RAYTHEON CO/
Form 10-K
February 11, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013 or

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-13699

RAYTHEON COMPANY
(Exact Name of Registrant as Specified in its Charter)

Delaware	95-1778500
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

870 Winter Street, Waltham, Massachusetts 02451
(Address of Principal Executive Offices) (Zip Code)

(781) 522-3000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 28, 2013, was approximately $21.2 billion.

The number of shares of Common Stock outstanding as of February 10, 2014 was 314,509,000.

Documents incorporated by reference and made a part of this Form 10-K:

Portions of the Registrant’s Definitive Proxy Statement for its 2014 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

Table of Contents

INDEX

Table of Contents

PART I

ITEM 1. BUSINESS

General

Raytheon Company, together with its subsidiaries, is a technology and innovation leader specializing in defense and other government markets throughout the world. We develop technologically advanced, integrated products, services and solutions in four core defense markets: sensing; effects; command, control, communications and intelligence (C3I); and mission support, as well as other important markets, such as cyber and information security. We serve both domestic and international customers, as both a prime contractor and subcontractor on a broad portfolio of defense and related programs primarily for government customers.

We were founded in 1922 and have grown internally and through a number of acquisitions. We are incorporated in the state of Delaware. Our principal executive offices are located at 870 Winter Street, Waltham, Massachusetts 02451.

In this section, we describe our business, including our business segments, product lines, customers, operations and other considerations.

Business Segments

Effective April 1, 2013, we consolidated our structure into the following four businesses:

- Integrated Defense Systems;
- Intelligence, Information and Services;
- Missile Systems; and
- Space and Airborne Systems.

The following is a description of each of our business segments. As part of the description, we include a discussion of some of the segment's notable initiatives and achievements in 2013, such as certain key contract awards, new product introductions and acquisitions. For a discussion of the financial performance of our business segments and other financial information, see pages 49–63 of this Form 10-K.

Integrated Defense Systems (IDS)—IDS, headquartered in Tewksbury, Massachusetts, is a leader in integrated air and missile defense; radar solutions; naval combat and ship electronic systems; command, control, communications, computers and intelligence (C4I) solutions; and international and domestic Air Traffic Management (ATM) systems. IDS delivers combat-proven performance against the complete spectrum of airborne and ballistic missile threats and is a world leader in the technology, development, and production of sensors and mission systems. IDS provides solutions to the U.S. Department of Defense (DoD), the U.S. Intelligence Community, and the Federal Aviation Administration (FAA), as well as more than 50 international customers which represent approximately half of IDS' business.

In 2013, IDS successfully delivered on orders for international Patriot Air and Missile Defense (A&MD) Systems and domestic and international missile defense radars. IDS continued to serve as the prime mission systems integrator for all electronic and combat systems of the U.S. Navy's Zumwalt-class destroyer program (DDG-1000) which has begun sea trials. IDS also continued to deliver fully integrated command and control systems for domestic and international partners, including new awards for air traffic control systems for the FAA and the U.S. Air Force. IDS was awarded a $1.3 billion contract for a ground-based air defense system by Oman. The U.S. Navy awarded IDS a contract to build the Air and Missile Defense Radar (AMDR), a scalable and technologically advanced radar system for its Arleigh Burke-class destroyers that will increase detection capabilities and discrimination accuracy, and improve electronic warfare features against growing air and ballistic missile threats, and a multi-year contract to build radar transmitters and fire control equipment for the Aegis Weapon System. Additionally, IDS received several contract awards to

support Army Navy/Transportable Radars and Patriot A&MD systems from the Missile Defense Agency (MDA) and the U.S. Army, respectively.

Table of Contents

IDS has the following principal product lines:

Global Integrated Sensors (GIS)—GIS provides integrated whole-life air and missile defense systems. GIS produces systems and solutions, including Upgraded Early Warning Radars (UEWR), such as the Army Navy/Transportable Radar Surveillance-Model 2 (AN/TPY-2), the UEWR family of sensors, and other land-based surveillance and search radars, which provide threat detection, precision tracking, discrimination, and classification of ballistic missile threats. GIS also produces the Joint Land Attack Cruise Missile Defense Elevated Netted Sensor (JLENS), which is a theater-based, advanced sensor system that provides long-endurance, over-the-horizon detection and tracking capabilities required to defeat threats such as manned and unmanned aircraft, cruise missiles, swarming boats and tanks. Key GIS customers include the U.S. Army and Air Force, the MDA, and international customers.

Integrated Air & Missile Defense (IAMD)—IAMD provides combat-proven air and missile defense systems, such as the Patriot A&MD system which is the cornerstone of the air and missile defense architecture for twelve nations around the globe, including the U.S. and five NATO nations. The National Advanced Surface-to-Air Missile System (NASAMS), also offered by IAMD, is a highly adaptable mid-range solution for any operational air defense requirement. It is deployed in the U.S. and five other countries. IAMD also provides the Hawk XXI, an advanced air defense system against low- to medium-altitude air threats with advanced fire control and battle management for numerous international customers. Key IAMD customers include the U.S. Army and international customers. Total sales from this product line was approximately 10% of our consolidated revenues for 2013, and was less than 10% of consolidated revenues for 2012 and 2011.

Seapower Capability Systems (SCS)—SCS is a provider and integrator of maritime air and missile defense radar systems, naval combat management, and airborne anti-submarine and mine warfare systems, as well as sensors, maritime naval navigation systems, and torpedoes for U.S. and international navies. As a naval radar provider, SCS produces the SPY-3, the U.S. Navy's first shipboard active phased array multifunction radar, and radar transmitters for the sea and land based Aegis weapon system radars, and will design and manufacture the low rate initial production of the U.S. Navy’s newest radar, AMDR. As a ship integrator for the U.S. Navy, SCS provides mission system equipment and serves as the combat and mission systems integrator for the DDG-1000, the total ship electronics systems integrator for the LPD-17, the U.S. Navy’s latest amphibious warfare ship, and the warfare systems integrator for the CVN-78, the U.S. Navy’s next generation of aircraft carrier. Key SCS customers include the U.S. Navy and allied navies.

Command, Control, Communications, Computers and Intelligence (C4I)—C4I develops, delivers, and supports complex integrated, networked, actionable combat command and control (C2) solutions for air and land combatant commanders, domestic and international ATM, and border and critical infrastructure protection. C4I is a key provider of ATM solutions internationally through its AutoTrac III product line and surveillance radars, as well as its Standard Terminal Automation Replacement System (STARS) to the DoD and the FAA, and was awarded a contract to provide the U.S. Air Force with rapidly deployable air traffic control systems that can be delivered anywhere in the world. C4I also includes Thales-Raytheon Systems, LLC, the U.S. operating subsidiary of the Thales-Raytheon joint venture which focuses on battlefield radars, air command and control, including NATO’s Air Command and Control System (ACCS) program. Key C4I customers include the U.S. Army, the FAA, NATO and numerous allied nations.

Intelligence, Information and Services (IIS)—IIS, headquartered in Dulles, Virginia, provides a full range of technical and professional services to intelligence, defense, federal and commercial customers worldwide. IIS specializes in global Intelligence, Surveillance and Reconnaissance (ISR), navigation, DoD space and weather solutions, cybersecurity, analytics, training, logistics, mission support, and engineering and sustainment solutions. Key customers include the U.S. Intelligence Community, DoD agencies, the U.S. Armed Forces, the FAA, the National Oceanic and Atmospheric Administration (NOAA), Department of Homeland Security (DHS), the National Aeronautics and Space Administration (NASA) and an increasing number of international customers.

In 2013, IIS facilitated the training of approximately two million individuals for customers such as the U.S. Army, the FAA and major automotive manufacturers. IIS successfully completed the third of five planned launch and early-orbit exercises to demonstrate the launch readiness of the U.S. Air Force's Global Positioning System Next Generation Operational Control System (GPS OCX). IIS continued to focus on growing its classified business, receiving a number of significant classified contract awards. Also in 2013, Raytheon acquired Visual Analytics Incorporated, a privately-held company

Table of Contents

headquartered in Frederick, Maryland, further extending Raytheon's capabilities in data analytics, data visualization and information sharing.

IIS has the following principal product lines:

Cybersecurity and Special Missions (CSM)—CSM provides cybersecurity and advanced intelligence solutions to strengthen information systems and mission execution. CSM supports domestic, international government and commercial customers by delivering cyber and quick-reaction solutions, and supporting high-consequence special missions. Raytheon is leveraging and incorporating the cyber-capabilities within CSM broadly across the Company by embedding information assurance technologies and know-how into our internal company systems and core solutions and products. CSM's key customers include the U.S. Intelligence Community, the DoD, various other federal agencies and Fortune 500 companies.

Global Training Solutions (GTS)—GTS provides training solutions, logistics and engineering support worldwide, conducting integrated operational training through the U.S. Army's Warfighter Field Operations Customer Support (FOCUS) contract. The GTS-led Warrior Training Alliance performs comprehensive support for live, virtual and constructive training exercises and operations, maintenance for all training and range systems, curriculum development and instruction, management oversight and administration for contractor activities, and supply support for all government-owned property and material. Additionally, GTS designs, implements and manages highly complex training solutions that align an organization's training requirements with its core business needs. Using systems engineering practices, GTS applies commercial solutions, processes, tools and training experts to make its training programs available anytime, anywhere to domestic and international commercial customers through its Raytheon Professional Services group.

Intelligence and Earth Observation (IEO)—IEO primarily supports programs for the U.S. Intelligence Community, NASA, NOAA and the U.S. Air Force Space and Missile Center. IEO capabilities include ground systems for Geospatial Intelligence (GEOINT) and Signals Intelligence (SIGINT) systems, large-scale data processing and exploitation, storage architectures and high-performance data handling and processing systems. Key programs include Joint Polar Satellite System (JPSS) and GPS OCX which involve the development, sustainment, and operation of common ground systems. JPSS is operational and supporting multiple civil, defense and international polar-orbiting environmental satellites.

Mission Support Solutions (MSS)—MSS provides mission-critical solutions for ISR operations and sustaining engineering, aviation training, integrated logistics, data management, mission support, counter-narcoterrorism and border security for civil agencies, the U.S. Intelligence Community, the U.S. Defense Threat Reduction Agency, and the DoD globally. MSS provides training at the FAA Academy and air traffic control facilities. Key programs include the Advanced Weather Interactive Processing System (AWIPS), used by NOAA / National Weather Service (NWS) to ingest, analyze and disseminate operational weather data including time-sensitive, high-impact warnings, and the Secondary Repairables program (SECREPS), which provides parts and services primarily for the U.S. Marine Corps Logistics Command needed to ensure that equipment is properly maintained and combat ready for the warfighter.

Systems Modernization and Sustainment (SMS)—SMS provides full life-cycle modernization and sustainment support for air-, land- and sea-based electronics and weapons systems, as well as multi-intelligence ground systems and unmanned systems technology for domestic and international government customers. SMS consolidates tactical reconnaissance, surveillance, battlespace communications, intelligence information processing and situational awareness capabilities to provide cost-effective, end-to-end solutions for customers. SMS provides advanced ground solutions for strategic and tactical ISR missions, including Global Hawk and the Air Force's U-2 reconnaissance aircraft program; support for the U.S. Air Force's contractor field support program and the V-22 Osprey aircraft program; as well as upgrades of airborne and sea-based weapons systems and podded aircraft reconnaissance systems.

Missile Systems (MS)—MS, headquartered in Tucson, Arizona, is a premier developer and producer of missile and combat systems for the armed forces of the U.S. and other allied nations. Leveraging its capabilities in advanced airframes, guidance and navigation systems, high-resolution sensors, surveillance, targeting, and netted systems, MS develops and supports a broad range of advanced weapon systems, including missiles, smart munitions, close-in weapon systems, projectiles, kinetic kill vehicles, directed energy effectors and advanced combat sensor solutions. Key customers include the U.S. Navy, Army, Air Force and Marine Corps, the MDA and the armed forces of more than 40 allied nations.

Table of Contents

In 2013, MS continued to capture key contract awards from a broad international customer base, including awards of more than $350 million on both the Paveway™ program and the Advanced Medium-Range Air-to-Air Missile (AMRAAM®) program. MS also secured more than $1.0 billion in Missile Defense contracts, including over $300 million for the production of Standard Missile-3 (SM-3™) IB missiles for the DoD. MS completed five successful flight tests on the SM-3™ program and nine key successful flight tests on the Small Diameter Bomb II (SDB II™) program which is scheduled to enter low rate production beginning in 2014. MS also delivered the first SM-3™ and Standard Missile-6 (SM-6) production missiles from its recently opened state-of-the-art, all-up-round Standard Missile production facility in Huntsville, Alabama.

MS has the following principal product lines:

Air Warfare Systems (AWS)—AWS products and services enable the U.S. armed forces and international customers to attack, suppress and destroy air and ground-based targets. Products include AMRAAM®, a state-of-the-art, highly dependable and battle-proven air-to-air missile that also has a surface-to-air launch application; the Tomahawk cruise missile, an advanced surface- or submarine-launched cruise missile with loitering and network communication capability; SDB II™, an air-to-ground glide weapon designed to engage moving targets in adverse weather and through battlefield conditions; Joint Standoff Weapon (JSOW), a family of air-to-ground weapons that employ an integrated GPS/inertial navigation system that guides the weapon to the target; the Paveway family of laser- and GPS-guided smart bombs; the AIM-9X® Sidewinder short-range air-to-air missile; the Miniature Air-Launched Decoy (MALD®); the High-Speed Anti-Radiation Missile (HARM™) and the HARM™ Targeting System; the Maverick™ precision strike missile; and the Griffin®, a small lightweight missile that can be employed from aircraft, unmanned aerial vehicles (UAVs), ships or ground launched against light targets.

Air and Missile Defense Systems (AMDS)—AMDS designs, develops, produces and supports air defense, and ballistic missile defense interceptor systems. AMDS' primary customers are the MDA, the U.S. Navy and various international navies around the world. The product line develops, manufactures, and supports the Standard Missile family of weapons with capabilities ranging from anti-air warfare to ballistic missile defense. AMDS is responsible for the first line of ship-defense weapons, including the Standard Missile-2 (SM-2) and the SM-6, and for multiple versions of the SM-3™, which are core elements of the MDA's Phased Adaptive Approach to global missile defense. AMDS, as a sub-contractor to The Boeing Company, builds and supports the EKV, which is part of the U.S. ground-based midcourse defense system that defends against ballistic missile attack. AMDS is also the U.S. design agent and partner with Raphael Advanced Defense Systems Ltd. on the David’s Sling missile defense system for Israel. The product line is also involved in a number of advanced missile defense concepts that seek to pace the evolving ballistic missile threat.

Naval and Area Mission Defense (NAMD)—NAMD offers a complete family of mission solutions for customers around the world. NAMD provides highly effective layered ship defense for the navies of more than 30 countries across multiple platforms to counter the anti-ship threats of today and tomorrow. NAMD leverages its proven capabilities to provide forward-operating base defense for the U.S. Army, Air Force and Marine Corps. NAMD produces the Phalanx™ Close-In Weapon System (employed afloat and ashore), the Rolling Airframe Missile (RAM™) and Launcher System, the SeaRAM™ system, and the Evolved Seasparrow/Sparrow family of missiles (ESSM™) for layered ship mission protection against air, subsurface and surface cruise/ballistic missile threats. Additionally, NAMD continues to expand its commitment to international cooperative endeavors with strategic international partners to evolve its products and technologies to encompass the full spectrum of threats, including the protection of land bases and high-value infrastructure sites from terrorist threats.

Land Warfare Systems (LWS)—During 2013, MS combined its Land Combat and Sensor Systems operations to form LWS in order to offer a complete sensor-to-effects capability for customers in the land domain. LWS develops and provides precision missiles, munitions, advanced electro-optical (EO)/infrared (IR) sensors, and integrated solutions to

the U.S. Army and Marine Corps and more than 40 allied nations. LWS' major programs are the tube-launched optically-tracked wireless-guided (TOW®) weapon system, a long-range precision anti-armor/anti-fortification/anti-amphibious-landing weapon system; Javelin, a shoulder-fired fire-and-forget anti-tank weapon; Excalibur™, a GPS-guided artillery round designed to provide indirect precision fire for ground forces; enhanced Long Range Advanced Scout Surveillance System (eLRAS3), a third-generation, multi-sensor system which provides the ability to detect, identify and geo-locate distant targets; a family of light to heavy Thermal Weapon Sights (TWS); and integrated system solutions for combat vehicle upgrade programs, including the U.S. Marine Corps Light Armored Vehicle Anti-Tank (LAV-AT) modernization program.

Table of Contents

Advanced Missile Systems (AMS)—AMS focuses on the development and early introduction of next-generation, end-to-end system solutions that support the AWS, NAMD, AMDS and LWS product lines. AMS also pursues opportunities in directed energy and adjacent markets, including the development of force protection solutions, non-kinetic weapons (offensive and defensive), high-power microwave/millimeter technologies and applications, space applications, and counterterrorism solutions.

Space and Airborne Systems (SAS)—SAS, headquartered in McKinney, Texas, is a leader in the design and development of integrated sensor and communication systems for advanced missions, including traditional and non-traditional ISR, precision engagement, unmanned aerial operations, and space. Leveraging advanced concepts, state-of-the-art technologies and mission systems knowledge, SAS provides electro-optical/infrared sensors, airborne radars for surveillance and fire control applications, lasers, precision guidance systems, signals intelligence systems, processors, electronic warfare systems, communication systems, and space-qualified systems for civil and military applications. Key customers include the U.S. Navy, Air Force and Army, as well as classified and international customers.

In 2013, SAS extended its legacy of innovation with the award of the U.S. Navy Next Generation Jammer program and selection by the Republic of Korea to upgrade its KF-16 fleet with the Raytheon Advanced Combat Radar (RACR), an Active Electronically Scanned Array (AESA). SAS also extended its broad base of advanced sensors and electronics by reaching a number of delivery milestones including the 500th AESA radar, the 2,000th Multi-Spectral Targeting System (MTS), now integrated on 35 different platforms for every branch of the U.S. military, the 100th Navy Multiband Terminal (NMT), advancing Raytheon's role as the only provider of fielded Advanced Extremely High Frequency (AEHF) satellite terminals and the 30,000th Selective Availability Anti-Spoof Module for secure Global Positioning System operation. Also in 2013, Raytheon BBN Technologies was awarded the National Medal of Technology and Innovation, one of the highest honors in the nation bestowed upon scientists, engineers and inventors.

SAS has the following principal product lines:

Intelligence, Surveillance and Reconnaissance Systems (ISRS)—ISRS designs and manufactures sensor, surveillance and targeting solutions that enable actionable information for strike, persistent surveillance and special mission applications. ISRS provides maritime and overland surveillance radars, terrain following/terrain avoidance radars, and electro-optical/infrared sensors to customers including the DoD, the DHS and international governments. The ISRS portfolio includes the APY-10 radar on the U.S. Navy's P-8A Poseidon, the SeaVue radar on the Predator Guardian unmanned aircraft system (UAS), the Multi-Platform Radar Technology Insertion Program (MP-RTIP) for the U.S. Air Force's Block 40 Global Hawk and NATO Alliance Ground Surveillance (AGS) system, the AAS-44(V) forward looking infrared sensor on the U.S. Navy's MH-60 helicopters, the Multi-spectral Targeting System on the U.S. Air Force's Reaper UAS, the DAS-2 on the Army's Gray Eagle UAS, and the ASQ-228 ATFLIR targeting pod on the F/A-18 Hornet and Super Hornets. ISRS also provides the Enhanced Integrated Sensor Suite for the Block 20/30 Global Hawk UAS, which enables the Global Hawk to scan large geographic areas and produce outstanding high-resolution reconnaissance imagery. In addition, ISRS provides integrated solutions for all tiers of airborne intelligence, surveillance and reconnaissance systems, including the dual mode Synthetic Aperture Radar/Moving Target Indicator sensor for the Airborne Standoff Radar (ASTOR) program for the U.K. Ministry of Defence, which enables high-resolution images and the monitoring of hostile forces.

