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January 11, 1996

Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
File Reference 154-D
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Lucas:

BBN Corporation (the "Company"), which provides internetworking services, products and application solutions, has received with much interest the Board's Exposure Draft, "Consolidated Financial Statements: Policy and Procedures."

BBN's overall business strategy is to capitalize upon its technical expertise and problem solving experience in the internetworking, data analysis, and collaborative systems and acoustic technologies area. The Company's strategy has been to develop advanced technologies at its BBN Systems and Technologies Division, and to create operating subsidiaries and divisions focused on transforming these technologies into services and products for the commercial and government markets. BBN Software Products Corporation, BBN HARK Systems Corporation, and BBN Planet Corporation all were founded on technologies that were originally developed at the BBN Systems and Technologies Division, and the Division continues to work on a range of advanced technologies.

BBN has in the past sold minority interests in subsidiary companies to outside investors in private transactions. In such situations, the Company followed the SEC's guidance provided in SAB 51 and recorded the gains on such sales as equity transactions primarily because the underlying subsidiaries were newly formed, development stage companies.

BBN has considered the Board's exposure draft on consolidated financial statements, and believes the Board's tentative conclusions derived from the Board's desire to pursue the Economic Unit Theory are not in the best interests of our Company's stakeholders. Overall, we disagree with the Economic Unit Theory because it would further the disparity between financial reporting and the legal and economic substance of a consolidated entity.

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In addition to our underlying theoretical concerns, we would also like to express our specific concerns in the following three areas covered by the Board's exposure draft:

Proposed Changes to Consolidation of Subsidiaries

- In the Exposure Draft, the Board reiterated "that consolidated financial statements are primarily for the benefit of the shareholders, creditors, members, donors, and other present and potential resource providers of a parent." We believe that the Economic Unit Theory distorts legal reality for the following reasons:

  - Stock of the subsidiary is an asset of the parent, not the underlying assets of the subsidiary. Creditors of the parent can force a sale of the stock of the subsidiary, but not the underlying assets of the subsidiary.

  - Minority shareholders of a subsidiary have no interest in the parent.

  - Parent's access to cash flow of the subsidiary is limited. Rating agencies certainly don't review the consolidated whole as a single entity.

  - Creditors of the subsidiary can only reach the subsidiary's assets, not the parent's and vice versa.

  We believe financial statements that attempt to serve all interested parties may not only be difficult to understand and assess, but may be construed as misleading.

Proposed Changes to Existing SAB 51 Rules

- In many situations, the proposed rules may seriously misrepresent economic reality. For example, it is possible that the sale of a business for an amount less than the cost of its acquisition would result in a gain. This anomaly results from the fact that under the proposed rules, no goodwill is recorded in transactions subsequent to obtaining controlling interest of an entity.

- The current SEC rules, although clearly interim guidance only, carefully consider and address the issues surrounding such transactions. SAB 84 was issued in 1989 as a means of addressing the concerns raised by SAB 51 in the six years since its issuance in 1983. The Company believes the guidance provided by SABs 51 and 84 are comprehensive and allow for gain recognition only in instances in which the probability of asset realization supports such treatment. We believe that the Securities and Exchange Commission (SEC) has placed appropriate restrictions around such transactions to prevent abuse.

- We are also troubled by the proposed guidance regarding step acquisitions. Specifically, we are concerned with those transactions in which a parent obtains a subsidiary but not a controlling interest and then subsequently makes an additional investment in that subsidiary which results in controlling interest. Under the proposed guidance, a gain or loss would be recorded for the difference between the fair value at the date control is acquired and the cost of the initial non-controlling investment. This is a radical departure from the basic principle of accounting for the acquisition of an asset at its cost.

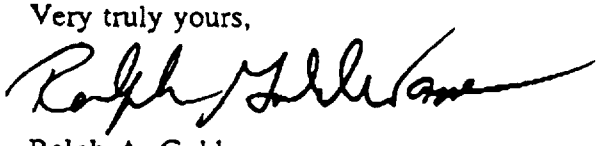
Proposed Changes to Acquisition Accounting

- Under the Board's proposed guidance, any goodwill associated with the subsequent permanent acquisition of all or a portion of a minority interest (of a previously controlled entity) would be recorded as an equity transaction. Such treatment does not give consideration to the economic substance of the transaction: the purchase of something not previously owned, in this case the partial ownership of the net assets of the subsidiary. Such treatment is also not consistent with the historical cost principle under which assets acquired and liabilities incurred are accounted for on a basis of cost.

We believe that our concerns, as discussed above, will lead to manipulations and abuses in financial reporting. As a result, the implementation of the proposed statement in its present form will undermine the integrity of financial statements and lead to confusion by users of financial statements.

BBN encourages the Board to continue to improve financial accounting and reporting standards, and appreciates the opportunity to provide its comments on proposed guidance.

Very truly yours,



Ralph A. Goldwasser
Senior Vice President and
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