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Director of Research and Technical Activities
Financial Accounting Standards Board
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Gentlemen:

Houghton Mifflin Company (Houghton) appreciates the opportunity to comment on the Exposure Draft, "Consolidated Financial Statements: Policy and Procedures". Houghton is a leading publisher of textbooks and other educational materials for the school and college markets which is headquartered in Boston, Massachusetts. Houghton has assets of $1 billion, revenues of $700 million and a substantial ownership interest in INSO Corporation (INSO) a leading provider of multilingual software products. INSO was spun-off from Houghton in 1994.

Houghton believes there is no need to revise the current consolidation policy and procedures. The current policies are well defined and have accurately reflected the economic activities of the parent company and the majority owned subsidiaries on a consistent basis. The procedures used in preparing the consolidated financials should continue to follow the parent company approach. These procedures best serve the current (or future) shareholders of the parent. The consolidated financials should reflect only the subsidiaries for which the parent can unconditionally realize the full benefits or risks associated with the cash flows.

CONSOLIDATION POLICY

The primary condition for controlling a financial interest should continue to be measured by legal control. This is the only time that a parent can be assured that it can direct the use of the assets of the subsidiary to obtain the maximum benefits for the consolidated entity. If a Company owns less than fifty percent of an entity control over cash flows is not assured. Houghton currently owns approximately 36% of INSO . Prior to an offering of common stock by INSO, Houghton's ownership percentage was 40.1 percent. Under the proposed rules Houghton would have consolidated INSO prior to the offering and not consolidated INSO after the common stock offering. However, our relationship with INSO did not change as a result of this offering. Houghton was and still is INSO's largest shareholder, had minimal influence over the activities of INSO before the offering and realized no benefits from its cash flows as a result of the offering. Houghton does benefit in any share price increases and decreases of INSO common stock in proportion to its ownership stake. However, Houghton will not benefit in a cash flow sense until it sells a portion of its remaining ownership.

Houghton believes that item (b) of paragraph 14 of the Exposure Draft is too subjective and does not necessarily indicate the existence of effective control. This characteristic assumes that the other owners are indifferent and would not exercise their voting rights if transactions unfairly benefited a large minority owner. At the point that other shareholders are not satisfied with the actions of a large minority shareholder it is prudent to assume that they will vote to exercise influence. However, under the Exposure Draft the large shareholder may be required to assume that it could control the entity at all times unless it had evidence to the contrary.

The change proposed by the Exposure Draft would make the assessment of control more subjective, resulting in less comparable financial information. It is likely that management of different entities would make different assessments of similar situations.

Houghton believes it would be appropriate to consolidate subsidiaries that the parent does not legally control if the parent has the ability to obtain legal control (item (c) of paragraph 14 of the Exposure Draft).

Houghton believes temporary control should be expanded to all subsidiaries, not just newly created ones. Classification should be based on the intent of management.

CONSOLIDATION PROCEDURES

Reporting Noncontrolling Interest in Subsidiaries

Houghton disagrees with any changes to the classification and display of the noncontrolling interest. Shareholders equity represents the residual interest of the stockholders of the parent company. Those stockholders have no legal rights or claims to the noncontrolling (minority) interests . The Exposure Draft indicated that the noncontrolling interest did not meet the definition of a liability. However there are other financial instruments like mandatorily redeemable preferred stock which are classified in the mezzanine between the liability and equity sections of the balance sheet.

Changes in a Parents Ownership Interest in a Subsidiary and Disposition of a Subsidiary

Houghton does believe that some of the rules under SAB 51 should be revised. However, we do not agree with reflecting as equity transactions, changes in a parent's proportionate ownership interest in a subsidiary that do not result in a loss in control. Houghton believes there is a significant difference between a parent selling an ownership percentage in a 40% owned subsidiary on the equity method and the subsidiary selling additional common shares to the public. The impact on the parents ownership percentage may be the same but the economic results are far different. Houghton believes a sale by the parent of an ownership interest to an outside party completes the earnings process. The parent has traded cash for the benefit or risk of the future cash flows related to that proportionate interest. A gain should be recognized in the financials to reflect this reduction in the parents ownership. In the situation where the subsidiary sells additional shares to the public the parent realizes no additional cash but its ownership percentage nevertheless changes. Houghton believes that it is appropriate to not recognize a gain or loss on this type of transaction but to record it as an increase or decrease in additional paid in capital of the parent and a corresponding increase or decrease in the equity investment.

Houghton believes the Exposure Draft approach to changes in ownership interest will also result in inconsistent accounting for essentially similar transactions. Company's could report different results if they sell their ownership interests in a two step transaction with the second one resulting in a loss of control versus a single transaction which results in a loss of control. This procedure could also supply inconsistent results where the original purchase was made in steps versus a single purchase.

SUMMARY

As previously indicated, we do not agree with the Exposure Draft and believe that current rules governing consolidation policy and procedure are adequate. We believe that procedures for changes in a parents ownership interest in a minority owned subsidiary should provide for gains and losses on the parents sale of portions of its ownership interest. We do not believe that the final Statement should require restatement. However, if it does, it should exclude consolidation of subsidiaries if in the year of restatement the parent no longer controls the entity. In addition, restatement under the Exposure Draft should exclude restatement of earnings. We can see no benefit of changing earnings that investors have previously relied upon. Transactions quite probably would have been structured differently had the Exposure Draft been in place in prior years.

Houghton appreciates the opportunity to comment on this Exposure Draft.

Sincerely yours,

James F. Stack