Tactical Airborne Systems (TAS)—TAS designs and manufactures cost-effective, high-performance integrated sensor solutions for tactical and strategic platforms, delivering trusted, actionable information and mission assurance. TAS provides sensors and integrated sensor systems with advanced fire control radars and processor technologies to customers including the U.S. Navy, Marine Corps, and Air Force and international governments. TAS produces radars using AESA antennas for the U.S. Air Force's F-15, F-16 and B-2 aircraft, the U.S. Navy and Royal Australian Air Forces' F/A-18, and the U.S. Navy's EA-18G. In addition, TAS' advanced airborne processors form the basis of the

secure mission computer/signal processing systems on the F-16, F-22 and F-35 aircraft.

Electronic Warfare Systems (EWS)—EWS designs and manufactures cost-effective, high-performance electronic warfare systems and equipment for strategic and tactical aircraft, helicopters and surface ships for the U.S. Air Force, U.S. Army, U.S. Navy, U.S. intelligence agencies and international governments. The EWS portfolio includes the Next Generation Jammer program, integrated electronic warfare suites, the Multi-function Integrated Receiver/Exciter System (MFIRES) product family, advanced classified programs, and products such as towed decoys, radar warning receivers, jammers, and missile warning sensors.

Table of Contents

Integrated Communications Systems (ICS)—ICS is a market leader in tactical airborne communications, exploitation and countermeasures, software defined radio technology and advanced tactical networking, and real-time sensor networking and data fusion. ICS is the only producer of AEHF satellite terminals for all branches of the U.S. military, making it the top provider of protected, highly secure satellite communications terminals for the U.S. military. Key capabilities in the ICS business also include high capacity beyond line-of-sight communications solutions and electronic communications attack solutions.

Space Systems (SS)—SS designs and manufactures space and space-qualified sensor payloads for large national programs and develops innovative solutions for emerging intelligence, defense and civil space applications. SS provides EO/IR, radio frequency, radar and laser space-based sensors to customers including branches of the DoD, MDA, NASA, classified customers and international governments. Its major non-classified program is the Visible Infrared Imaging Radiometer Suite (VIIRS), an advanced imaging and radiometric sensor for NASA and NOAA weather/environmental monitoring programs.

Other SAS product lines include Advanced Concepts and Technologies (ACT), Integrated Technology Programs (ITP), and Raytheon Applied Signal Technology (RAST). ACT conducts internal research and development for SAS and contract research and development for customers, including the U.S. Air Force Research Laboratory (AFRL) and DARPA, and produces advanced products including the Boomerang sniper detection system and TransTalk, a smartphone application that automatically translates speech into another language. ITP develops sophisticated GPS systems and anti-jam solutions for many customers, including the U.S. Air Force and Navy, and provides a wide range of state-of-the art product families and engineering services in support of the DoD's need to respond to a dynamic threat environment. RAST provides advanced ISR solutions to enhance global security.

International Subsidiaries—We conduct the operations and activities of our business segments in certain countries through international subsidiaries, including Raytheon Systems Limited (RSL), Raytheon Australia and Raytheon Canada Limited (RCL). RSL designs, develops and manufactures advanced systems for defense and commercial air traffic control customers in the United Kingdom (U.K.), U.S. and around the world, and also designs and manufactures control actuation systems, guidance electronics and silicon carbide semiconductors. Programs include ASTOR, a world-class strategic ground surveillance capability, and Shadow, a tactical surveillance platform (both with SAS), and Paveway™ IV, the precision guided bomb (with MS). Raytheon Australia provides mission systems integration and smart sustainment solutions to the Australian Defence Force. Raytheon Australia has more than 20 programs in country, including being the mission systems integrator for the Air Warfare Destroyer, and delivering in-service support for the Collins Class Submarine program and the Australian Defence Air Traffic System (with IDS), and providing aerospace related design, integration, operations and maintenance services, and management of the Naval Communications Station Harold E. Holt (with IIS). RCL provides persistent surveillance radar (PSR) for air traffic management systems, as well as coastal maritime surveillance high frequency surface wave radar systems (HFSWR) (primarily with IDS).

Sales to the U.S. Government

(In millions, except percentages)	2013		2012		2011	
Sales to the U.S. Government[1]	$17,019		$17,861		$18,360	
Sales to the U.S. Government as a Percentage of Total Net Sales[1]	72	%	73	%	74	%
Foreign military sales through the U.S. Government	$3,062		$3,196		$2,998	
Foreign military sales through the U.S. Government as a Percentage of Total Net Sales	13	%	13	%	12	%

(1) Excludes foreign military sales through the U.S. Government.

Our principal U.S. Government customer is the DoD; other U.S. Government customers include Intelligence Community agencies, NASA, the FAA and the Departments of Justice, State, Energy and Homeland Security.

6

Table of Contents

U.S. Government Contracts and Regulation

We act as a prime contractor or major subcontractor for numerous U.S. Government programs. As a result, we are subject to extensive regulations and requirements of the U.S. Government agencies and entities that govern these programs, including with respect to the award, administration and performance of contracts under such programs. We are also subject to certain unique business risks associated with U.S. Government program funding and appropriations and government contracts, and with supplying technologically-advanced, cutting edge defense-related products and services to the U.S. Government.

U.S. Government contracts generally are subject to the Federal Acquisition Regulation (FAR), which sets forth policies, procedures and requirements for the acquisition of goods and services by the U.S. Government, department-specific regulations that implement or supplement FAR, such as the DoD's Defense Federal Acquisition Regulation Supplement (DFARS), and other applicable laws and regulations. These regulations impose a broad range of requirements, many of which are unique to government contracting, including various procurement, import and export, security, contract pricing and cost, contract termination and adjustment, audit and product integrity requirements. A contractor's failure to comply with these regulations and requirements could result in reductions to the value of contracts, contract modifications or termination, and the assessment of penalties and fines and lead to suspension or debarment, for cause, from U.S. Government contracting or subcontracting for a period of time. In addition, government contractors are also subject to routine audits and investigations by U.S. Government agencies such as the Defense Contract Audit Agency (DCAA) and Defense Contract Management Agency (DCMA). These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The DCAA and DCMA also review the adequacy of and a contractor's compliance with its internal control systems and policies, including the contractor's accounting, purchasing, property, estimating, earned value management and material management accounting systems. For a discussion of certain risks associated with compliance with U.S. Government contract regulations and requirements, see Item 1A “Risk Factors” of this Form 10-K.

U.S. Government contracts include both cost reimbursement and fixed-price contracts. Cost reimbursement contracts, subject to a contract-ceiling amount in certain cases, provide for the reimbursement of allowable costs plus the payment of a fee. These contracts fall into three basic types: (i) cost plus fixed fee contracts which provide for the payment of a fixed fee irrespective of the final cost of performance; (ii) cost plus incentive fee contracts which provide for increases or decreases in the fee, within specified limits, based upon actual cost results compared to contractual cost targets; and (iii) cost plus award fee contracts which provide for the payment of an award fee determined at the discretion of the customer based upon the performance of the contractor against pre-established criteria. Under cost reimbursement type contracts, the contractor is reimbursed periodically for allowable costs and is paid a portion of the fee based on contract progress. Some costs incidental to performing contracts have been made partially or wholly unallowable for reimbursement by statute, FAR or other regulation. Examples of such costs include charitable contributions, certain merger and acquisition costs, lobbying costs, interest expense and certain litigation defense costs.

Fixed-price contracts are either firm fixed-price contracts or fixed-price incentive contracts. Under firm fixed-price contracts, the contractor agrees to perform a specific scope of work for a fixed price and as a result, benefits from cost savings and carries the burden of cost overruns. Under fixed-price incentive contracts, the contractor shares with the U.S. Government savings accrued from contracts performed for less than target costs and costs incurred in excess of targets up to a negotiated ceiling price (which is higher than the target cost) and carries the entire burden of costs exceeding the negotiated ceiling price. Accordingly, under such incentive contracts, the contractor's profit may also be adjusted up or down depending upon whether specified performance objectives are met. Under firm fixed-price and fixed-price incentive type contracts, the contractor usually receives either performance-based payments (PBPs) equaling up to 90% of the contract price or monthly progress payments from the U.S. Government generally in amounts equaling 80% of costs incurred under U.S. Government contracts. The remaining amount, including profits

or incentive fees, is billed upon delivery and acceptance of end items under the contract. The DoD has expressed a preference to utilize progress payments based on costs incurred on new fixed-price contract awards as opposed to PBPs unless the contractor negotiates for PBPs. Generally speaking and subject to a number of factors, PBPs can provide improved cash flows as compared to progress payments but introduce risk to contractors in return. In the event we experience a greater proportion of progress payments for our fixed-price DoD contracts in the future than historically, it could have an adverse effect on our operating cash flow and liquidity. For a discussion of certain risks associated with fixed price and cost reimbursement contracts and risks associated with changes in U.S. Government procurement rules, regulations and business practices, see Item 1A “Risk Factors” of this Form 10-K.

Table of Contents

U.S. Government contracts generally also permit the government to terminate the contract, in whole or in part, without prior notice, at the U.S. Government's convenience or for default based on performance. If a contract is terminated for convenience, the contractor is generally entitled to payments for its allowable costs and will receive some allowance for profit on the work performed. If a contract is terminated for default, the contractor is generally entitled to payments for its work that has been accepted by the U.S. Government. The U.S. Government's right to terminate its contracts has not had a material adverse effect upon our operations, financial condition or liquidity. For a discussion of the risks associated with the U.S. Government's right to terminate its contracts, see Item 1A “Risk Factors” of this Form 10-K.

U.S. Government programs generally are implemented by the award of individual contracts and subcontracts. Congress generally appropriates funds on a fiscal year basis even though a program may extend across several fiscal years. Consequently, programs are often only partially funded initially and additional funds are committed only as Congress makes further appropriations. The contracts and subcontracts under a program generally are subject to termination for convenience or adjustment if appropriations for such programs are not available or change. The U.S. Government is required to equitably adjust a contract price for additions or reductions in scope or other changes ordered by it. For a discussion of the risks associated with program funding and appropriations, see Item 1A “Risk Factors” and “Overview” within Item 7 of this Form 10-K. In addition, because we are engaged in supplying technologically-advanced, cutting edge defense-related products and services to the U.S. Government, we are subject to certain business risks, some of which are specific to our industry. These risks include: the cost of obtaining and retaining trained and skilled employees; the uncertainty and instability of prices for raw materials and supplies; the problems associated with advanced designs, which may result in unforeseen technological difficulties and cost overruns; and the intense competition and the constant necessity for improvement in facility utilization and personnel training. Our sales to the U.S. Government may be affected by changes in procurement policies, budget considerations, changing priorities for national defense, political developments abroad and other factors. See Item 1A “Risk Factors” and “Overview” within Item 7 of this Form 10-K for a more detailed discussion of these and other related risks.

We are also involved in U.S. Government programs, principally through our IIS and SAS business segments, that are classified by the U.S. Government and cannot be specifically described in this Form 10-K. The operating results of these classified programs are included in the applicable business segment's and our consolidated results of operations. The business risks and considerations associated with these and our international classified programs generally do not differ materially from those of our other programs and products. Total classified sales were 15% in 2013 and 16% in both 2012 and 2011.

We are subject to government regulations and contract requirements that may differ from U.S. Government regulation with respect to our sales to non-U.S. customers. See “International Sales” below for more information regarding our sales outside of the U.S. and Item 1A “Risk Factors” for a discussion of the risks associated with international sales.

See “Sales to the U.S. Government” on page 6 of this Form 10-K for information regarding the percentage of our revenues generated from sales to the U.S. Government.

International Sales

(In millions, except percentages)	2013		2012		2011	
Total international sales[1]	$6,446		$6,232		$6,139	
Total international sales as a Percentage of Total Net Sales[1]	27	%	26	%	25	%

(1) Includes foreign military sales through the U.S. Government.

International sales were principally in the areas of air and missile defense systems, missile systems, airborne radars, naval systems, air traffic control systems, electronic equipment, computer software and systems, personnel training,

equipment maintenance and microwave communications technology, and other products and services permitted under the International Traffic in Arms Regulations (ITAR). Generally, we finance our foreign subsidiary working capital requirements in the applicable countries. Sales and income from international operations and investments are subject to U.S. Government laws, regulations and policies, including the ITAR and the Foreign Corrupt Practices Act (FCPA) and other anti-corruption laws and the export laws and regulations described below. They are also subject to foreign government laws, regulations and procurement policies and practices, which may differ from U.S. Government regulation, including import-export control, technology transfer, investments, exchange controls, repatriation of earnings and requirements to expend a portion of

Table of Contents

program funds in-country through manufacturing agreements or other financial support obligations, known as offset obligations. In addition, embargoes, international hostilities and changes in currency values can also impact our international sales. Exchange restrictions imposed by various countries could restrict the transfer of funds between countries, us and our subsidiaries. We have acted to protect ourselves against various risks through insurance, foreign exchange contracts, contract provisions, government guarantees and/or progress payments. See revenues derived from external customers and long-lived assets by geographical area set forth in “Note 15: Business Segment Reporting” within Item 8 of this Form 10 K.

In connection with certain foreign sales, we utilize the services of sales representatives who are paid commissions in return for services rendered.

The export from the U.S. of many of our products may require the issuance of a license by either the U.S. Department of State under the Arms Export Control Act of 1976 (formerly the Foreign Military Sales Act) and its implementing regulations under the ITAR, the U.S. Department of Commerce under the Export Administration Act and its implementing regulations as kept in force by the International Emergency Economic Powers Act of 1977 (IEEPA), and/or the U.S. Department of the Treasury under IEEPA or the Trading with the Enemy Act of 1917. Such licenses may be denied for reasons of U.S. national security or foreign policy. In the case of certain exports of defense equipment and services, the Department of State must notify Congress at least 15–30 days (depending on the identity of the importing country that will utilize the equipment and services) prior to authorizing such exports. During that time, Congress may take action to block or delay a proposed export by joint resolution which is subject to Presidential veto. Additional information regarding the risks associated with our international business is contained in Item 1A “Risk Factors” of this Form 10-K.

Backlog

			% of Total Backlog			
(In millions, except percentages)	2013	2012	2013		2012	
Total backlog	$33,685	$36,181	100	%	100	%
Total backlog to the U.S. Government[(1)]	20,985	23,090	62	%	64	%
Total foreign military sales backlog	4,884	5,443	14	%	15	%
Total direct foreign government backlog	6,926	6,789	21	%	19	%
Total non-government foreign backlog	551	444	2	%	1	%
Total non-U.S. Government domestic backlog	339	416	1	%	1	%
Total international backlog[(2)]	12,361	12,675	37	%	35	%

(1) Excludes foreign military sales backlog through the U.S. Government.
(2) Includes foreign military sales backlog through the U.S. Government.

Approximately $16.9 billion of the 2013 year-end backlog is not expected to be filled during the following twelve months. These amounts include both funded backlog (unfilled orders for which funding is authorized, appropriated and contractually obligated by the customer) and unfunded backlog (firm orders for which funding has not been appropriated or obligated to us). For additional information related to backlog figures, see “Segment Results” within Item 7 of this Form 10-K.

Research and Development

We conduct extensive research and development activities to continually enhance our existing products and services, and develop new products and services to meet our customers’ changing needs and requirements, and address new market opportunities. During 2013 we expended $465 million on research and development efforts compared to $451 million and $450 million in 2012 and 2011, respectively. These expenditures principally have been for product development for the U.S. Government. We also conduct funded research and development activities under U.S. Government contracts which are included in total net sales. For additional information related to our research and

development activities, see “Note 1: Summary of Significant Accounting Policies” within Item 8 of this Form 10-K.

Table of Contents

Raw Materials, Suppliers and Seasonality

We are dependent upon the delivery of materials by suppliers, and the assembly of major components and subsystems by subcontractors used in our products. Some products require relatively scarce raw materials. In addition, we must comply with specific procurement requirements which may, in effect, limit the suppliers and subcontractors we may utilize. In some instances, for a variety of reasons, we are dependent on sole-source suppliers. We enter into long-term or volume purchase agreements with certain suppliers and take other actions to ensure the availability of needed materials, components and subsystems. We are also dependent on suppliers to provide genuine original equipment manufacturer parts and have a robust set of standardized policies to detect counterfeit material, especially electronic components, throughout our supply chain. We generally have not experienced material difficulties in procuring the necessary raw materials, components and other supplies for our products. We also are subject to rules promulgated by the Securities Exchange Commission (SEC) in 2012 pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 that require us to conduct due diligence on and disclose if we are able to determine whether certain materials (including tantalum, tin, gold and tungsten), known as conflict minerals, that originate from mines in the Democratic Republic of the Congo or certain adjoining countries (DRC), are used in our products. The first DRC minerals report is due in the second quarter of 2014 for the 2013 calendar year and we are conducting appropriate diligence measures to comply with such requirements.

In recent years, our revenues in the second half of the year have generally exceeded revenues in the first half. The timing of new program awards, the availability of U.S. Government funding, the timing of international contract awards and product delivery schedules are among the factors affecting the periods in which revenues are recorded. We expect this trend to continue in 2014.

Competition

We directly participate in most major areas of development in the defense and government electronics, space, information technology and technical services and support markets. Technical superiority, reputation, price, past performance, delivery schedules, financing and reliability are among the principal competitive factors considered by customers in these markets. We compete worldwide with a number of U.S. and international companies in these markets, some of which may have more extensive or more specialized engineering, manufacturing and marketing capabilities than we do in some areas. The ongoing consolidation of the U.S. and global defense, space and aerospace industries continues to intensify competition. We frequently partner on various programs with our major suppliers, some of whom are, from time to time competitors on other programs. In addition, U.S. defense spending levels in the near future are increasingly difficult to predict. Changes in U.S. defense spending may potentially limit certain future market opportunities. See Item 1A “Risk Factors” and “Overview” within Item 7 of this Form 10-K for a more detailed discussion of these and other related risks.

Patents and Licenses

We own an intellectual property portfolio which includes many U.S. and foreign patents, as well as unpatented trade secrets and know-how, data, software, trademarks and copyrights, all of which contribute to the preservation of our competitive position in the market. In certain instances, we have augmented our technology base by licensing the proprietary intellectual property of others. We also license our intellectual property to others, including our customers, in certain instances. The U.S. Government has licenses in certain of our intellectual property, including certain patents, developed in the performance of U.S. Government contracts, and has the right to use and authorize others to use such intellectual property, including the inventions covered by such patents for U.S. Government purposes. While our intellectual property rights in the aggregate are important to our operations, we do not believe that any particular trade secret, patent, trademark, copyright, license or other intellectual property right is of such importance that its loss or termination would have a material adverse effect on our business.

Employment

As of December 31, 2013, we had approximately 63,000 employees. Approximately 8% of our employees are unionized. We consider our union-management relationships to be generally satisfactory.

Table of Contents

Environmental Regulation

Our operations are subject to and affected by a variety of international, federal, state and local environmental protection laws and regulations. We have provided for the estimated cost to complete remediation—or, in the case of multi-party sites, our reasonably expected share thereof—where we have determined that it is probable that we will incur such costs in the future in connection with (i) facilities that are now, or were previously, owned or operated by us, (ii) sites where we have been named a Potentially Responsible Party (PRP) by the Environmental Protection Agency (EPA) or similarly designated by other environmental agencies, or (iii) sites where we have been named in a cost recovery or contribution claim by a non-governmental third party. It is difficult to estimate the timing and ultimate amount of environmental cleanup costs to be incurred in the future due to the uncertainties regarding the extent of the required cleanup, the discovery and application of innovative remediation technologies, and the status and interpretation of the laws and regulations.

