Raytheon

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Russell G. Golden
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Exposure Draft: Stock Compensation Topic 718 – Improvements to Employee Share-Based Payment Accounting

Dear Mr. Golden:

Raytheon appreciates the opportunity to comment on the proposed Accounting Standards Update *Compensation–Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting* (the "Exposure Draft or "ED"). Raytheon Company, with 2014 sales of $23 billion and 61,000 employees worldwide, is a technology and innovation leader specializing in defense, security and civil markets throughout the world. With a history of innovation spanning 93 years, Raytheon provides state-of-the-art electronics, mission systems integration and other capabilities in the areas of sensing; effects; and command, control, communications and intelligence systems, as well as cyber security and a broad range of mission support services. We are a major supplier to the U.S. Government and are committed to strong corporate governance, including transparent disclosure and accountability to our stockholders. We seek to provide the highest levels of financial reporting for the benefit of our investors in the U.S. market and across the globe. Raytheon is headquartered in Waltham, Massachusetts.

Our comments relate solely to Questions 2, 3, and 5 in the Exposure Draft.

Question 2: Should excess tax benefits and tax deficiencies be recognized in the income statement? If not, why, and are there other alternatives that are more appropriate? Should an entity delay recognition of an excess tax benefit until the benefit is realized through a reduction to taxes payable? If yes, why?

We disagree with the proposed approach of recognizing excess tax benefits and tax deficiencies in the income statement. As discussed below, we believe the Board should pursue a model wherein all excess tax benefits and tax deficiencies are reflected in equity as additional paid-in capital (the "Symmetrical Equity Approach") because the exercise of a stock option by the option holder represents an equity transaction. We think the proposed approach results in financial reporting that is not reflective of the nature of the transaction and introduces other complexities.

<u>Symmetrical Equity Approach</u> - We think the Board should pursue a model where the amount of income tax benefit recognized for the option grant is reflective of the amount recognized as compensation expense; and any subsequent difference in realized tax benefits, both excess benefits and tax deficiencies, are recognized in additional paid-in capital along with the effects of the underlying option exercise. We believe that the granting of an option by an employer and the exercise of that option by the employee represent two distinct transactions. While the granting of

a stock option by the company is accounted for as a compensation transaction, we believe the exercise of a stock option by the option holder represents an equity transaction and the excess benefits and tax deficiencies should be reflected in equity.

Complexity - The proposed approach eliminates the need to track tax effects of each option grant, along with additional paid-in capital pools for every historical grant that resulted in excess tax benefits; however, it also introduces unnecessary complexities. The proposed approach would require companies to assign, track and adjust excess tax benefits and tax deficiencies at the individual grantee level, not only at the time of grant, but at each individual exercise date, which can be multiple dates for each annual grant. Furthermore, this approach would add time and complexity to companies' internal forecasting processes, which would offset any accounting cost savings.

Question 3: Should the effect on tax cash flows related to excess tax benefits be classified as an operating activity on the statement of cash flows? If not, what classification is more appropriate and why?

We support the proposed simplification to report all tax-related cash flows resulting from share-based payments as operating activity on the statement of cash flows.

Question 5: Is the proposed expansion of the exception to liability classification related to the amount withheld for employee's taxes appropriate? If not, is there another exception that is more appropriate and why?

We support the proposed simplification to permit withholding an amount up to the highest marginal tax rate applicable to employees in the relevant jurisdictions without resulting in liability classification.

Conclusion

We appreciate your consideration of our views. If you should have any questions, please feel free to contact me at 781-522-5833.

Sincerely,

Michael J. Wood
Vice President, Controller and Chief Accounting Officer