASB to retain those disclosure differences? If not, which of the differences should be eliminated, if any, and how should this be achieved?*

We do not object to the differences.

**Style of This Exposure Draft**

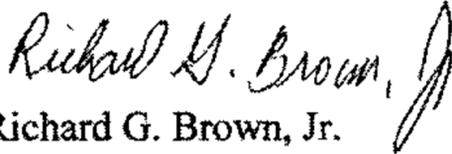
*Question 19 - Do you find stating the principles in bold type helpful? If not, why? Are there any paragraphs you believe should be in bold type, but are in plain type, or vice versa?*

We find the bold type helpful.

We hope the above comments are useful. Please feel free to contact either myself at (585) 724-4921, Eric Samuels at (585) 724-9025 or Robert Hilbert at (585) 724-1978 if you would like to discuss these items.

Sincerely,

Eastman Kodak Company

  
Richard G. Brown, Jr.  
Corporate Controller