In order to assess the potential impact on our consolidated financial statements, we estimate the possible remediation costs that we could reasonably incur. Such estimates take into consideration the professional judgment of our environmental professionals and, in most cases, consultations with outside environmental specialists.

If we are ultimately found to have liability at a multi-party site where we have been designated a PRP or have been named in a cost recovery or contribution claim from a non-governmental third party, we expect that the actual costs of remediation will be shared with other liable PRPs. Generally in the U.S. and certain other countries, PRPs that are ultimately determined to be responsible parties are strictly liable for site clean-up and usually agree among themselves to share, on an allocated basis, the costs and expenses for investigation and remediation of hazardous materials. Under existing U.S. environmental laws, however, responsible parties are, in most circumstances and jurisdictions, jointly and severally liable and, therefore, potentially liable for the full cost of funding such remediation. In the unlikely event that we are required to fund the entire cost of such remediation, the statutory framework provides that we may pursue rights of contribution from the other PRPs. The amounts we record do not reflect the unlikely event that we would be required to fund the entire cost of such remediation, nor do they reflect the possibility that we may recover some of these environmental costs from insurance policies or from other PRPs. However, a portion of these costs is eligible for future recovery through the pricing of our products and services to the U.S. Government.

We manage various government-owned facilities on behalf of the U.S. Government. At such facilities, environmental compliance and remediation costs have historically been primarily the responsibility of the U.S. Government and we relied (and continue to rely with respect to past practices) upon U.S. Government funding to pay such costs. While the government remains responsible for capital and operating costs associated with environmental compliance, responsibility for fines and penalties associated with environmental noncompliance is typically borne by either the U.S. Government or the contractor, depending on the contract and the relevant facts. Fines and penalties are unallowable costs under the contracts pursuant to which such facilities are managed.

Most of the U.S. laws governing environmental matters include criminal provisions. If we were convicted of a criminal violation of certain U.S. federal environmental statutes, including the Federal Clean Air Act and the Clean Water Act, the facility or facilities involved in the violation would be placed by the EPA on the “Excluded Parties List” maintained by the Government Services Administration. The listing would continue until the EPA concluded that the cause of the violation had been cured. Listed facilities cannot be used in performing any U.S. Government contract awarded during any period of listing by the EPA.

Additional information regarding the effect of compliance with environmental protection requirements and the resolution of environmental claims against us and our operations is contained in Item 1A “Risk Factors,” “Commitments and Contingencies” within Item 7 and “Note 10: Commitments and Contingencies” within Item 8 of this Form 10-K.

11

Table of Contents

Available Information

Our internet address is www.raytheon.com. We use our Investor Relations website as a routine channel for distribution of important information, including news releases, analyst presentations and financial information. We make available free of charge on or through our Investor Relations website our annual reports and quarterly reports on Forms 10-K and 10-Q (including related filings in XBRL format), current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our SEC filings are also at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling 1-800-SEC-0330. In addition, the SEC also maintains an internet site at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically, including Raytheon.

Additionally, we also make available on or through our website, copies of our key corporate governance documents, including our Governance Principles, Certificate of Incorporation, By-laws and charters for the Audit Committee, Management Development and Compensation Committee, Governance and Nominating Committee, Public Affairs Committee and Special Activities Committee of the Board of Directors and our code of ethics entitled “Code of Conduct”. Raytheon stockholders may request free copies of these documents from our Investor Relations Department by writing to Raytheon Company, Investor Relations, 870 Winter Street, Waltham, MA 02451, or by calling (781) 522-5123 or by sending an email request to invest@raytheon.com.

The content on any website referred to in this Form 10-K is not incorporated by reference into this Form 10-K unless expressly noted.

ITEM 1A. RISK FACTORS

This Form 10-K and the information we are incorporating by reference contain forward-looking statements within the meaning of federal securities laws, including information regarding our financial outlook, future plans, objectives, business prospects, products and services, trends and anticipated financial performance including with respect to our liquidity and capital resources, our backlog, our pension expense and funding, the impact of new accounting pronouncements, our unrecognized tax benefits and the impact and outcome of audits and legal and administrative proceedings, claims, investigations, commitments and contingencies, as well as information regarding domestic and international defense spending and budgets. You can identify these statements by the fact that they include words such as “will,” “believe,” “anticipate,” “expect,” “estimate,” “intend,” “plan,” or variations of these words, or similar expressions. T forward-looking statements are not statements of historical facts and represent only our current expectations regarding such matters. These statements inherently involve a wide range of known and unknown uncertainties. Our actual actions and results could differ materially from what is expressed or implied by these statements. Specific factors that could cause such a difference include, but are not limited to, those set forth below and other important factors disclosed previously and from time to time in our other filings with the SEC. Given these factors, as well as other variables that may affect our operating results, you should not rely on forward-looking statements, assume that past financial performance will be a reliable indicator of future performance, nor use historical trends to anticipate results or trends in future periods. We expressly disclaim any obligation or intention to provide updates to the forward-looking statements and the estimates and assumptions associated with them.

We depend on the U.S. Government for a substantial portion of our business and changes in government defense spending and priorities could have consequences on our financial position, results of operations and business.

In 2013, U.S. Government sales, excluding foreign military sales, accounted for approximately 72% of our total net sales. Our revenues from the U.S. Government largely result from contracts awarded to us under various U.S. Government programs, primarily defense-related programs with the DoD, as well as a broad range of programs with the Intelligence Community and other departments and agencies. The funding of our programs is subject to the overall

U.S. Government budget and appropriation decisions and processes which are driven by numerous factors, including geo-political events, macroeconomic conditions, and the ability of the U.S. Government to enact relevant legislation, such as appropriations bills and accords on the debt ceiling.

U.S. Government appropriations have and likely will continue to be affected by larger U.S. Government budgetary issues and related legislation. In 2011, the Congress enacted the Budget Control Act of 2011, as amended by the American

Table of Contents

Taxpayer Relief Act of 2012 (BCA) and, pursuant to the terms of the BCA, a sequestration went into effect on March 1, 2013 resulting in a 7.8% reduction to the DoD budget for FY 2013, excluding funding for military personnel, and a total reduction of approximately $500 billion over the FY 2013–FY 2021 period. The Bipartisan Budget Act of 2013 amended the BCA and reduced the amount of the sequestration by a total of $63 billion for FY 2014 and FY 2015. The final FY 2014 DoD base budget (excluding funding for operations in Afghanistan) appropriation enacted into law in January 2014 is approximately $497 billion, which is similar to the level of funding for the DoD in FY 2013 after sequestration and FY 2015 is expected to be funded at a similar level. Under the current terms of the BCA as amended, future funding reductions would result in a total of approximately $300 billion in reduced DoD funding over the FY 2016–FY 2021 period. Unless Congress and the Administration agree to further amend or revoke the BCA, the DoD will be required to operate under the amended BCA funding levels for the foreseeable future. In addition, the U.S. Government has, on a number of occasions, been unable to complete its budget process before the end of its fiscal year (September 30), which resulted in it operating under a Continuing Resolution (CR) for extended periods, as well as a brief partial shutdown of the U.S. Government in October 2013.

As a result, future U.S. Government defense spending levels are difficult to predict. Significant changes in defense spending, changes in U.S. Government priorities, policies and requirements, could have a material adverse effect on our results of operations, financial condition or liquidity.

In addition, we are involved in programs that are classified by the U.S. Government, principally through our IIS and SAS business segments, which have security requirements that place limits on our ability to discuss our performance on these programs, including any risks, disputes and claims.

Our financial results largely are dependent on our ability to perform on our U.S. Government contracts, which are subject to uncertain levels of funding and timing, as well as termination.

Our financial results largely are dependent on our performance under our U.S. Government contracts. While we are involved in numerous programs and are party to thousands of U.S. Government contracts, the termination of one or more of such contracts, or the occurrence of delays, cost overruns and product failures in connection with one or more large contracts, could negatively impact our results of operations, financial condition or liquidity. Furthermore, we can give no assurance that we would be awarded new U.S. Government contracts to offset the revenues lost as a result of termination of any of our contracts.

The funding of U.S. Government programs is subject to congressional appropriations. Congress generally appropriates funds on a fiscal year basis even though a program may extend over several fiscal years. Consequently, programs are often only partially funded initially and additional funds are committed only as Congress makes further appropriations. The U.S. Government programs in which we participate also must compete with other programs and priorities for consideration and funding during the budget and appropriations process. See the discussion above for more information on the risks relating to changes in U.S. defense spending levels and priorities.

In addition, when a formal appropriation bill has not been signed into law before the end of the fiscal year, Congress may pass a CR that authorizes agencies of the U.S. Government to continue to operate, generally at the same funding levels from the prior year, but typically does not authorize new spending initiatives during this period. If Congress fails to enact a CR, the U.S. Government may shutdown which likely would result in the closure of government offices and furlough of government workers and the lack of funds to pay its contractors for work performed. In addition, if the national debt reaches the statutory debt ceiling, the Congress must enact legislation to increase the statutory debt ceiling. If Congress fails to do so, then the U.S. Government may default on its debts, which would likely have a material adverse effect on the global financial markets. After operating under a CR at the end of 2013, final FY 2014 appropriations bills were enacted in January 2014. The national debt is expected to reach the statutory debt ceiling in the first half of 2014 unless legislation is enacted by Congress.

Until regular appropriation bills are passed, delays can occur in procurement of products and services due to lack of funding, and these delays can affect our results of operations, financial position or liquidity during the period of delay. Under certain circumstances, we may continue to perform under our U.S. Government contracts without funding and use our own funds in order to meet our customer's desired delivery dates or other requirements. Furthermore, if appropriations for one of our programs become unavailable, or are reduced or delayed, our contract or subcontract under such program

Table of Contents

may be terminated or adjusted by the U.S. Government, which could have a negative impact on our future sales under such contract or subcontract.

In addition, U.S. Government contracts generally also permit the government to terminate the contract, in whole or in part, without prior notice, at the U.S. Government's convenience or for default based on performance. If one of our contracts is terminated for convenience, we would generally be entitled to payments for our allowable costs and would receive some allowance for profit on the work performed. If one of our contracts is terminated for default, we would generally be entitled to payments for our work that has been accepted by the U.S. Government. A termination arising out of our default could expose us to liability and have a negative impact on our ability to obtain future contracts and orders. Furthermore, on contracts for which we are a subcontractor and not the prime contractor, the U.S. Government could terminate the prime contract for convenience or otherwise, irrespective of our performance as a subcontractor.

Our U.S. Government contracts also typically involve the development, application and manufacture of advanced defense and technology systems and products aimed at achieving challenging goals. New technologies may be untested or unproven. In some instances, product requirements or specifications may be modified. As a result, we may experience technological and other performance difficulties, which may result in delays, setbacks, cost overruns and product failures, in connection with performing our U.S. Government contracts.

As a U.S. Government contractor, we are subject to extensive procurement rules and regulations and changes in such rules, regulations and business practice could negatively affect current programs and potential awards.

Government contractors must also comply with specific procurement regulations and other requirements including import and export, security, contract pricing and cost, contract termination and adjustment, audit and product integrity requirements. These requirements, although customary in U.S. Government contracts, impact our performance and compliance costs. In addition, current U.S. Government budgetary constraints have, and may continue to lead to changes in the procurement environment. For example, the DoD continues to focus on initiatives focused on efficiencies, affordability and cost growth and other changes to its procurement practices such as changes in payment term preferences. If and to the extent additional changes occur as a result of these initiatives or otherwise, they could impact our results of operations, financial condition or liquidity, and could affect whether and, if so, how we pursue certain opportunities and the terms under which we are able to do so.

In addition, failure to comply with the procurement regulations and requirements could result in reductions of the value of contracts, contract modifications or termination, cash withholds on contract payments, and the assessment of penalties and fines, which could negatively impact our results of operations, financial condition or liquidity. Our failure to comply with these regulations and requirements could also lead to suspension or debarment, for cause, from U.S. Government contracting or subcontracting for a period of time. Among the causes for debarment are violations of various statutes, including those related to procurement integrity, export control, U.S. Government security regulations, employment practices, protection of the environment, accuracy of records and the recording of costs, and foreign corruption. The termination of a U.S. Government contract as a result of any of these acts could have a negative impact on our results of operations, financial condition or liquidity and could have a negative impact on our reputation and ability to procure other U.S. Government contracts in the future.

Our international business is subject to geo-political and economic factors, regulatory requirements and other risks.

Our international business exposes us to geo-political and economic factors, regulatory requirements, increasing competition and other risks associated with doing business in foreign countries. These risks differ from and potentially may be greater than those associated with our domestic business. In 2013, our sales to customers outside the U.S. (including foreign military sales through the U.S. Government) accounted for 27% of our total net sales. Our exposure to such risks may increase if our international business continues to grow as we anticipate.

Our international business is sensitive to changes in the priorities and budgets of international customers, which may be driven by changes in threat environments, geo-political uncertainties, volatility in worldwide economic conditions, various regional and local economic and political factors, changes in U.S. foreign policy, and other risks and uncertainties. Our international sales are subject to U.S. laws, regulations and policies, including the ITAR, the FCPA, and other anti-corruption and export laws and regulations. We maintain strict policies and controls to comply with such laws and

Table of Contents

regulations and exercise close oversight of such compliance. However, any failure by us or others working on our behalf to comply with these laws and resolutions could result in criminal, civil or administrative penalties, including fines, suspension or debarment from government contracts or suspension of our ability to export our products. In addition, due to the nature of our products, we must first obtain licenses and authorizations from various U.S. Government agencies before we are permitted to sell our products outside of the U.S. We can give no assurance that we will continue to be successful in obtaining the necessary licenses or authorizations or that certain sales will not be prevented or delayed. Any significant impairment of our ability to sell products outside of the U.S. could negatively impact our results of operations, financial condition or liquidity.

Our international sales are also subject to local government laws, regulations, and procurement policies and practices which may differ from U.S. Government regulations. These include regulations relating to import-export control, technology transfer, investments, exchange controls and repatriation of earnings. Furthermore, our international sales contracts may be subject to non-U.S. contract laws and regulations and include contractual terms that differ from those of similar contracts in the U.S. or terms that may be interpreted differently by foreign courts. These contracts may also be subject to termination at the customer's convenience or for default based on performance, and may be subject to funding risks. In addition, the timing of orders, customer negotiations, governmental approvals and notifications from our international customers can be less predictable than from our domestic customers, and this may lead to variations in international bookings and sales each year. We must also manage a certain degree of exposure to the risk of currency fluctuations.

Our international business faces substantial competition from both U.S. companies and foreign companies. In some instances, foreign companies may receive loans, marketing subsidies and other assistance from their governments which may not be available to U.S. Government contractors.

Our international contracts may include industrial cooperation agreements requiring specific in-country purchases, manufacturing agreements or financial support obligations, known as offset obligations, and provide for penalties if we fail to meet such requirements. Offset obligations may, in certain countries, require the creation of a joint venture with a local company, which must control the venture. This may result in our being liable for violations of law for actions taken by these entities such as laws related to anti-corruption, import and export, or local laws which may differ from U.S. laws and requirements. Such offset obligations are generally multi-year arrangements and may provide for penalties in the event we fail to perform in accordance with the offset requirements, which are typically subjective. We also are exposed to risks associated with using third party foreign representatives and consultants for international sales and operations, and teaming with international subcontractors, partners and suppliers in connection with international programs. As a result of these factors, we could experience financial penalties, award and funding delays on international programs and could incur losses on such programs which could negatively impact our results of operations, financial condition or liquidity.

Competition within our markets may reduce our revenues and market share.

We operate in highly competitive markets and our competitors may have more extensive or more specialized engineering, manufacturing and marketing capabilities than we do in some areas. We anticipate increasing competition in our core markets as a result of continued defense industry consolidation, including cross-border consolidation of competition, which has enabled companies to enhance their competitive position and ability to compete against us. We are also facing heightened competition in our domestic and international markets from foreign and multinational firms. In addition, as discussed in more detail above, increased pressure to limit U.S. defense spending and changes in the U.S. Government procurement environment may limit certain future market opportunities. For example, the DoD increasingly is awarding contracts through competitive bidding and relying on competitive contract award types. Additionally, some customers, including the DoD, are increasingly turning to commercial contractors, rather than traditional defense contractors, for information technology and other support work. If we are unable to continue to compete successfully against our current or future competitors, we may

experience declines in revenues and market share which could negatively impact our results of operations, financial condition or liquidity. In addition, due to the current competitive environment, we continue to see an increase in bid protests from unsuccessful bidders on new program awards. Generally, a bid protest will delay the start of contract activities, delay earnings, and could result in the award decision being overturned, requiring a re-bid of the contract.

Table of Contents

Our future success depends on our ability to develop new offerings and technologies for our current and future markets.

To achieve our business strategies and continue to grow our revenues and operating profit, we must successfully develop new offerings and technologies or adapt or modify our existing offerings and technologies for our current core defense markets and our future markets, including new growth and emerging markets. Accordingly, our future performance depends on a number of factors, including our ability to:

- Identify the needs of, and growth opportunities in, new and emerging markets;
- Identify emerging technological and other trends in our current and future markets;
- Identify additional uses for our existing technology to address customer needs in our current and future markets;
- Develop and maintain competitive products and services for our current and future markets;
- Enhance our offerings by adding innovative features that differentiate our offerings from those of our competitors;
- Develop and manufacture and bring solutions to market quickly at cost-effective prices; and
- Effectively structure our businesses, through the use of joint ventures, collaborative agreements and other forms of alliances, to reflect the competitive environment.

We believe that, in order to remain competitive in the future, we will need to continue to invest significant financial resources to develop new offerings and technologies or to adapt or modify our existing offerings and technologies, including through internal research and development, acquisitions and joint ventures or other teaming arrangements. These expenditures could divert our attention and resources from other projects, and we cannot be sure that these expenditures will ultimately lead to the timely development of new offerings and technologies or identification of and expansion into new markets. Due to the design complexity of our products, we may in the future experience delays in completing the development and introduction of new products. Any delays could result in increased costs of development or deflect resources from other projects. In addition, there can be no assurance that the market for our offerings will develop or continue to expand or that we will be successful in newly identified markets as we currently anticipate. The failure of our technology to gain market acceptance could significantly reduce our revenues and harm our business. Furthermore, we cannot be sure that our competitors will not develop competing technologies which gain market acceptance in advance of our products.

Additionally, the possibility exists that our competitors might develop new technology or offerings that might cause our existing technology and offerings to become obsolete. If we fail in our new product development efforts or our products or services fail to achieve market acceptance more rapidly than our competitors, our ability to procure new contracts could be negatively impacted, which would negatively impact our results of operations and financial condition.

We enter into fixed-price and other contracts which could subject us to losses in the event that we experience cost growth that cannot be billed to customers.

Generally, our customer contracts are either fixed-priced or cost reimbursable contracts. Under fixed-priced contracts, which represent approximately 60% of our backlog, we receive a fixed price irrespective of the actual costs we incur and, consequently, we carry the burden of any cost overruns. Due to their nature, fixed-priced contracts inherently have more risk than cost reimbursable contracts, particularly fixed-price development contracts where the costs to complete the development stage of the program can be highly variable, uncertain and difficult to estimate. Under cost reimbursable contracts, subject to a contract-ceiling amount in certain cases, we are reimbursed for allowable costs and paid a fee, which may be fixed or performance based. If our costs exceed the contract ceiling and are not authorized by the customer or are not allowable under the contract or applicable regulations, we may not be able to obtain reimbursement for all such costs and our fees may be reduced or eliminated. Because many of our contracts involve advanced designs and innovative technologies, we may experience unforeseen technological difficulties and

cost overruns. Under both types of contracts, if we are unable to control costs or if our initial cost estimates are incorrect, we can lose money on these contracts. In addition, some of our contracts have provisions relating to cost controls and audit rights, and if we fail to meet the terms specified in those contracts, we may not realize their full benefits. Lower earnings caused by cost overruns and cost controls would have a negative impact on our results of operations.

