



RICARDO B. LEVY
PRESIDENT &
CHIEF EXECUTIVE OFFICER

Letter of Comment No: 22A
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January 12, 1996

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Attn.: Mr. Timothy S. Lucas
Director of Research and Technical Activities

RE: File 154-D

Dear Mr. Lucas:

I would like to respond to the above referenced Exposure Draft dealing with Consolidated Financial Statements: Policy and Procedures. Because of the particular stage of our company, I will address one section only: "*Changes in a Parent's Ownership Interest in a Subsidiary.*" I believe that this portion of the Exposure Draft may lead to financial statements for our company which are misleading to our investors and therefore have a negative impact on the development of our business. I am aware that there are many other aspects of the proposal that merit comment, but I am sure that others will provide ample advice on those matters to help you make a final decision on the Exposure Draft. I will therefore concentrate on the one that impacts our company the most at this time.

Catalytica is a small entrepreneurial company that is in the process of transitioning from technology development to commercialization. After many years of research we have succeeded in developing more effective and environmentally attractive manufacturing technologies that are applicable to a number of large but quite different markets. To commercialize these technologies, we have formed subsidiaries that are focused on these distinct markets. Formation of such subsidiaries is enabling us to insure that each activity is completely transitioned from the technology development stage to being fully responsive to the markets and customers we intend to serve. The formation of subsidiaries also permits greater flexibility to respond to the particular dynamics of the different markets, thus increasing financing options for growth.

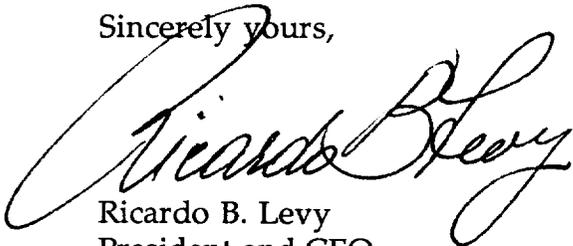
Financial Accounting Standards Board
Attn: Mr. Timothy S. Lucas
January 12, 1996
Page Two

One of those financing options is the sale of a minority position in one or more of the subsidiaries to investors with interest in that particular market. Such a transaction is in effect the sale of part of the value that has been created by the parent. The choice to sell a part of the property (the subsidiary) and thus forego that fraction of the potential future profit stream in order to obtain near term cash does not change the fundamentals of the economic event: a part of an asset that was created using shareholder property is sold at a gain or loss. In this respect it is no different than the sale of product. This transfer of value occurs whether the sale of a minority interest in the subsidiary is accomplished by the sale of new subsidiary shares or part of the parent company's holdings of the subsidiary. Your proposed change would preclude us from reporting such a sale as a gain or loss.

The elimination of the ability to book gains or losses upon the sale of minority interests in subsidiaries results, in our opinion, in financial reporting which fails to recognize the value which we have created and to fairly reflect the economic reality of the business. This in turn damages our future financing capability which is critical for our growth. More broadly, we believe that such a step would harm the ability of technology based entrepreneurial companies like ours to expand and continue to be a part of what makes the United States the leader in the birth and growth of new companies and new industries. We therefore urge you to reconsider the proposed change.

We appreciate this opportunity to provide our views and will be glad to discuss them further at the hearings.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Ricardo B. Levy". The signature is written in a cursive, flowing style with a large initial "R".

Ricardo B. Levy
President and CEO