Table of Contents

Our business could be adversely affected by a negative audit or investigatory finding by the U.S. Government.

As a government contractor, we are subject to audits and investigations by U.S. Government agencies including the DCAA, the DCMA, the Inspector General of the DoD and other departments and agencies, the Government Accountability Office, the Department of Justice (DoJ) and Congressional Committees. From time to time, these and other agencies investigate or conduct audits to determine whether a contractor's operations are being conducted in accordance with applicable requirements. The DCAA and DCMA also review the adequacy of and a contractor's compliance with its internal control systems and policies, including the contractor's accounting, purchasing, property, estimating, earned value management and material management accounting systems. Our final allowable incurred costs for each year are also subject to audit and have from time to time resulted in disputes between us and the U.S. Government. In addition, the DoJ has, from time to time, convened grand juries to investigate possible irregularities by us. Any costs found to be improperly allocated to a specific contract will not be reimbursed or must be refunded if already reimbursed. If an audit or investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. Government. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us.

We depend on component availability, subcontractor performance and our key suppliers to manufacture and deliver our products and services.

We are dependent upon the delivery by suppliers of materials and the assembly by subcontractors of major components and subsystems used in our products in a timely and satisfactory manner and in full compliance with applicable terms and conditions. Some products require relatively scarce raw materials. We also are subject to specific procurement requirements that may, in effect, limit the suppliers and subcontractors we may utilize, including requirements for genuine original equipment manufacturer parts.

In some instances, we are dependent on sole-source suppliers. If any of these suppliers or subcontractors fails to meet our needs or becomes insolvent, we may not have readily available alternatives. While we enter into long-term or volume purchase agreements with certain suppliers and take other actions, such as accelerating supplier payments commensurate with value delivered, to ensure financial viability and the availability of needed materials, components and subsystems, we cannot be sure that such items will be available in the quantities we require, if at all. In addition, some of our suppliers or subcontractors, especially smaller entities, may continue to be impacted by global economic conditions, which could impair their ability to meet their obligations to us. If we experience a material supplier or subcontractor problem, our ability to satisfactorily and timely complete our customer obligations could be negatively impacted which could result in reduced sales, termination of contracts and damage to our reputation and relationships with our customers. We could also incur additional costs in addressing such a problem. Any of these events could have a negative impact on our results of operations, financial condition or liquidity. In addition, we must comply with other procurement requirements, including restrictions on the use of certain chemicals in the European Union and conducting diligence and providing disclosure regarding the use of certain minerals, known as conflict minerals, which may impact our procurement practices and increase our costs.

We use estimates in accounting for many of our programs and changes in our estimates could adversely affect our future financial results.

Contract accounting requires judgment relative to assessing risks, including risks associated with customer directed delays and reductions in scheduled deliveries, unfavorable resolutions of claims and contractual matters, judgments associated with estimating contract revenues and costs, and assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. For example, we must make assumptions regarding the length of time to complete the

contract because costs also include expected increases in wages and prices for materials; consider whether the intent of entering into multiple contracts was effectively to enter into a single project in order to determine whether such contracts should be combined or segmented; consider incentives or penalties related to performance on contracts in estimating sales and profit rates, and record them when there is sufficient information for us to assess anticipated performance; and use estimates of award fees in estimating sales and profit rates based on actual and anticipated awards. Because of the significance of the judgments and estimation processes described above, it is likely that materially different amounts could be recorded if we used

Table of Contents

different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect our future results of operations and financial condition.

For a complete discussion regarding how our financial statements can be affected by contract accounting policies, see “Critical Accounting Estimates” beginning on page 34 within Item 7 of this Form 10-K.

Significant changes in key estimates and assumptions, such as discount rates and assumed long-term return on assets (ROA), as well as our actual investment returns on our pension plan assets, and other actuarial factors could affect our earnings, equity and pension contributions in future periods.

We must determine our pension and other postretirement benefit plans' expense or income which involves significant judgment, particularly with respect to our discount rate, long-term ROA and other actuarial assumptions. If our assumptions change significantly due to changes in economic, legislative, and/or demographic experience or circumstances, our pension and other postretirement benefit plans' expense and funded status, and our cash contributions to such plans could negatively change which would negatively impact our results of operations. In addition, differences between our actual investment returns and our long-term ROA assumption would result in a change to our pension and other postretirement benefit plans' expense and funded status and our required contributions to the plans. They may also be impacted by changes in regulatory, accounting and other requirements applicable to pensions.

For a complete discussion regarding how our financial statements can be affected by pension and other postretirement benefit plan accounting policies, see “Critical Accounting Estimates” beginning on page 34 within Item 7 of this Form 10-K.

We have made, and expect to continue to make, strategic acquisitions and investments, and these activities involve risks and uncertainties.

In pursuing our business strategies, we continually review, evaluate and consider potential investments and acquisitions. We undertake to identify acquisition or investment opportunities that will complement our existing products and services or customer base, as well as expand our offerings and market reach. In evaluating such transactions, we are required to make difficult judgments regarding the value of business opportunities, technologies and other assets, and the risks and cost of potential liabilities. Furthermore, acquisitions and investments involve certain other risks and uncertainties, including the difficulty in integrating newly-acquired businesses, the challenges in achieving strategic objectives and other benefits expected from acquisitions or investments, the diversion of our attention and resources from our operations and other initiatives, the potential impairment of acquired assets and liabilities, the performance of underlying products, capabilities or technologies and the potential loss of key employees and customers of the acquired businesses.

We have entered, and expect to continue to enter, into joint venture, teaming and other arrangements, and these activities involve risks and uncertainties.

We have entered, and expect to continue to enter, into joint venture, teaming and other collaborative arrangements. These activities involve risks and uncertainties, including the risk of the joint venture or applicable entity failing to satisfy its obligations, which may result in certain liabilities to us for guarantees and other commitments, the challenges in achieving strategic objectives and expected benefits of the business arrangement, the risk of conflicts arising between us and our partners and the difficulty of managing and resolving such conflicts, and the difficulty of managing or otherwise monitoring such business arrangements.

18

Table of Contents

Goodwill and other intangible assets represent a significant portion of our assets and any impairment of these assets could negatively impact our results of operations and financial condition.

At December 31, 2013, we had goodwill and other intangible assets of approximately $13.3 billion, net of accumulated amortization, which represented approximately 51% of our total assets. Our goodwill is subject to an impairment test on an annual basis and is also tested whenever events and circumstances indicate that goodwill may be impaired. Any excess goodwill resulting from the impairment test must be written off in the period of determination. Intangible assets (other than goodwill) are generally amortized over the useful life of such assets. In addition, from time to time, we may acquire or make an investment in a business which will require us to record goodwill based on the purchase price and the value of the acquired assets. We may subsequently experience unforeseen issues which adversely affect the value of our goodwill or intangible assets and trigger an evaluation of the recoverability of the recorded goodwill and intangible assets. Future determinations of significant write-offs of goodwill or intangible assets as a result of an impairment test or any accelerated amortization of other intangible assets could have a negative impact on our results of operations and financial condition.

For a complete discussion regarding how our financial statements can be affected by goodwill accounting policies, see “Critical Accounting Estimates” beginning on page 34 within Item 7 of this Form 10-K.

Our business could be negatively impacted by cybersecurity threats and other security threats and disruptions.

As a U.S. defense contractor, we face certain security threats, including threats to our information technology infrastructure, attempts to gain access to our proprietary or classified information, threats to physical security, and possible domestic terrorism events. Our information technology networks and related systems are critical to the operation of our business and essential to our ability to successfully perform day-to-day operations. We are also involved with information technology systems for certain customers and other third parties, which generally face similar security threats. Cybersecurity threats in particular, are persistent, evolve quickly and include, but are not limited to, computer viruses, attempts to access information, denial of service and other electronic security breaches. We believe we have implemented appropriate measures and controls and we have invested in highly skilled IT resources to appropriately identify threats and mitigate potential risks, but there can be no assurance that such actions will be sufficient to prevent disruptions to mission critical systems, the unauthorized release of confidential information or corruption of data. Although we have in the past and will in the future be the subject of such cybersecurity incidents, to date none had a material impact on our financial condition, results of operations or liquidity. Nonetheless, these types of events could disrupt our operations or customer and other third party IT systems in which we are involved. They also could require significant management attention and resources, and could negatively impact our reputation among our customers and the public, which could have a negative impact on our financial condition, results of operations or liquidity.

The outcome of litigation in which we have been named as a defendant is unpredictable and an adverse decision in any such matter could have a material adverse effect on our financial condition or results of operations.

We are defendants in a number of litigation matters and are subject to various other claims, demands and investigations. These matters may divert financial and management resources that would otherwise be used to benefit our operations. No assurances can be given that the results of these matters will be favorable to us. An adverse resolution or outcome of any of these lawsuits, claims, demands or investigations could have a negative impact on our financial condition, results of operations or liquidity.

We depend on the recruitment and retention of qualified personnel, and our failure to attract and retain such personnel could seriously harm our business.

Due to the specialized nature of our business, our future performance is highly dependent upon the continued services of our key engineering personnel and executive officers, the development of additional management personnel and the hiring of new qualified engineering, manufacturing, marketing, sales and management personnel for our operations. Competition for personnel is intense, and we may not be successful in attracting or retaining qualified personnel. In addition, certain personnel may be required to receive security clearance and substantial training in order to work on certain programs or perform certain tasks. The loss of key employees, our inability to attract new qualified employees or adequately train employees, or the delay in hiring key personnel could seriously harm our business.

Table of Contents

Some of our workforce is represented by labor unions so our business could be harmed in the event of a prolonged work stoppage.

Approximately 5,000 of our employees are unionized, which represents approximately 8% of our employee-base at December 31, 2013. As a result, we may experience work stoppages, which could adversely affect our business. We cannot predict how stable our union relationships will be or whether we will be able to successfully negotiate successor agreements without impacting our financial condition. In addition, the presence of unions may limit our flexibility in dealing with our workforce. Work stoppages could negatively impact our ability to manufacture our products on a timely basis, which could negatively impact our results of operations and financial condition.

We may be unable to adequately protect our intellectual property rights, which could affect our ability to compete.

We own many U.S. and foreign patents and patent applications, and have rights in unpatented know-how, data, software, trademarks and copyrights. The U.S. Government has licenses under certain of our patents and certain other intellectual property that are developed or used in performance of government contracts, and it may use or authorize others, including our competitors, to use such patents and intellectual property for government and other purposes. The U.S. Government may challenge the sufficiency of intellectual property rights we have granted in U.S. Government contracts and attempt to obtain greater rights. There can be no assurance that any of our patents and other intellectual property will not be challenged, invalidated, misappropriated or circumvented by third parties. In some instances, we have augmented our technology base by licensing the proprietary intellectual property of others. In the future, we may not be able to obtain necessary licenses on commercially reasonable terms. We enter into confidentiality and invention assignment agreements with our employees and enter into non-disclosure agreements with our suppliers and appropriate customers so as to limit access to and prevent disclosure of our proprietary information. These measures may not suffice to deter misappropriation or third party development of similar technologies. Moreover, the laws concerning intellectual property vary among nations and the protection provided to our intellectual property by the laws and courts of foreign nations may not be as advantageous to us as the remedies available under U.S. law.

Our operations expose us to the risk of material environmental liabilities.

We use hazardous substances and generate hazardous wastes in our manufacturing operations. As a result, we are subject to potentially material liabilities related to personal injuries or property damages that may be caused by hazardous substance releases and exposures. For example, we are investigating and remediating contamination related to past practices at a number of properties and, in some cases, have been named as a defendant in related “toxic tort” claims for costs of cleanup and property damages.

We are also subject to laws and regulations that: (i) impose requirements for the proper management, treatment, storage and disposal of hazardous substances and wastes; (ii) restrict air and water emissions from our operations (including U.S. Government-owned facilities we manage); and (iii) require maintenance of a safe workplace. These laws and regulations can impose substantial fines and criminal sanctions for violations, and may require the installation of costly pollution control equipment or operational changes to limit pollution emissions and/or decrease the likelihood of accidental hazardous substance releases.

If we were convicted of a criminal violation of certain U.S. federal environmental statutes, including the Federal Clean Air Act and the Clean Water Act, the facility or facilities involved in the violation would be placed by the EPA on the “Excluded Parties List” maintained by the Government Services Administration. The listing would continue until the EPA concluded that the cause of the violation had been cured. Listed facilities cannot be used in performing any U.S. Government contract awarded during any period of listing by the EPA.

We incur, and expect to continue to incur, capital and operating costs to comply with these laws and regulations. In addition, new laws and regulations, changes in the interpretation and enforcement of existing laws and regulations, the discovery of previously unknown contamination, or the imposition of new clean-up standards could require us to incur costs in the future that would have a negative effect on our financial condition, results of operations or liquidity.

Table of Contents

We face certain significant risk exposures and potential liabilities that may not be adequately covered by indemnity or insurance.

A significant portion of our business relates to designing, developing and manufacturing advanced defense and technology systems and products. New technologies may be untested or unproven. In addition, we may incur significant liabilities that are unique to our products and services, including missile systems, command and control systems, border security systems, and air traffic management systems. In some, but not all, circumstances, we may be entitled to indemnification from our customers, either through contractual provisions, qualification of our products and services by the DHS under the SAFETY Act provisions of the Homeland Security Act of 2002, or otherwise. The amount of our insurance coverage we maintain or indemnification to which we may be contractually or otherwise entitled may not be adequate to cover all claims or liabilities, and it is not possible to obtain insurance or indemnification coverage to protect against all operational risks and liabilities. Accordingly, we may be forced to bear substantial costs resulting from risks and uncertainties of our business which would negatively impact our results of operations, financial condition or liquidity.

Unanticipated changes in our tax provisions or exposure to additional income tax liabilities could affect our profitability.

We are subject to income taxes in the U.S. and many foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Furthermore, changes in domestic or foreign income tax laws and regulations, or their interpretation, could result in higher or lower income tax rates assessed or changes in the taxability of certain sales or the deductibility of certain expenses, thereby affecting our income tax expense and profitability. In addition, we are regularly under audit by tax authorities. The final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. Additionally, changes in the geographic mix of our sales could impact our tax liabilities and affect our income tax expense and profitability.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We and our subsidiaries operate in a number of plants, laboratories, warehouses and office facilities in the U.S. and abroad.

As of December 31, 2013 we owned, leased and/or utilized (through operating agreements) approximately 28.5 million square feet of floor space for manufacturing, engineering, research, administration, sales and warehousing, approximately 94% of which was located in the U.S., compared to approximately 29.4 million square feet at December 31, 2012. Of the 2013 total, approximately 49% was owned (or held under a long-term ground lease with ownership of the improvements), approximately 46% was leased, and approximately 5% was made available under facilities contracts for use in the performance of U.S. Government contracts. In addition to the 28.5 million square feet of floor space described above, approximately 334,000 square feet of space was leased or subleased by us to unrelated third parties.

There are no major encumbrances on any of our facilities other than financing arrangements, which in the aggregate, are not material. In the opinion of management, our properties have been well maintained, are suitable and adequate for us to operate at present levels, and the productive capacity and extent of utilization of the facilities are appropriate

for our existing real estate requirements.

As of December 31, 2013, our business segments had major operations at the following locations:

Integrated Defense Systems—Huntsville, AL; Fullerton, CA; San Diego, CA; Andover, MA; Billerica, MA; Marlboro, MA; Sudbury, MA; Tewksbury, MA; Woburn, MA; Maple Lawn, MD; Portsmouth, RI; Keyport, WA; Waterloo, Canada and Kiel, Germany.

Intelligence, Information and Services—Chula Vista, CA; Aurora, CO; Orlando, FL; Indianapolis, IN; Burlington, MA; Riverdale, MD; Troy, MI; Omaha, NE; State College, PA; Garland, TX; Dulles, VA; Norfolk, VA and Springfield, VA.

Table of Contents

Missile Systems—Huntsville, AL; East Camden, AR; Tucson, AZ; Rancho Cucamonga, CA; Louisville, KY; Albuquerque, NM; Farmington, NM; Dallas, TX; Richardson, TX; Midland, Canada; Harlow, United Kingdom; Glenrothes, Scotland and Malaga, Spain.
Space and Airborne Systems—El Segundo, CA; Goleta, CA; Sunnyvale, CA; Largo, FL; Fort Wayne, IN; Cambridge, MA; Forest, MS; Dallas, TX and McKinney TX.
Corporate and Other—Billerica, MA; Waltham, MA; Garland, TX; Greenville, TX; Plano, TX; Arlington, VA and Dulles, VA.

A summary of the space owned, leased and/or utilized by us as of December 31, 2013, by business segment is as follows:

	Leased	Owned[1]	Government Owned[2]	Total[3]
Integrated Defense Systems	1,683,528	4,557,262	109,566	6,350,356
Intelligence, Information and Services	4,620,127	1,040,604	207,856	5,868,587
Missile Systems	2,795,839	2,441,537	1,217,607	6,454,983
Space and Airborne Systems	3,365,390	5,438,354	—	8,803,744
Corporate and Other[4]	526,785	459,454	265	986,504
Totals	12,991,669	13,937,211	1,535,294	28,464,174

(1) Ownership may include either fee ownership of land and improvements or a long term ground lease with ownership of improvements.

(2) "Government Owned" means space owned by the U.S. or a foreign government utilized by us pursuant to an operating agreement with the U.S. or a foreign government (GOCO).

(3) Includes approximately 576,000 square feet of vacant space, but excludes approximately 334,000 square feet of space leased or subleased to unrelated third parties. For 2012, we excluded approximately 776,000 square feet of vacant space and included approximately 417,000 square feet of space leased or subleased to unrelated third parties. Applying the methodology utilized in 2013, at December 31, 2012, we owned, leased and/or utilized (through operating agreements) approximately 29.4 million square feet of floor space.

(4) Includes business development, discontinued operations and Raytheon International, Inc.

ITEM 3. LEGAL PROCEEDINGS

We primarily engage in providing products and services under contracts with the U.S. Government and, to a lesser degree, under direct foreign sales contracts, some of which the U.S. Government funds. As a U.S. government contractor, we are subject to many levels of audit and investigation by the U.S. Government relating to our contract performance and compliance with applicable rules and regulations. Agencies that oversee contract performance include: the DCAA, the DCMA, the Inspector General of the DoD and other departments and agencies, the Government Accountability Office, the DoJ and Congressional Committees. From time to time, these and other agencies investigate or conduct audits to determine whether our operations are being conducted in accordance with applicable requirements. Such investigations and audits could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, the suspension of government export licenses or the suspension or debarment from future U.S. Government contracting. U.S. Government investigations often take years to complete and many result in no adverse action against us. Our final allowable incurred costs for each year are also subject to audit and have from time to time resulted in disputes between us and the U.S. Government with litigation resulting at the Court of Federal Claims (COFC) or the Armed Services Board of Contract Appeals (ASBCA) or their related courts of appeals. In addition, the DoJ has, from time to time, convened grand juries to investigate possible irregularities by us. We also provide products and services to customers outside of the U.S. and those sales are subject to local government laws, regulations, and procurement policies and practices. Our compliance with such local government regulations or any applicable U.S. Government regulations (e.g., the FCPA and ITAR) may also be investigated or audited. Other than as specifically disclosed in this Form 10-K, we do not expect these audits,

investigations or disputes to have a material effect on our financial position, results of operations or liquidity, either individually or in the aggregate.

On August 18, 2010, the U.K. Border Agency (UKBA) initiated arbitration proceedings in the London Court of International Arbitration against Raytheon Systems Limited (RSL) in connection with the parties' dispute with respect to the UKBA's termination of RSL for cause on a program. The UKBA claimed that RSL had failed to perform on certain key milestones and other matters, and that the UKBA was entitled to recovery of certain losses incurred and previous payments made to RSL. In March 2011, the UKBA gave notice that it had presented a demand to draw on the approximately $80 million of letters of credit provided by RSL upon the signing of the contract with the UKBA in 2007. At RSL's request, the Arbitration Tribunal (Tribunal) initially issued an interim order restraining the drawdown but, following a hearing on the issue, lifted the restraint and concluded that any decision on the UKBA's right to call on the letters of credit is inextricably

Table of Contents

intertwined with the ultimate decision on the merits in the arbitration. The Tribunal also preserved RSL's right to claim damages should RSL later establish that the drawdown was not valid. To date, the UKBA has submitted total net claims in the arbitration of approximately £302 million (approximately $500 million based on foreign exchange rates as of December 31, 2013) for damages, clawback of previous payments, and interest, and inclusion of a credit for capability delivered by RSL. RSL has submitted in the arbitration its defenses to the UKBA claim as well as substantial counterclaims in the amount of approximately £500 million (approximately $827 million based on foreign exchange rates as of December 31, 2013) against the UKBA for the collection of receivables, damages and interest. Arbitration hearings commenced in late 2012 and were completed in 2013. We expect a decision in the first half of 2014.

RSL is pursuing vigorously the collection of all receivables for the program and damages in connection with the wrongful termination, and is mounting a strong defense to the UKBA's alleged claims for losses and previous payments. We believe the remaining receivables and other assets are probable of recovery in litigation or arbitration. We currently do not believe it is probable that RSL is liable for losses, previous payments (which includes the $80 million related to the drawdown on the letters of credit), clawback or other claims asserted by the UKBA. If we fail to collect the receivable balances or are required to make payments against claims or other losses asserted by the UKBA in excess of the amounts we have recorded, it could have a material adverse effect on our financial position, results of operations or liquidity.
Additional information regarding arbitration with the UKBA is contained in “Commitments and Contingencies” within Item 7 and “Note 10: Commitments and Contingencies” within Item 8 of this Form 10-K.

In addition, various other claims and legal proceedings generally incidental to the normal course of business are pending or threatened against us. We do not expect these proceedings to result in any additional liability that would materially affect our financial position, results of operations or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers are listed below. Each executive officer was elected by our Board of Directors to serve for a term of one year and until his or her successor is elected and qualified or until his or her earlier removal, resignation or death.

Daniel J. Crowley
Mr. Crowley has served as President of the Integrated Defense Systems (IDS) business unit since April 2013 and Vice President of Raytheon Company since December 2010. From November 2010 to April 2013, he was President of the former Network Centric Systems (NCS) business unit. Prior to joining Raytheon, Mr. Crowley spent 27 years in various management positions of increasing responsibility at Lockheed Martin Corporation, a global security and information technology company. From June 2010 to November 2010, Mr. Crowley served as chief operating officer of Lockheed Martin Corporation’s Aeronautics business unit and from May 2005 to June 2010, he served as executive vice president and general manager of the F-35 Joint Strike Fighter program. Age 51.

Lynn A. Dugle
Ms. Dugle has served as Vice President of Raytheon Company and President of the Intelligence, Information and Services (IIS) business unit since April 2013. From January 2009 to April 2013, she was Vice President and President of the former Intelligence and Information Systems business unit. From June 2008 to December 2008, she was Vice

President and Deputy General Manager of the former Intelligence and Information Systems business unit. From April 2004 to June 2008, she served as Vice President, Engineering, Technology and Quality for the former NCS business unit. Prior to rejoining Raytheon in April 2004, Ms. Dugle held a wide range of officer-level positions with ADC Communications, Inc., a global provider of network infrastructure products and services. Age 54.

Table of Contents

Richard A. Goglia
Mr. Goglia has served as Vice President and Treasurer since January 1999. From August 2006 to May 2009, Mr. Goglia also served as Vice President—Corporate Development. Prior to joining Raytheon in March 1997, Mr. Goglia spent 16 years in various financial and management positions at General Electric Company, a diversified technology, media and financial services company, and General Electric Capital Corporation where his last position was Senior Vice President—Corporate Finance. Age 62.

Thomas A. Kennedy
Dr. Kennedy has served as Executive Vice President of Raytheon Company and Chief Operating Officer since April 2013. On January 15, 2014, the Company announced that its Board of Directors elected Dr. Kennedy to serve as the Chief Executive Officer of the Company, effective March 31, 2014 and as a Director, effective January 15, 2014. From June 2010 to March 2013, he served as Vice President and President of the Integrated Defense Systems (IDS) business unit. From July 2007 to June 2010, he was Vice President of the Tactical Airborne Systems product line within the Space and Airborne Systems (SAS) business unit, and from May 2003 to July 2007 was Vice President of the Mission System Integration product line within the SAS business unit. Dr. Kennedy joined Raytheon in 1983 and has held positions of increasing responsibility as a new business leader and program manager for several radar and electronic warfare systems development programs. Age 58.

Taylor W. Lawrence
Dr. Lawrence has served as Vice President of Raytheon Company and President of the Missiles Systems (MS) business unit since July 2008. Dr. Lawrence joined Raytheon in April 2006 and until July 2008, he served as Vice President, Engineering, Technology and Mission Assurance. From August 2001 to April 2006, Dr. Lawrence was sector vice president and general manager, C4ISR & Space Sensors Division for Northrop Grumman Electronic Systems. From March 1999 to August 2001, Dr. Lawrence was vice president, Products and Technology for Northrop Grumman's Systems Development & Technology Division. Before joining Northrop Grumman, Dr. Lawrence served as the staff director for the Select Committee on Intelligence for the U.S. Senate and, previously, as deputy director, Information Systems Office of the Defense Advanced Research Projects Agency. Age 50.

Keith J. Peden
Mr. Peden has served as Senior Vice President—Human Resources since March 2001. From November 1997 to March 2001, Mr. Peden was Vice President and Deputy Director—Human Resources. From April 1993 to November 1997, Mr. Peden was Corporate Director of Benefits and Compensation. Age 63.

Rebecca R. Rhoads
Ms. Rhoads has served as Vice President of Raytheon Company and President of Global Business Services (GBS) since December 2013. From April 2001 to December 2013, she was a Vice President and the Chief Information Officer for Raytheon Company. From 1999 to April 2001, she was the Vice President of Information Technology for Raytheon's former Electronics Systems business. Ms. Rhoads began her career with General Dynamics as an electrical engineer in 1979, and worked in Engineering and Operations holding various assignments of increasing responsibility at General Dynamics, Hughes and Raytheon. Age 56.

Jay B. Stephens
Mr. Stephens has served as Senior Vice President and General Counsel since October 2002. In December 2006, he also was elected as Secretary of the Company. From January 2002 to October 2002, Mr. Stephens served as Associate Attorney General of the United States. From 1997 to 2002, Mr. Stephens was Corporate Vice President and Deputy General Counsel for Honeywell International, Inc. (formerly AlliedSignal, Inc.). From 1993 to 1997, he was a partner in the Washington office of the law firm of Pillsbury, Madison & Sutro (now Pillsbury Winthrop Shaw Pittman LLP). Mr. Stephens served as United States Attorney for the District of Columbia from 1988 to 1993. From 1986 to 1988, he served in the White House as Deputy Counsel to the President. Mr. Stephens currently serves on the Board of the New

England Legal Foundation, the Atlantic Legal Foundation, and the National Association of Former United States Attorneys. Age 67.

Table of Contents

William H. Swanson
Mr. Swanson has served as Chairman since January 2004 and as Chief Executive Officer since July 2003. On January 15, 2014, the Company announced that Mr. Swanson will step down as Chief Executive Officer on March 31, 2014. After March 31, 2014, Mr. Swanson will continue to serve as Chairman of the Board of Directors while the Company completes the transition to the new Chief Executive Officer. Mr. Swanson joined Raytheon in 1972 and has held increasingly responsible management positions, including: President from July 2002 to May 2004; Executive Vice President of Raytheon Company and President of Raytheon's Electronic Systems business unit from January 2000 to July 2002; Executive Vice President of Raytheon Company and Chairman and CEO of Raytheon Systems Company from January 1998 to January 2000; Executive Vice President of Raytheon Company and General Manager of Raytheon's Electronic Systems business unit from March 1995 to January 1998; and Senior Vice President and General Manager of the Missile Systems division from August 1990 to March 1995. Mr. Swanson has served on the Board of Directors of NextEra Energy, Inc., a leading clean energy company, since October 2009. Age 65.

David C. Wajsgras
Mr. Wajsgras has served as Senior Vice President and Chief Financial Officer since March 2006. From August 2005 to March 2006, Mr. Wajsgras served as Executive Vice President and Chief Financial Officer of Lear Corporation, an automotive interior systems and components supplier. From January 2002 to August 2005, he served as Senior Vice President and Chief Financial Officer of Lear. Mr. Wajsgras joined Lear in September 1999 as Vice President and Controller. Age 54.

Michael J. Wood
Mr. Wood has served as Vice President, Controller and Chief Accounting Officer since October 2006. Prior to joining Raytheon, Mr. Wood held positions of increasing responsibility over a 16-year career at KPMG LLP, an accounting firm, including most recently as an Audit Partner serving various aerospace and defense clients. Age 45.

Richard R. Yuse
Mr. Yuse has served as Vice President of Raytheon Company and President of the Space and Airborne Systems (SAS) business unit since March 2010. From May 2007 to March 2010, he was President of the former Technical Services (TS) business unit. From March 2007 to May 2007, Mr. Yuse was Vice President and Deputy General Manager of the former TS business unit, and from January 2006 to March 2007, he served as Vice President of the Integrated Air Defense product line of the IDS business unit. Mr. Yuse joined Raytheon in 1976 and has held positions of increasing responsibility on a variety of programs ranging from system architecture and design to flight test director and program manager. Age 62.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

At February 10, 2014, there were 27,539 record holders of our common stock. Our common stock is traded on the New York Stock Exchange under the symbol "RTN". For information concerning stock prices and dividends paid during the past two years, see "Note 16: Quarterly Operating Results (Unaudited)" within Item 8 of this Form 10-K.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information about our equity compensation plans that authorize the issuance of shares of our common stock. This information is provided as of December 31, 2013.

Plan Category	(A) Number of securities to be issued upon exercise of outstanding options, warrants and rights[1]	(B) Weighted average exercise price of outstanding options, warrants and rights[2]	(C) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A)
Equity compensation plans approved by stockholders	2,949,567	$33.55	7,264,705
Equity compensation plans not approved by stockholders	—	—	—
Total	2,949,567	$33.55	7,264,705

(1) This amount includes 2,716,757 shares, which is the aggregate of the actual number of shares issued pursuant to the 2011 Long-Term Performance Plan (LTPP) awards and the maximum number of shares that may be issued upon settlement of outstanding 2012 and 2013 LTPP awards, including estimated dividend equivalent amounts. The shares to be issued pursuant to the 2011, 2012 and 2013 LTPP awards will be issued under the Raytheon 2010 Stock Plan (2010 Stock Plan). The material terms of the 2011, 2012 and 2013 LTPP awards are described in more detail in "Note 12: Stock-based Compensation Plans" within Item 8 of this Form 10-K. These awards, which are granted as restricted stock units, may be settled in cash or in stock at the discretion of the Management Development and Compensation Committee.

This amount also includes 180,413 shares that may be issued upon settlement of restricted stock units, generally issued to non-U.S. employees. The shares to be issued in settlement of the restricted stock units will be issued under the 2010 Stock Plan. The awards of restricted stock units generally vest one-third per year on the second, third and fourth anniversaries of the date of grant.

This amount also includes 7,502 shares issuable upon exercise of stock options granted under the Raytheon Company 2001 Stock Plan.

This amount also includes 44,895 shares issuable upon exercise of stock options granted under the Raytheon Company 1995 Stock Option Plan (1995 Stock Option Plan). The 1995 Stock Option Plan expired in March 2005 and no additional options may be granted pursuant to that plan.

(2) Since restricted stock unit awards do not have an exercise price, the weighted average exercise price does not take into account the 2011, 2012 and 2013 LTPP awards and restricted stock units generally granted to non-U.S. employees.

Stock Performance Graph

The following chart compares the total return on a cumulative basis of $100 invested in our common stock on December 31, 2008 to the Standard & Poor's (S&P) 500 Stock Index and the S&P Aerospace & Defense Index.

Total Return To Stockholders
(Includes reinvestment of dividends)

	Annual Return Percentage Years Ending				
Company / Index	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Raytheon Common Stock	3.62	(8.00)	9.14	23.29	62.33
S&P 500 Index	26.46	15.06	2.11	16.00	32.39
S&P Aerospace & Defense Index	24.64	15.11	5.28	14.56	54.92

Table of Contents

Company / Index	Indexed Returns Years Ending Base Period 12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Raytheon Common Stock	100	103.62	95.33	104.05	128.28	208.23
S&P 500 Index	100	126.46	145.51	148.59	172.37	228.19
S&P Aerospace & Defense Index	100	124.64	143.47	151.04	173.04	268.07

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value (in Billions) of Shares that May Yet Be Purchased Under the Plans [2]
October (September 30, 2013–October 27, 2013)	668	$76.08	—	$0.7
November (October 28, 2013–November 24, 2013)	2,617,178	84.25	2,614,800	2.4
December (November 25, 2013–December 31, 2013)	2,070,028	87.16	2,062,330	2.3
Total	4,687,874	$85.53	4,677,130	

(1) Includes shares purchased related to activity under our stock plans. Such activity during the fourth quarter of 2013 includes the surrender by employees of 10,744 shares to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

(2) In September 2011, our Board of Directors authorized the repurchase of up to $2.0 billion of our outstanding common stock. Additionally, in November 2013, our Board of Directors authorized the repurchase of up to an additional $2.0 billion of our outstanding common stock. Stock repurchases will take place from time to time at management's discretion depending on market conditions.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the information contained in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes thereto included in Item 8 of this Form 10-K, which are incorporated herein by reference, in order to understand the factors that may affect the comparability of the financial data presented below.

FIVE-YEAR STATISTICAL SUMMARY

(In millions, except per share amounts and total employees)	2013	2012	2011	2010	2009
Results of Operations					
Total net sales	$23,706	$24,414	$24,791	$25,150	$24,843
Operating income	2,938	2,989	2,830	2,613	3,055
Interest expense, net	198	192	158	114	115
Income from continuing operations	1,949	1,901	1,878	1,844	1,981
Income (loss) from discontinued operations, net of tax	64	(1)	18	35	(5)
Net income	2,013	1,900	1,896	1,879	1,976
Net income attributable to Raytheon Company	1,996	1,888	1,866	1,840	1,935
Diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders	$5.96	$5.65	$5.22	$4.79	$4.91
Diluted earnings per share attributable to Raytheon Company common stockholders	$6.16	$5.65	$5.28	$4.88	$4.89
Average diluted shares outstanding	324.2	334.2	353.6	377.0	395.7
Financial Position at Year-End					
Cash and cash equivalents	$3,296	$3,188	$4,000	$3,638	$2,642
Short-term investments	1,001	856	—	—	—
Total current assets	9,816	9,246	9,309	8,822	7,868
Property, plant and equipment, net	1,937	1,986	2,006	2,003	2,001
Total assets	25,967	26,686	25,854	24,422	23,607
Total current liabilities	5,810	5,902	6,130	5,960	5,523
Long-term liabilities (excluding debt)	4,226	7,863	6,779	4,962	5,816
Long-term debt	4,734	4,731	4,605	3,610	2,329
Total equity	11,197	8,190	8,340	9,890	9,939
Cash Flow and Other Information					
Net cash provided by (used in) operating activities from continuing operations	$2,382	$1,951	$2,102	$1,892	$2,699
Net cash provided by (used in) investing activities from continuing operations	(473)	(1,523)	(1,083)	(535)	(693)
Net cash provided by (used in) financing activities	(1,797)	(1,246)	(694)	(411)	(1,650)
Bookings	22,132	26,504	26,555	24,449	25,058
Total backlog	33,685	36,181	35,312	34,551	36,877
Dividends declared per share	$2.20	$2.00	$1.72	$1.50	$1.24
Total employees from continuing operations	63,000	67,800	71,000	72,400	75,100

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Introduction

Raytheon Company develops technologically advanced, integrated products, services and solutions in four core defense markets: sensing; effects; command, control, communications and intelligence (C3I); and mission support, as well as other important markets, such as cyber and information security. We serve both domestic and international customers, as both a prime contractor and subcontractor on a broad portfolio of defense and related programs primarily for government customers.

In April 2013 we consolidated our business from six to four business segments. Those operating business segments are: Integrated Defense Systems (IDS); Intelligence, Information and Services (IIS); Missile Systems (MS); and Space and Airborne Systems (SAS). For a more detailed description of our segments, see "Business Segments" within Item 1 of this Form 10-K.

In this section, we discuss our industry and how certain factors may affect our business, key elements of our strategy, and how our financial performance is assessed and measured by management. Next, we discuss our critical accounting estimates, which are those estimates that are most important to both the reporting of our financial condition and results of operations and require management's subjective judgment. We then review our results of operations for 2013, 2012 and 2011, beginning with an overview of our total company results, followed by a more detailed review of those results by business segment. We also review our financial condition and liquidity including our capital structure and resources, off-balance sheet arrangements, commitments and contingencies, as well as changes in accounting standards.

Industry Considerations

Domestic Considerations

Faced with significant budget pressures, in recent years, the U.S. Government has implemented reductions in government spending, including reductions in appropriations for the U.S. Department of Defense (DoD) and other federal agencies, pursuant to the Budget Control Act of 2011, as amended by the American Taxpayer Relief Act of 2012 (BCA). The BCA reduced the DoD's base budget (excluding funding for operations in Afghanistan) by $487 billion over the ten-year period from fiscal year (FY) 2012–FY 2021 relative to the long-range defense plans that accompanied the FY 2012 budget request.

The BCA also required Congress to enact legislation by January 15, 2012 that would result in deficit reduction of at least $1.2 trillion, which was not accomplished. Pursuant to the terms of the BCA, a sequestration went into effect on March 1, 2013 resulting in a 7.8% reduction to the DoD budget for FY 2013, excluding funding for military personnel, and a total reduction of approximately $500 billion over the FY 2013–FY 2021 period.

Table of Contents

On December 26, 2013, the President signed into law the Bipartisan Budget Act of 2013, which amended the BCA and reduced the amount of the sequestration by a total of $63 billion for FY 2014 and FY 2015. As a result, funding for national security programs, including the DoD, will be cut by $32.3 billion in FY 2014 rather than by $54.7 billion ($22.4 billion in sequestration relief), and by $45.4 billion in FY 2015 rather than $54.7 billion ($9.3 billion in sequestration relief). The final FY 2014 DoD base budget (excluding funding for operations in Afghanistan) appropriation enacted into law in January 2014 is approximately $497 billion, which is similar to the level of funding for the DoD in FY 2013 after sequestration. FY 2015 is expected to be funded at a similar level. Looking forward, under current law, it appears funding for the DoD will remain flat through FY 2016 and modestly increase thereafter.

While the impacts of the BCA will be partially mitigated in the near term by the Bipartisan Budget Act of 2013, the remaining contemplated reductions under the BCA are still substantial and will impact DoD funding levels through 2021. In addition, the manner in which the DoD funding reductions will be implemented remains uncertain. As a result, the specific impact of future reductions required by the BCA, if any, as well as any other potential actions on U.S. Government spending and future DoD budgets on our programs are unknown at this time, and we are unable to specifically predict the effect any of the foregoing would have on our future financial performance and outlook. The impact of sequestration on our 2013 total net sales was less than the FY 2013 7.8% reduction noted above due to our international business, our position relative to critical DoD priorities and mission areas, and the anticipated length of time that it will take for sequestration reductions to impact future contracts. However, in the event that reduced BCA funding levels continue, or if other actions are taken to significantly reduce the DoD budget, it is possible that such reductions and related cancellations or delays affecting our existing contracts or programs could have a significant impact on the operating results of our business.

U.S. Government appropriations have and likely will continue to be affected by larger U.S. Government budgetary issues and related legislation. For example, the U.S. Government has not been able to pass any appropriations bills before the end of its fiscal year (September 30) in any of the past five years and has enacted defense appropriations bills prior to the end of its fiscal year only five times since FY 2001. When a formal appropriation bill has not been signed into law before the end of the fiscal year, Congress may pass a Continuing Resolution (CR) that authorizes agencies of the U.S. Government to continue to operate, generally at the same funding levels from the prior year, but typically does not authorize new spending initiatives during this period. If Congress fails to enact a CR, the U.S. Government may shutdown, which likely would result in the closure of government offices and furlough of government workers, as well as impact the availability of funds to pay its contractors for work performed. In addition, if the national debt reaches the statutory debt ceiling, the Congress must enact legislation to increase the statutory debt ceiling. If the Congress fails to do so, then the U.S. Government may default on its debts, which would likely have a material adverse effect on the global financial markets. After operating under a CR at the end of 2013, final FY 2014 appropriations bills were enacted in January 2014. The national debt is expected to reach the statutory debt ceiling in the first half of 2014 unless legislation is enacted by Congress.

With respect to U.S. defense priorities, the DoD conducted a Strategic Choices and Management Review (SCMR) in 2013 to provide its leadership with various options to meet the DoD’s strategic objectives in light of sequestration and the budgetary uncertainty the DoD faces. As a result of the SCMR, the DoD reiterated its commitment to the strategic guidance issued in January 2012 regarding its priorities through 2019 and possibly beyond. The 2012 DoD guidance identified the primary missions of the U.S. armed forces and the capabilities expected to be critical to future success, including intelligence, surveillance and reconnaissance (ISR), missile defense, electronic warfare, unmanned systems, special operations forces, interoperability with allied forces and cybersecurity. The SCMR acknowledged that under decreased spending levels due to sequestration, the DoD would not meet all of its strategic objectives, but did not identify the impacted specific objectives nor the extent to which they would not be met.

U.S. Government sales, excluding foreign military sales, accounted for 72% of our total net sales in 2013. Our principal U.S. Government customer is the DoD. Given the current budget environment, including the elements noted

above, future domestic defense spending levels are difficult to predict and may continue to decline over the next several years. A number of additional factors potentially impacting the DoD budget include the following:

- External threats to our national security, including potential security threats posed by terrorists, emerging nuclear states and other countries;
- Support for on-going operations overseas, including Afghanistan, which will require funding above and beyond the DoD base budget for their duration;

Table of Contents

- Cost-cutting measures implemented by the DoD, such as the “Better Buying Power" initiative, to ensure more efficient use of its resources in order to sufficiently fund its highest priorities;
- Priorities of the Administration and the Congress, including but not limited to deficit reduction, which could result in changes in the overall DoD budget and various allocations within the DoD budget; and
- The overall health of the U.S. and world economies and the state of governmental finances.

Although the uncertainty of funding changes that may result from the BCA, among other factors, makes predicting the DoD budget difficult, we expect the DoD to continue to prioritize and protect the key capabilities required to execute its strategy, including ISR, cybersecurity, missile defense, electronic warfare, unmanned systems, special operations forces and interoperability with allied forces. We believe those priorities are well aligned with our product offerings, technologies, services and capabilities.

With respect to other domestic customers beyond the DoD, we have contracts with a wide range of U.S. Government agencies, including the Department of Justice (DoJ), the Department of State, the Department of Energy, the Intelligence Community, the National Aeronautics and Space Administration (NASA), the Federal Aviation Administration (FAA), the Department of Homeland Security (DHS) and the National Science Foundation (NSF). Similar to the budget environment for the DoD, we expect the Administration to take the spending limits imposed by the BCA into account when determining spending priorities for these agencies. Our relationship with these agencies generally is determined more by specific program requirements than by a direct correlation to the overall funding levels for these agencies; however, further changes in government spending priorities may adversely impact these specific programs. We also have contracts with various state and local government agencies that also are subject to budget constraints and conflicts in spending priorities.

We currently are involved in over 15,000 contracts, with no single contract accounting for more than 5% of our total net sales in 2013. Although we believe our diverse portfolio of programs and capabilities is well suited to a changing defense environment, we face numerous challenges and risks, as discussed above. For more information on the risks and uncertainties that could impact the U.S. Government's demand for our products and services, see Item 1A “Risk Factors” of this Form 10-K.

International Considerations

In 2013, our sales to customers outside of the U.S. accounted for 27% of our total net sales (including foreign military sales through the U.S. Government). Internationally, the growing threat of additional terrorist activity, cyber threats, emerging nuclear states, long-range missiles and conventional military threats have led to an increase in demand for defense systems and services and other security solutions. In North Asia, both short- and long-term regional security concerns are increasing demand for air and missile defense, air/naval modernization, maritime security, and air traffic management. In the Middle East, threats from state and non-state actors are increasing demand for air and missile defense, air/land/naval force modernization, precision engagement, maritime security, border security, and cybersecurity solutions. In South and Central Americas, economic growth in certain developing countries is being accompanied by an increase in defense spending. While this region has traditionally been a smaller market for U.S.-based suppliers, it is likely to see above average growth rates in the future. In Europe, nations continue to manage downward pressure on defense spending as their governments grapple with regional economic challenges and reprioritize accordingly. Although these global economic challenges may continue to restrain and even shrink the defense budgets of certain European nations, requirements for advanced air and missile defense capabilities continue to exist in the European market. Overall, we believe many international defense budgets have the potential to grow and to do so at a faster rate than the U.S. defense budget.

International customers have and are expected to continue to adopt defense modernization initiatives similar to the DoD. We believe this trend will continue as many international customers are facing threat environments similar to

that of the U.S. and they are looking for advanced weapons and sensor systems. Alliance members also wish to assure their forces and systems will be interoperable with U.S. and North Atlantic Treaty Organization (NATO) forces. However, international demand is sensitive to changes in the priorities and budgets of international customers and geo-political uncertainties, which may be driven by changes in threat environments, volatility in worldwide economic conditions, regional and local economic and political factors, U.S. foreign policy and other risks and uncertainties. For more information on the risks and uncertainties that could impact international demand for our products and services, see Item 1A “Risk Factors” of this Form 10-K.

Table of Contents

Our Strategy and Opportunities

The following are the broad elements of our strategy:

- Focus on Technology, Innovation and Mission Assurance for existing and evolving customer mission needs. Sustain and grow our position in our core markets: sensing, effects, C3I, mission support and cyber;
- Leverage our domain knowledge in air, land, sea, space and cyber for all markets;
- Extend core capabilities to relevant new markets and customers;
- Expand global business by building on our relationships and deep market expertise, particularly cyber;
- Build upon our Customer Focused mindset, further strengthening our company based on performance, relationships and solutions;
- Deliver innovative supply chain solutions to accelerate growth, create competitive advantage and bring value to our global customers; and
- Use our technology and competitive strengths to expand our footprint in radar and electronic warfare solutions.

Our Markets

We believe that our broad mix of technologies, domain expertise and key capabilities and our cost-effective, best-value solutions and their alignment with customer needs in our core markets, position us favorably to continue to grow and increase our market share. Our core markets also serve as a solid base from which to expand into growth areas, such as Cybersecurity and key mission areas. We continually explore opportunities to leverage our existing capabilities, or develop or acquire additional ones, to expand into growth markets.

Sensing—Sensing encompasses technologies that acquire precise situational data across air, space, ground and underwater domains and then generate the information needed for effective battlespace decisions. Our Sensing technologies span the full electromagnetic spectrum, from traditional radio frequency (RF) and electro-optical (EO) to wideband, hyperspectral and acoustic sensors. We are focused on leveraging our sensing technologies to provide a broad range of capabilities as well as expanding into growth markets such as sensors to detect weapons of mass destruction.

Effects—Effects achieve specific military actions or outcomes, from small-unit force protection to theater/national missile defense. The missions may be achieved by kinetic means, electronic warfare, directed energy or information operations. Our Effects capabilities include advanced airframes, guidance and navigation systems, multiple sensor seekers, targeting, net-enabled systems, multi-dimensional effects, directed energy and cyber systems.

Command, Control, Communication and Intelligence (C3I)—C3I systems provide integrated real-time support to decision-makers on and off the battlefield, transforming raw data into actionable intelligence. Our C3I capabilities include situational awareness, persistent surveillance, communications, mission planning, battle management command and control, intelligence and analysis, and integrated ground solutions. We are also continuing to grow our market presence in C3I and expand our knowledge management and discovery capabilities.

Mission Support—We are focused on enabling customer success through total life-cycle support that predicts customer needs, senses potential problems and proactively responds with the most appropriate solutions. Our Mission Support capabilities include technical services, system engineering, product support, logistics, training, operations and maintenance. Our training business continues to expand and we now train military, civil and commercial customers in over 80 countries and in 40 different languages.

Cyber—We continue to enhance our capabilities in the cyber market as well as leverage the capabilities of the thirteen cyber acquisitions made since 2007. We are focused on providing cyber capabilities to the Intelligence, DoD, DHS markets as well as embedding information assurance capabilities in our products and our IT infrastructure. In 2013, we acquired Visual Analytics Incorporated, which provides innovative software solutions for accessing, sharing, analyzing, and reporting on data across any domain in a secure and scalable manner.

Key Mission Areas—Within our market focus areas, we emphasize our capabilities in key mission areas of enduring importance to our customers. These key mission areas include missile defense, ISR and electronic warfare. In a budget-constrained environment, customers are increasingly seeking cost-effective mission solutions. These solutions can take the form of new electronics or electronic upgrades, but draw on our market focus area capabilities, deep domain expertise and system architecture skills.

Table of Contents

International Growth

Because of the breadth of our offerings, our systems integration capability, the value of our solutions and our strong legacy in the international marketplace, we believe that we are well positioned to continue to grow our international business. As discussed under “International Considerations,” we believe demand continues to grow for solutions in air and missile defense, air traffic management, precision engagement, naval systems integration and ISR. In addition, as coalition forces increasingly integrate military operations worldwide, we believe that our capabilities in network-enabled operations will continue to be a key discriminator in these markets. Although we believe our international business is well positioned to continue to grow, we recognize that we face substantial competition from both U.S. companies and other competitors in international markets.

(In millions)	2013	2012	2011
International sales[(1)]	$6,446	$6,232	$6,139
International bookings	6,604	5,979	7,692

(1) Includes foreign military sales through the U.S. Government.

Focus on the Customer and Execution

Our customer focus continues to be a critical part of our strategy-underpinned by a focus on performance, relationships and solutions. Performance means being able to meet customer commitments which is ensured through strong processes, metrics and oversight. We maintain a “process architecture” that spans our four businesses and our broad programs and pursuits. It consists of enterprise-wide processes and systems such as our Integrated Product Development System (IPDS), which assures consistency of evaluation and execution at each step in a program's life-cycle; Product Data Management (PDM), which is our business system software for engineering; Achieving Process Excellence (APEX), which is our SAP business system software for accounting, finance and program management; Process Re-Invention Integrating Systems for Manufacturing (PRISM), which is our SAP software for manufacturing operations; Advanced Company Estimating System (ACES) which is our cost proposal system; and Raytheon Enterprise Supplier Assessment (RESA) tool for Supply Chain Management. These processes and systems are linked to an array of front-end and back-end metrics. With this structure, we are able to track results and be alerted to potential issues through numerous oversight mechanisms, including operating reviews and annual operating plan reviews.

We are also continuing to build strong customer relationships by working with them as partners and including them on Raytheon Six Sigma™ teams to jointly improve their programs and processes. We are increasingly focused on responding to our customers' changing requirements with rapid and effective solutions to real-world problems. In recognition of our customers' constraints and priorities, we also continue to drive various cost reductions across the Company by continuing to focus on improving productivity and strong execution throughout our programs. We have worked to reduce costs across the Company, including through our recent consolidation, improve efficiencies in our production facilities, and continue to increase value through Raytheon Six Sigma™, the implementation of lean processes, reduced cycle times and strategic supply chain initiatives, in addition to other initiatives.

FINANCIAL SUMMARY

We use the following key financial performance measures to manage our business on a consolidated basis and by business segment, and to monitor and assess our results of operations:

- Bookings—a forward-looking metric that measures the value of firm orders awarded to us during the year;
- Net Sales—a growth metric that measures our revenue for the current year;
- Operating Income—a measure of our profit from continuing operations for the year, before non-operating expenses, net and taxes; and
- Operating Margin—a measure of our operating income as a percentage of total net sales.

33

Table of Contents

(In millions, except for percentages)	2013	2012	2011
Bookings	$22,132	$26,504	$26,555
Total backlog	33,685	36,181	35,312
Total net sales	23,706	24,414	24,791
Total operating income[(1)]	2,938	2,989	2,830
Total operating margin	12.4 %	12.2 %	11.4 %
Operating cash flow from continuing operations	$2,382	$1,951	$2,102

(1) Includes FAS/CAS Adjustment, described below in Critical Accounting Estimates, of $249 million, $255 million and $337 million of expense in 2013, 2012 and 2011, respectively.

We also focus on earnings per share (EPS), including Adjusted EPS, and measures to assess our cash generation and the efficiency and effectiveness of our use of capital, such as free cash flow (FCF) and return on invested capital (ROIC).

Considered together, we believe these metrics are strong indicators of our overall performance and our ability to create shareholder value. We feel these measures are balanced among long-term and short-term performance, efficiency and growth. We also use these and other performance metrics for executive compensation purposes.

In addition, we maintain a strong focus on program execution and the prudent management of capital and investments in order to maximize operating income and cash. We pursue a capital deployment strategy that balances funding for growing our business, including working capital, capital expenditures, acquisitions and research and development; prudently managing our balance sheet, including debt repayments and pension contributions; and returning cash to our stockholders, including dividend payments and share repurchases.

Backlog represents the dollar value of firm orders for which work has not been performed. Backlog generally increases with bookings and generally converts into sales as we incur costs under the related contractual commitments. Therefore, we discuss changes in backlog, including any significant cancellations, for each of our segments, as we believe such discussion provides an understanding of the awarded but not executed portions of our contracts.

A discussion of our results of operations and financial condition follows below in Consolidated Results of Operations; Segment Results; Financial Condition and Liquidity; and Capital Resources.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are based on the application of U.S. Generally Accepted Accounting Principles (GAAP), which require us to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and the accompanying notes. Future events and their effects cannot be determined with certainty; therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such differences may be material to our consolidated financial statements. We believe the estimates set forth below may involve a higher degree of judgment and complexity in their application than our other accounting estimates and represent the critical accounting estimates used in the preparation of our consolidated financial statements. We believe our judgments related to these accounting estimates are appropriate. However, if different assumptions or conditions were to prevail, the results could be materially different from the amounts recorded.

Revenue Recognition

We determine the appropriate method by which we recognize revenue by analyzing the type, terms and conditions of each contract or arrangement entered into with our customers. The significant estimates we make in recognizing revenue for the types of revenue-generating activities in which we are involved are described below. We classify

contract revenues as product or service according to the predominant attributes of the relevant underlying contracts unless the contract can clearly be split between product and service. We define service revenue as revenue from activities that are not associated with the design, development or production of tangible assets, the delivery of software code or a specific capability. Our service revenue is primarily related to our IIS business segment.

Percentage-of-Completion Accounting—We use the percentage-of-completion accounting method to account for our long-term contracts associated with the design, development, manufacture, or modification of complex aerospace or electronic equipment and related services, such as certain cost-plus service contracts. Under this method, revenue is recognized based on the extent of progress towards completion of the long-term contract. Our analysis of these contracts also contemplates

Table of Contents

whether contracts should be combined or segmented in accordance with the applicable criteria under GAAP. We combine closely related contracts when all the applicable criteria under GAAP are met. The combination of two or more contracts requires judgment in determining whether the intent of entering into the contracts was effectively to enter into a single project, which should be combined to reflect an overall profit rate. Similarly, we may segment a project, which may consist of a single contract or group of contracts, with varying rates of profitability, only if the applicable criteria under GAAP are met. Judgment also is involved in determining whether a single contract or group of contracts may be segmented based on how the arrangement was negotiated and the performance criteria. The decision to combine a group of contracts or segment a contract could change the amount of revenue and gross profit recorded in a given period.

The selection of the method by which to measure progress towards completion of a contract also requires judgment and is based on the nature of the products or services to be provided. We generally use the cost-to-cost measure of progress for our long-term contracts unless we believe another method more clearly measures progress towards completion of the contract. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the contract. Contract costs include labor, materials and subcontractors costs, as well as an allocation of indirect costs. Revenues, including estimated fees or profits, are recorded as costs are incurred. Due to the nature of the work required to be performed on many of our contracts, the estimation of total revenue and cost at completion (the process for which we describe below in more detail) is complex and subject to many variables. Incentive and award fees generally are awarded at the discretion of the customer or upon achievement of certain program milestones or cost targets. Incentive and award fees, as well as penalties related to contract performance, are considered in estimating profit rates. Estimates of award fees are based on actual awards and anticipated performance, which may include the performance of subcontractors or partners depending on the individual contract requirements. Incentive provisions that increase or decrease earnings based solely on a single significant event generally are not recognized until the event occurs. Such incentives and penalties are recorded when there is sufficient information for us to assess anticipated performance. Our claims on contracts are recorded only if it is probable that the claim will result in additional contract revenue and the amounts can be reliably estimated.

We have a Company-wide standard and disciplined quarterly Estimate at Completion (EAC) process in which management reviews the progress and performance of our contracts. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities, and the related changes in estimates of revenues and costs. The risks and opportunities include management's judgment about the ability and cost to achieve the schedule (e.g., the number and type of milestone events), technical requirements (e.g., a newly-developed product versus a mature product), and other contract requirements. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the contract (e.g. to estimate increases in wages and prices for materials and related support cost allocations), performance by our subcontractors, the availability and timing of funding from our customer, and overhead cost rates, among other variables. These estimates also include the estimated cost of satisfying our industrial cooperation agreements, sometimes referred to as offset obligations, required under certain contracts. Based on this analysis, any quarterly adjustments to net sales, cost of sales, and the related impact to operating income are recognized as necessary in the period they become known. These adjustments may result from positive program performance, and may result in an increase in operating income during the performance of individual contracts, if we determine we will be successful in mitigating risks surrounding the technical, schedule, and cost aspects of those contracts or realizing related opportunities. Likewise, these adjustments may result in a decrease in operating income if we determine we will not be successful in mitigating these risks or realizing related opportunities. Changes in estimates of net sales, cost of sales, and the related impact to operating income are recognized quarterly on a cumulative catch-up basis, which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a contract's percentage of completion. A significant change in one or more of these estimates

could affect the profitability of one or more of our contracts. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recognized in the period the loss is determined.

Net EAC adjustments had the following impact on our operating results:

(In millions, except per share amounts)	2013	2012	2011
Operating income	$557	$613	$548
Income from continuing operations attributable to Raytheon Company	362	398	348
Diluted EPS from continuing operations attributable to Raytheon Company	$1.12	$1.19	$0.98

Table of Contents

Other Revenue Methods—To a much lesser extent, we enter into other types of contracts such as service, commercial, or software and licensing arrangements. Revenue under fixed-price service contracts not associated with the design, development, manufacture, or modification of complex aerospace or electronic equipment, and under commercial contracts, generally is recognized upon delivery or as services are rendered once persuasive evidence of an arrangement exists, our price is fixed or determinable, and collectability is reasonably assured. Costs on fixed-price service contracts are expensed as incurred, unless they otherwise qualify for deferral. There were no costs deferred on fixed price service contracts at December 31, 2013 and December 31, 2012. We recognize revenue on contracts to sell software when evidence of an arrangement exists, the software has been delivered and accepted by the customer, the fee is fixed or determinable, and collection is probable. For software arrangements that include multiple elements, including perpetual software licenses and undelivered items (e.g., maintenance and/or services; subscriptions/term licenses), we allocate and defer revenue for the undelivered items based on vendor specific objective evidence (VSOE) of the fair value of the undelivered elements, and recognize revenue on the perpetual license using the residual method. We base VSOE of each element on the price for which the undelivered element is sold separately. We determine fair value of the undelivered elements based on historical evidence of our stand-alone sales of these elements to third parties or from the stated renewal rate for the undelivered elements. When VSOE does not exist for undelivered items, we recognize the entire arrangement fee ratably over the applicable performance period. Revenue from non-software license fees is recognized over the expected life of the continued involvement with the customer. Additionally, royalty revenue is recognized when earned.

We apply the separation guidance under GAAP for contracts with multiple deliverables. We analyze revenue arrangements with multiple deliverables to determine if the deliverables should be divided into more than one unit of accounting. For contracts with more than one unit of accounting, we allocate the consideration we receive among the separate units of accounting based on their relative selling prices, which we determine based on prices of the deliverables as sold on a stand-alone basis, or if not sold on a stand-alone basis, the prices we would charge if sold on a stand-alone basis, and we recognize revenue for each deliverable based on the revenue recognition policies described above.

Other Considerations—The majority of our sales are driven by pricing based on costs incurred to produce products or perform services under contracts with the U.S. Government. Cost-based pricing is determined under the Federal Acquisition Regulation (FAR). The FAR provides guidance on the types of costs that are allowable in establishing prices for goods and services under U.S. Government contracts. For example, costs such as those related to charitable contributions, certain merger and acquisition costs, lobbying costs, interest expense and certain litigation defense costs are unallowable. In addition, we may enter into agreements with the U.S. Government that address the allowability and allocation of costs to contracts for specific matters. Certain costs incurred in the performance of our U.S. Government contracts are required to be recorded under GAAP but are not currently allocable to contracts. Such costs are deferred and primarily include a portion of our environmental expenses, asset retirement obligations, certain restructuring costs, deferred state income taxes, workers' compensation and certain other accruals. These costs are allocated to contracts when they are paid or otherwise agreed. We regularly assess the probability of recovery of these costs. This assessment requires us to make assumptions about the extent of cost recovery under our contracts and the amount of future contract activity. If the level of backlog in the future does not support the continued deferral of these costs, the profitability of our remaining contracts could be adversely affected.

Pension and other postretirement benefits costs are allocated to our contracts as allowed costs based upon the U.S. Government Cost Accounting Standards (CAS). The CAS requirements for pension and other postretirement benefits costs differ from the Financial Accounting Standards (FAS) requirements under GAAP. Given the inability to match with reasonable certainty individual expense and income items between the CAS and FAS requirements to determine specific recoverability, we have not estimated the incremental FAS income or expense to be recoverable under our expected future contract activity, and therefore did not defer any FAS expense for pension and other postretirement benefit plans in 2011–2013. This resulted in $249 million, $255 million and $337 million of expense in 2013, 2012 and

2011, respectively, reflected in our consolidated results of operations as the difference between CAS and FAS requirements for our pension and other postretirement benefits plans in those years.

Table of Contents

Pension and Other Postretirement Benefits Costs

We have pension plans covering the majority of our employees, including certain employees in foreign countries. We must calculate our pension and other postretirement benefits (PRB) costs under both CAS and FAS requirements under GAAP, and both calculations require judgment. GAAP outlines the methodology used to determine pension expense or income for financial reporting purposes, which is not indicative of the funding requirements for pension and PRB plans that we determine under the Employee Retirement Income Security Act of 1974 (ERISA). CAS prescribes the allocation to and recovery of pension and PRB costs on U.S. Government contracts. The CAS requirements for pension costs and its calculation methodology differ from the FAS requirements and calculation methodology. As a result, while both CAS and FAS use long-term assumptions in their calculation methodologies, each method results in different calculated amounts of pension and PRB cost. In addition, we are subject to the funding requirements under the Pension Protection Act of 2006 (PPA), which amended ERISA. Under the PPA, we are required to fully fund our pension plans over a rolling seven-year period as determined annually based upon the PPA calculated funded status at the beginning of each year. The funding requirements are primarily based on the year's expected service cost and amortization of other previously unfunded liabilities.

On December 27, 2011, the CAS Pension Harmonization Rule (CAS Harmonization) was published in the Federal Register. The rule impacts pension costs on contracts beginning in 2013 and was effective for forward pricing purposes for contracts negotiated on or after February 27, 2012. The rule intends to improve the alignment of the pension cost recovered through contract pricing under CAS and the pension funding requirements under the PPA. The rule shortens the CAS amortization period for gains and losses from 15 to 10 years and requires the use of a discount rate based on high quality corporate bonds to measure liabilities in determining the CAS pension expense. While the change in amortization period was applicable in 2013, there is a transition period for the impact of the change in liability measurement method of 0% in 2013, 25% in 2014, 50% in 2015, 75% in 2016 and 100% in 2017. CAS Harmonization is currently expected to increase pension costs under CAS and decrease our FAS/CAS expense primarily in 2014 and beyond due to the liability measurement transition period included in the rule. Since the pension cost increases occur primarily in 2014 and beyond, the impact to our contracts in existence prior to February 27, 2012 was not material. Furthermore, since CAS Harmonization is a mandatory change in cost accounting for government contractors, we may be entitled to an equitable adjustment for some portion of the increase in costs on contracts which we are currently negotiating with the government.

We record CAS expense in our business segment results. Due to the differences between FAS and CAS amounts, we also present the difference between FAS and CAS expense, referred to as our FAS/CAS Pension Adjustment, which is a component of our total FAS/CAS Adjustment, disclosed as a separate line item in our segment results. This effectively increases or decreases the amount of total pension expense in our results of operations so that such amount is equal to the FAS expense amount under GAAP. Due to the foregoing differences in requirements and calculation methodologies, our FAS pension expense or income is not indicative of the funding requirements or amount of government recovery.

The assumptions in the calculations of our pension FAS expense and CAS expense, which involve significant judgment, are described below.

FAS Expense—Our long-term return on plan assets (ROA) and discount rate assumptions are the key variables in determining pension expense or income and the funded status of our pension plans under GAAP.

The long-term ROA represents the average rate of earnings expected over the long term on the assets invested to provide for anticipated future benefit payment obligations. The long-term ROA used to calculate net periodic pension cost is set annually at the beginning of each year. Given the long-term nature of the ROA assumption, which we believe should not be solely reactive to short-term market conditions that may not persist, we expect the long-term ROA to remain unchanged unless there are significant changes in our investment strategy, the underlying economic

assumptions, or other major factors. To establish our long-term ROA assumption, we employ a “building block” approach. As part of our annual process for determining whether it is appropriate to change our long-term ROA assumption, we first review the existing long-term ROA assumption against a statistically determined reasonable range of outcomes, which we consider to be between the 25th and 75th percentile likelihood of achieving a long-term return over future years (consistent with Actuarial Standards of Practice 27). Therefore, it is less than 25 percent likely that the long-term return of the pension plan would fall below or above the 25th and 75th percentiles points, respectively (i.e., it is 50 percent likely that the long-term return of the pension plan will be within the 25th and 75th percentile range). The building block approach and the reasonable range of outcomes are based upon our asset allocation assumptions and long-term capital market assumptions. Such assumptions incorporate the economic outlook for various asset classes over short and long-term periods and also take into

Table of Contents

consideration other factors, including historical market performance, inflation and interest rates. The reasonable range of long-term returns that was used to validate the long-term ROA assumption for the calculation of the net periodic benefit cost for 2013, 2012 and 2011, are shown below.

Percentile	2013	2012	2011	
25th	5.62	%6.15	%6.67	%
75th	9.41	%9.84	%10.65	%

Long-term domestic ROA of 8.75% fell between the 65th–70th percentile, 60th–65th percentile and 50th–55th percentile of the reasonable range for 2013, 2012 and 2011. respectively. The 50th percentile of the reasonable range used to develop each of the 2013, 2012 and 2011 long-term ROA was 7.51%, 7.99% and 8.66%, respectively.

The reasonable range of long-term returns used to validate our assumption for the calculation of the net periodic benefit cost for 2014 is between 5.53% at the 25th percentile and 9.65% at the 75th percentile. The long-term ROA assumption of 8.75%, which is used in the calculation of net periodic benefit cost for 2014, falls between the 60th–65th percentile of reasonable range results with the 50th percentile at 7.59%. While there have been increases and decreases in the reasonable range over the periods presented, driven by various factors, our expected long-term ROA assumption of 8.75% has consistently fallen within that range.

Once our long-term ROA has been determined to be within the 25th to 75th percentile range of results, we review historical averages and patterns of returns to confirm reasonability of our long-term ROA assumption compared to past results. While history is not solely indicative of future market expectations, it does provide insight into general historical trends and long-term asset performance. In validating the 2013 long-term ROA assumption, we reviewed our pension plan asset performance since 1986. Our average annual actual rate of return since 1986 of 9.29%, determined on an arithmetic basis, exceeds our estimated 8.75% assumed return. Arithmetic annual averages represent the simple average returns over independent annual periods, whereas geometric returns reflect the compound average returns of dependent annual periods. The average annual actual return on a geometric basis for the same period was 8.57%. In addition, the actual annual returns have exceeded our long-term ROA assumption of 8.75% in seven of the past ten years. Since we have not had a significant change in investment strategy, our existing long-term ROA assumption of 8.75% is within the reasonable range and our historical trends and averages do not indicate a trend or pattern of returns significantly above or below our existing assumption, we determined our long-term ROA assumption for our domestic pension plans in 2013 would remain at 8.75%, consistent with our 2012 assumption. If we significantly change our long-term investment allocation or strategy, or if there is a significant change in the economic assumptions, then our long-term ROA assumption could change.

In September 2013, the Actuarial Standards Board issued a revision to Actuarial Standard of Practice No. 27, Selection of Economic Assumptions for Measuring Pension Obligations (ASOP 27) that replaces the best estimate range concept with the selection of a reasonable assumption that considers multiple criteria including the purpose of measurement, the actuary's professional judgment, historical and current economic data, estimates of future experience and has no significant bias. The revised standard is effective for assumptions established on or after September 30, 2014. Although we continue to evaluate the impact and application of ASOP 27, based on our current asset allocation and market outlook, management does not anticipate that the revised ASOP 27 will have a material impact on our financial statements.

Our domestic pension plans’ actual rates of return were approximately 15%, 12% and (1)% for 2013, 2012 and 2011, respectively. The difference between the actual rate of return and our long-term ROA assumption is included in deferred losses.

38

Table of Contents

The investment policy asset allocation ranges for our domestic pension plans, as set by our Investment Committee, for the year ended December 31, 2013 were as follows:

Asset Category	
Global equity (combined U.S. and international equity)	40% - 60%
U.S. equities	25% - 40%
International equities	15% - 25%
Fixed-income securities	25% - 40%
Cash and cash equivalents	1% - 10%
Private equity and private real estate	3% - 8%
Other (including absolute return funds)	5% - 20%

Our long-term ROA assumptions for foreign Pension Benefits plans are based on the asset allocations and the economic environment prevailing in the locations where the Pension Benefits plans reside. Foreign pension assets do not make up a significant portion of the total assets for all of our Pension Benefits plans.

The discount rate represents the interest rate that should be used to determine the present value of future cash flows currently expected to be required to settle our pension and other postretirement benefit obligations. The discount rate assumption is determined by using a theoretical bond portfolio model consisting of bonds AA rated or better by Moody’s for which the timing and amount of cash flows approximate the estimated benefit payments for each of our pension plans. The discount rate assumption for our domestic pension plans at December 31, 2013 is 5.08%, which represents a weighted-average discount rate across our plans, compared to the December 31, 2012 discount rate of 4.15% as a result of the bond environment at December 31, 2012.

CAS Expense—In addition to providing the methodology for calculating pension costs, CAS also prescribes the method for assigning those costs to specific periods. While the ultimate liability for pension costs under FAS and CAS is similar, the pattern of cost recognition is different. The key drivers of CAS pension expense include the funded status and the method used to calculate CAS reimbursement for each of our plans. Under the prior CAS rules, the discount rate used to measure liabilities was required to be consistent with the long-term ROA assumption, which changes infrequently given its long-term nature. In addition to certain other changes, CAS Harmonization requires contractors to compare the liability under the prior CAS methodology and assumptions to a liability using a discount rate based on high quality corporate bonds, and use the greater of the two liability calculations in developing CAS expense. In addition, unlike FAS, we can only allocate pension costs for a plan under CAS until such plan is fully funded as determined under CAS requirements. When the estimated future CAS pension costs increase, the estimated CAS cost allocated to our contracts in the future increases.

Other FAS and CAS Considerations—An increase or decrease of 25 basis points in the discount rate assumption would have had the following approximate impacts on 2013 FAS pension results:

(In millions)	
Impact of change in discount rate on net periodic benefit cost	$60
Impact of change in discount rate on benefit obligations	645

Table of Contents

While changes in the high quality corporate bond rate assumption do not impact the CAS discount rate for purposes of determining the 2013 CAS pension expense, this assumption will impact CAS pension expense in future periods, due to CAS Harmonization.

An increase or decrease of 25 basis points in the long-term ROA assumption would have the following approximate impacts on 2013 FAS and CAS pension results:

(In millions)	
FAS expense	$(40)
CAS expense	34
FAS/CAS Pension Adjustment	$(6)

A 25 basis point increase or decrease in our long-term ROA assumption would result in a decrease or increase to our FAS pension expense by approximately $40 million for 2013. In addition to the impact on our 2013 FAS/CAS Pension Adjustment, a portion of the $34 million change in CAS pension expense would also be allocated to fixed price contracts in backlog and, would either increase or decrease the profit rate on those contracts at the time of such a change (i.e., a change in the long-term ROA assumption on January 1, 2013 would drive a change in estimated costs in EACs and related contract profit rates as of December 31, 2012). The contract impact resulting from the change in CAS pension expense is difficult to estimate because remaining performance periods can vary, the amount and timing of expected new awards (i.e., the proposals expected to be awarded in the year which will bear their allocated portion of the change in CAS pension expense), and our mix of fixed price and cost reimbursable contracts can change. Based on our contract profile at December 31, 2013, if we had 60 percent of our backlog in fixed price contracts, and they were on average 50 percent complete, with our actual new award profile for 2013, a 25 basis point change in our long-term ROA assumption at January 1, 2013 would drive approximately $10 million of aggregate total EAC adjustments at December 31, 2012. In addition, our fixed price contracts in backlog as of December 31, 2012 would have a lower profit rate in 2013, resulting in approximately $5 million impact as costs are incurred in that year on those contracts. The total impact on 2012 would be approximately $10 million driven by the aggregate EAC adjustments and the total impact on 2013 would be approximately $11 million (the FAS/CAS Pension Adjustment and the lower profit rate impact in 2013 on fixed price contracts in backlog at December 31, 2012). A change in our long-term ROA assumption would be subject to review by our government customer for reasonableness. Given our history of recovering changes to CAS pension expense, we expect the assumption change would be allocable and allowable, per regulatory guidelines, as long as the assumption is reasonable. The transition to CAS Harmonization may gradually reduce the impact that a change to the long-term ROA assumption will have on CAS pension expense in future years as CAS Harmonization is phased in (as discussed in more detail under the CAS Expense section above).

In accordance with both FAS and CAS, a calculated “market-related value” of our plan assets is used to develop the amount of deferred asset gains or losses to be amortized. The market-related value of assets is determined using actual asset gains or losses over a certain prior period (three years for FAS and five years for CAS, subject to certain limitations under CAS on the difference between the market-related value and actual market value of assets). Because of this difference in the number of years over which actual asset gains or losses are recognized and subsequently amortized, FAS expense generally tends to reflect recent asset gains or losses faster than CAS. Another driver of CAS expense (but not FAS expense) is the funded status of our pension plans under CAS. As noted above, CAS expense is only recognized for plans that are not fully funded; consequently, if plans become or cease to be fully funded under CAS due to our asset or liability experience, our CAS expense will change accordingly.

Under FAS, a “corridor” approach may be elected and applied in the recognition of asset and liability gains or losses which limits expense recognition to the net outstanding gains and losses in excess of the greater of 10 percent of the projected benefit obligation or the calculated "market-related value" of assets. We do not use a “corridor” approach in

the calculation of FAS expense.

For 2014 compared to 2013, we currently expect our FAS expense to decrease and our CAS expense to increase, which causes the FAS/CAS Pension Adjustment to increase income. We expect the FAS/CAS Pension Adjustment to be approximately $346 million of income driven by the higher discount rate environment, the differences in the recognition period for actual asset gains and losses under FAS and CAS and CAS harmonization, as described above. This expected

Table of Contents

decrease in FAS expense and increase in CAS expense is subject to our annual update, generally planned in the third quarter, of our actuarial estimate of the unfunded benefit obligation for both FAS and CAS for final census data. After 2014, the FAS/CAS Pension Adjustment is more difficult to predict because future FAS and CAS expense is based on a number of key assumptions for future periods. Differences between those assumptions and future actual results could significantly change both FAS and CAS expense in future periods. However, based solely on our current assumptions at December 31, 2013 and taking into account CAS Harmonization, which increases CAS expense in 2014 and beyond, we would expect our FAS/CAS Pension Adjustment to increase income in 2015.

Our pension and other postretirement benefits plans' investments are stated at fair value. Investments in equity securities (common and preferred) are valued at the last reported sales price when an active market exists. Investments in fixed-income securities are generally valued using methods based upon market transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. Investments in private equity and private real estate funds are estimated at fair market value, which primarily utilizes net asset values reported by the investment manager or fund administrator. We review independently appraised values, audited financial statements and additional pricing information to evaluate the net asset values. For the very limited group of securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value, additional information is obtained from the investment manager and evaluated internally to determine whether any adjustments are required to reflect fair value.

The change in accumulated other comprehensive loss (AOCL) related to pension and other postretirement benefit plans was as follows:

(In millions)	2013	2012	2011
Beginning balance	$(12,051)	$(10,776)	$(7,931)
Amortization of net losses included in net income	1,161	950	800
Gain (loss) arising during the period	2,967	(2,225)	(3,645)
Ending balance	$(7,923)	$(12,051)	$(10,776)

The balance in AOCL related to our pension and other postretirement benefits plans is composed primarily of differences between changes in discount rates, differences between actual and expected asset returns, differences between actual and assumed demographic experience, and changes in plan provisions. Changes to our pension and other postretirement benefits obligation as a result of these variables are initially reflected in other comprehensive income. The deferred gains and losses are amortized and included in future pension expense over the average employee service period of approximately 10 years at December 31, 2013. The $2,967 million in 2013 gains arising during the period were driven primarily by the increase in the discount rate from 4.15% at December 31, 2012 to 5.08% at December 31, 2013, which had an impact of approximately $2.4 billion and actual returns, which were higher than our expected return, which had an impact of approximately $1.1 billion partially offset by other actuarial factors. The $2,225 million in 2012 losses arising during the period were driven primarily by the decrease in the discount rate from 5.00% at December 31, 2011 to 4.15% at December 31, 2012, which had an impact of approximately $2.0 billion. The $3,645 million in 2011 losses arising during the period were driven primarily by the decrease in the discount rate from 5.75% at December 31, 2010 to 5.00% at December 31, 2011, which had an impact of approximately $1.7 billion, as well as actual asset returns which were lower than our expected return, which had an impact of approximately $1.5 billion.

Table of Contents

Impairment of Goodwill

We evaluate our goodwill for impairment annually as of the first day of our fiscal fourth quarter and in any interim period in which circumstances arise that indicate our goodwill may be impaired. Indicators of impairment include, but are not limited to, the loss of significant business, significant decreases in federal government appropriations or funding for our contracts, or other significant adverse changes in industry or market conditions. In connection with our business consolidation, goodwill was allocated to our reporting units (our four business segments) on a relative fair value basis. We performed an interim goodwill impairment test and there was no indication of impairment. No events occurred during the periods presented that indicated the existence of an impairment with respect to our goodwill. We estimate the fair value of our reporting units using a discounted cash flow (DCF) model based on our most recent long-range plan in place at the time of our impairment testing, and compare the estimated fair value of each reporting unit to its net book value, including goodwill. We discount the cash flow forecasts using the weighted-average cost of capital method at the date of evaluation. The weighted-average cost of capital is comprised of the estimated required rate of return on equity, based on publicly available data for peer companies, plus an equity risk premium related to specific company risk factors, and the after-tax rate of return on debt, weighted at the relative values of the estimated debt and equity for the industry. Preparation of forecasts for use in the long-range plan and the selection of the discount rate involve significant judgments that we base primarily on existing firm orders, expected future orders, contracts with suppliers, labor agreements and general market conditions. Significant changes in these forecasts or the discount rate selected could affect the estimated fair value of one or more of our reporting units and could result in a goodwill impairment charge in a future period. When available and as appropriate, we also use comparative market multiples to corroborate our DCF model results. There was no indication of goodwill impairment as a result of our 2013 annual impairment analysis, as the fair values of each of our reporting units exceeded their respective net book values, including goodwill. Based on our 2013 impairment analysis, the reporting unit that was closest to impairment had a fair value in excess of net book value, including goodwill, of approximately 75%. All other factors being equal, a 10% decrease in expected future cash flows for that reporting unit would result in an excess of fair value over net book value of approximately 55%. Alternatively, all other factors being equal, a 100 basis points increase in the discount rate used in the calculation of the fair value of that reporting unit would result in an excess of fair value over net book value of approximately 50%. If we are required to record an impairment charge in the future, it could materially affect our results of operations.

CONSOLIDATED RESULTS OF OPERATIONS

Total Net Sales

The composition of external net sales by products and services for each segment in 2013 was approximately the following:

External Net Sales by Products and Services (% of segment total external net sales)

	IDS	IIS	MS	SAS
Products	95%	50%	95%	90%
Services	5%	50%	5%	10%

				% of Total Net Sales		
(In millions, except percentages)	2013	2012	2011	2013	2012	2011
Net sales						
Products	$19,855	$20,380	$20,725	83.8 %	83.5 %	83.6 %
Services	3,851	4,034	4,066	16.2 %	16.5 %	16.4 %
Total net sales	$23,706	$24,414	$24,791	100.0 %	100.0 %	100.0 %

Total Net Sales - 2013 vs. 2012—The decrease in total net sales of $708 million in 2013 compared to 2012 was primarily due to lower external net sales of $324 million at SAS and $323 million at IIS. The decrease in external net sales at SAS was primarily due to lower net sales on certain classified programs and on certain intelligence, surveillance and reconnaissance programs due to reduced program requirements. The decrease in external net sales at

IIS was primarily due to lower net sales on classified programs, lower net sales on training programs supporting the U.S. Army's Warfighter FOCUS activities due to a decrease in customer determined activity levels, and lower net sales on the National Science Foundation (NSF) Polar program, which was completed in the first quarter of 2012.

Table of Contents

Products and Services Net Sales - 2013 vs. 2012—The decrease in product net sales of $525 million in 2013 compared to 2012 was primarily due to lower external products net sales of $306 million at SAS, principally driven by the programs and for the reasons described above. The decrease in services net sales of $183 million in 2013 compared to 2012 was primarily due to lower external services net sales of $207 million at IIS, principally driven by the training programs supporting the U.S. Army's Warfighter FOCUS activities and the NSF Polar program described above.

Total Net Sales - 2012 vs. 2011—The decrease in total net sales of $377 million in 2012 compared to 2011 was primarily due to lower external net sales of $178 million at IIS, $141 million at MS and $101 million at SAS. The decrease in external net sales at IIS was primarily due to lower net sales on the NSF Polar program, which was completed in the first quarter of 2012. The decrease in external net sales at MS was primarily due to lower net sales on U.S. Army sensor programs driven principally by planned declines in production and lower net sales on an air warfare systems program due to lower volume driven by scheduled lower production rates. The lower net sales at MS were partially offset by higher net sales on the Standard Missile 3 (SM-3™) program due to higher volume driven by scheduled increases in production and development efforts. The decrease in external net sales at SAS was primarily due to lower net sales on certain radio and communications programs driven principally by reduced customer program requirements, lower net sales due to lower volume on certain sensor systems programs due to program schedule requirements and lower net sales of acoustic sensor systems due to higher 2011 deliveries based on customer demand, partially offset by higher net sales due to increased volume on an international tactical airborne radar program primarily due to program schedule requirements. The remaining change in external net sales at SAS was spread across numerous programs with no individual or common significant driver.

Products and Services Net Sales - 2012 vs. 2011—The decrease in product net sales of $345 million in 2012 compared to 2011 was primarily due to lower external products net sales of $165 million at IIS, $144 million at SAS and $119 million at MS. The decrease in external product net sales at IIS was primarily due to lower net sales on the UKBA program and lower net sales on various classified programs. The decrease in external product net sales at SAS and MS were primarily due to the activity on the programs and for the reasons described above. Services net sales in 2012 were relatively consistent with 2011.

Sales to Major Customers—The following is a breakdown of net sales to major customers:

				% of Total Net Sales		
(In millions, except percentages)	2013	2012	2011	2013	2012	2011
Sales to the U.S. Government[1]	$17,019	$17,861	$18,360	72 %	73 %	74 %
Sales to the U.S. Department of Defense[1]	16,015	16,818	17,308	68 %	69 %	70 %
Total international sales[2]	6,446	6,232	6,139	27 %	26 %	25 %
Foreign direct commercial sales[1]	3,384	3,036	3,141	14 %	12 %	13 %
Foreign military sales through the U.S. Government	3,062	3,196	2,998	13 %	13 %	12 %

(1) Excludes foreign military sales through the U.S. Government.
(2) Includes foreign military sales through the U.S. Government.

As described above in Industry Considerations, U.S. defense spending levels are difficult to predict due to numerous factors, including U.S. Government budget appropriation decisions and geo-political events and macroeconomic conditions.

Total Cost of Sales
Cost of sales, for both products and services, consists of labor, materials and subcontractors costs, as well as related allocated costs. For each of our contracts, we manage the nature and amount of direct costs at the contract level, and manage indirect costs through cost pools as required by government accounting regulations. The estimate of the actual amount of direct and indirect costs forms the basis for estimating our total costs at completion of the contract.

43

Table of Contents

(In millions, except percentages)	2013	2012	2011	% of Total Net Sales 2013	2012	2011
Cost of sales						
Products	$15,292	$15,712	$16,245	64.5 %	64.4 %	65.5 %
Services	3,240	3,380	3,419	13.7 %	13.8 %	13.8 %
Total cost of sales	$18,532	$19,092	$19,664	78.2 %	78.2 %	79.3 %

Total Cost of Sales - 2013 vs. 2012—The decrease in total cost of sales of $560 million in 2013 compared to 2012 was primarily due to lower external cost of sales of $264 million at IIS and $232 million at SAS, both primarily due to the activity on the programs and for the reasons described above in Total Net Sales.

Products and Services Cost of Sales - 2013 vs. 2012—The decrease in products cost of sales of $420 million in 2013 compared to 2012 was primarily due to lower external products cost of sales of $197 million at SAS and $141 million at IDS. The decrease in external products cost of sales at SAS was primarily due to the activity on the programs and for the reasons described above in Total Net Sales. The decrease in external products cost of sales at IDS was primarily due to the scheduled completion of certain production phases on an international Patriot program awarded in the first quarter of 2008, partially offset by higher external products cost of sales on other integrated air and missile defense programs for international and domestic customers, driven principally by scheduled program production requirements and timing of new awards, and higher external products cost of sales on a missile defense radar program for an international customer driven principally by scheduled program production requirements. The remaining change in external products costs of sales at IDS was spread across numerous programs with no individual or common significant driver. The decrease in services cost of sales of $140 million in 2013 compared to 2012 was primarily due to lower external services cost of sales of $175 million at IIS, driven principally by activity on the programs and for the reasons described above in Total Net Sales.

Total Cost of Sales - 2012 vs. 2011—The decrease in total cost of sales of $572 million in 2012 compared to 2011 was primarily due to lower external cost of sales of $235 million at IIS and $140 million at SAS and $82 million of lower expense in 2012 compared to 2011 related to the FAS/CAS Adjustment described below in Segment Results. The decrease in external cost of sales at IIS was primarily due to the NSF Polar contract described above in Total Net Sales and by activity on the UKBA Program, including $80 million related to the UKBA LOC Adjustment in the first quarter of 2011, as described in Commitments and Contingencies beginning on page 69. The decrease in external cost of sales at SAS was primarily due to the activity on the programs and for the reasons described above in Total Net Sales as well as lower volume on certain sensor systems programs due to program schedule requirements.

Products and Services Cost of Sales - 2012 vs. 2011—The decrease in products cost of sales of $533 million in 2012 compared to 2011 was primarily due to lower external product cost of sales of $219 million at IIS and $186 million at SAS. The decrease in external products cost of sales at IIS was driven principally by activity on the UKBA Program, including $80 million related to the UKBA LOC Adjustment in the first quarter of 2011, as described in Commitments and Contingencies beginning on page 69. The decrease in external product cost of sales at SAS was primarily due to the activity on the programs and for the reasons described above in Total Net Sales as well as lower volume on certain sensor systems programs due to program schedule requirements. Services cost of sales in 2012 was relatively consistent with 2011.

General and Administrative Expenses

(In millions, except percentages)	2013	2012	2011	% of Total Net Sales 2013	2012	2011
Administrative and selling expenses	$1,771	$1,882	$1,847	7.5 %	7.7 %	7.5 %
Research and development expenses	465	451	450	2.0 %	1.8 %	1.8 %
Total general and administrative expenses	$2,236	$2,333	$2,297	9.4 %	9.6 %	9.3 %

The decrease in administrative and selling expenses of $111 million in 2013 compared to 2012 was primarily due to a $36 million decrease in net state taxes allocated to our contracts, $34 million driven by the timing of bid and proposal expenses on various contract pursuits, and a $17 million decrease in marketing and selling expenses.

Table of Contents

The increase in administrative and selling expenses of $35 million in 2012 compared to 2011 was primarily due to increased bid and proposal expenses of $73 million due to the timing of various radar, classified, electronic warfare and communications programs and an increase of $62 million in state taxes allocated to our contracts, partially offset by decreases in marketing and selling expenses of $47 million, $27 million of lower acquisition-related costs for Raytheon Applied Signal Technology, Inc. (RAST), and a $15 million increase in insurance recovery, net of legal and period expenses, in connection with the UKBA Program dispute and arbitration at IIS.

The provision for state income taxes generally can be recovered through the pricing of products and services to the U.S. Government. Net state income taxes allocated to our contracts were $42 million, $78 million and $16 million in 2013, 2012, and 2011, respectively.

Research and development expenses in 2013 were relatively consistent in amount and as a percentage of total net sales with 2012 and 2011.

Total Operating Expenses

				% of Total Net Sales		
(In millions, except percentages)	2013	2012	2011	2013	2012	2011
Total operating expenses	$20,768	$21,425	$21,961	87.6 %	87.8 %	88.6 %

The decrease in total operating expenses of $657 million in 2013 compared to 2012 was primarily due to the decrease in total cost of sales of $560 million, the primary drivers of which are described above in Total Cost of Sales.

The decrease in total operating expenses of $536 million in 2012 compared to 2011 was primarily due to the decrease in total cost of sales of $572 million, the primary drivers of which are described above in Total Cost of Sales.

Operating Income

				% of Total Net Sales		
(In millions, except percentages)	2013	2012	2011	2013	2012	2011
Total operating income	$2,938	$2,989	$2,830	12.4 %	12.2 %	11.4 %

The decrease in operating income of $51 million in 2013 compared to 2012 was due to the decrease in total net sales of $708 million, the primary drivers of which are described above in Total Net Sales, offset by the decrease in total operating expenses of $657 million, the primary drivers of which are described above in Total Operating Expenses.

The increase in operating income of $159 million in 2012 compared to 2011 was due to the decrease in total operating expenses of $536 million, the primary drivers of which are described above in Total Operating Expenses, offset by the decrease in total net sales of $377 million, the primary drivers of which are described above in Total Net Sales. Included in the change in operating income were the remaining net EAC adjustments described in Segment Results beginning on page 49.

Total Non-Operating (Income) Expense, Net

(In millions)	2013	2012	2011
Non-operating (income) expense, net			
Interest expense	$210	$201	$172
Interest income	(12)	(9)	(14)
Other expense (income), net	(17)	18	12
Total non-operating (income) expense, net	$181	$210	$170

The decrease in total non-operating (income) expense, net of $29 million in 2013 compared to 2012 was primarily due to the $29 million pretax charge associated with the make-whole provision on the early repurchase of long-term debt in the fourth quarter of 2012.

Table of Contents

The increase in total non-operating (income) expense, net of $40 million in 2012 compared to 2011 was primarily due to the $29 million pretax charge associated with the make-whole provision on the early repurchase of long-term debt in the fourth quarter of 2012 and $29 million of higher interest expense, principally due to the issuance of $1.0 billion of fixed rate long-term debt in the fourth quarter of 2011, partially offset by a $15 million change in the fair value of investments held in rabbi trusts associated with certain of our non-qualified deferred compensation plans due to a net gain of $14 million in 2012 compared to a net loss of $1 million in 2011.

Federal and Foreign Income Taxes

(In millions)	2013	2012	2011
Federal and foreign income taxes	$808	$878	$782

The decrease in federal and foreign income taxes of $70 million in 2013 compared to 2012 was primarily due to the reinstatement of the U.S. research and development (R&D) tax credit described below. The increase in federal and foreign income taxes of $96 million in 2012 compared to 2011 was primarily due to timing of the settlement related to the 2006–2008 IRS audit examination cycle.

Our effective tax rate, which is used to determine federal and foreign income tax expense, differs from the U.S. statutory rate due to the following:

	2013		2012		2011	
Statutory tax rate	35.0	%	35.0	%	35.0	%
Research and development tax credit	(1.8	)	—		(1.0	)
Tax settlements and refund claims	(0.8	)	(0.8	)	(2.6	)
Domestic manufacturing deduction benefit	(2.1	)	(1.9	)	(1.8	)
Other items, net	(1.0	)	(0.7	)	(0.2	)
Effective tax rate	29.3	%	31.6	%	29.4	%

Our effective tax rate reflects the 35% U.S. statutory rate adjusted for various permanent differences between book and tax reporting. In January 2013, Congress enacted legislation that retroactively reinstated the research and development (R&D) tax credit for 2012 and extended it through December 31, 2013. In the first quarter of 2013, we recorded a benefit of approximately $25 million related to the 2012 R&D credit and we have recognized the benefit of approximately $25 million related to the 2013 R&D credit ratably throughout the year.

During 2013, the IRS completed its examination of our 2009 and 2010 tax years and we received final approval from the U.S. Congressional Joint Committee on Taxation (JCT) of a refund claim related to the 2011 tax year which completed IRS examinations through 2011. During 2012, we received final approval from the IRS and the JCT on settlement for the 2006–2008 IRS examination cycle (2012 Tax Settlement). During 2011, we received final approval from the IRS and the JCT of our Minimum Tax Refund claim for the 2006–2008 IRS examination cycle, which related to items not included in the 2012 Tax Settlement (2011 Tax Settlement).
Our effective tax rate in 2013 was lower than the statutory federal tax rate primarily due to the domestic manufacturing deduction which decreased the rate by approximately 2.1%, and the R&D tax credit, which decreased the rate by approximately 1.8%. Our effective tax rate in 2012 was lower than the statutory federal tax rate primarily due to the domestic manufacturing deduction which decreased the rate by approximately 1.9%, and the 2012 Tax Settlement, which decreased the rate by approximately 0.8%.

The decrease in our effective tax rate of 2.3% in 2013 was primarily due to the reinstatement of the R&D tax credit, which changed the rate by approximately 1.8%. Our effective tax rate in 2012 was 2.2% higher than 2011 primarily due to the difference between the 2011 and 2012 Tax Settlement amounts, which changed the rate by approximately 1.8%.

Our effective tax rate in 2011 was lower than the U.S. statutory tax rate primarily due to the 2011 Tax Settlement, which decreased the rate by approximately 2.6%, and the domestic manufacturing deduction, which decreased the rate by approximately 1.8%, and the U.S. research and development tax credit, which decreased the rate by approximately 1.0%.

Table of Contents

Income from Continuing Operations

(In millions)	2013	2012	2011
Income from continuing operations	$1,949	$1,901	$1,878

The increase in income from continuing operations of $48 million in 2013 compared to 2012 was primarily due to the $70 million decrease in federal and foreign income taxes, related primarily to the change in the effective tax rate described above in Federal and Foreign Income Taxes, and the $29 million decrease in total non-operating expenses, net, the primary drivers of which are described above in Total Non-Operating (Income) Expense, Net, partially offset by the $51 million decrease in operating income, described above in Operating Income.

The increase in income from continuing operations of $23 million in 2012 compared to 2011 was primarily due to the $159 million increase in operating income, described above in Operating Income, partially offset by the $96 million increase in federal and foreign income taxes, related primarily to higher levels of income and the change in the effective tax rate described above in Federal and Foreign Income Taxes and the $40 million increase in total non-operating expenses, net, the primary drivers of which are described above in Total Non-Operating (Income) Expense, Net.

Income (Loss) from Discontinued Operations, Net of Tax

(In millions)	2013	2012	2011
Income (loss) from discontinued operations, net of tax	$64	$(1)	$18

The increase in income (loss) from discontinued operations, net of tax, of $65 million in 2013 compared to 2012 was primarily due to the favorable resolution of two separate tax matters related to our previously disposed commercial aircraft businesses.

The decrease in income (loss) from discontinued operations, net of tax, of $19 million in 2012 compared to 2011 was primarily due to $19 million less of income, net of tax, related to our former turbo-prop commuter aircraft portfolio, Raytheon Airline Aviation Services (RAAS), in 2012 compared to 2011.

Net Income

(In millions)	2013	2012	2011
Net income	$2,013	$1,900	$1,896

The increase in net income of $113 million in 2013 compared to 2012 was due to the increase in income (loss) from discontinued operations, net of tax, of $65 million, the primary drivers of which are described above in Income (loss) from Discontinued Operations, Net of Tax, and the increase in income from continuing operations of $48 million described above in Income from Continuing Operations.

The increase in net income of $4 million in 2012 compared to 2011 was primarily due to the increase in income from continuing operations of $23 million described above in Income from Continuing Operations, partially offset by the decrease in income (loss) from discontinued operations, net of tax, of $19 million, the primary drivers of which are described above in Income (loss) from Discontinued Operations, Net of Tax.

Diluted Earnings per Share (EPS) from Continuing Operations Attributable to Raytheon Company Common Stockholders

(In millions, except per share amounts)	2013	2012	2011
Income from continuing operations attributable to Raytheon Company	$1,932	$1,889	$1,848
Diluted weighted-average shares outstanding	324.2	334.2	353.6
Diluted EPS from continuing operations attributable to Raytheon Company	$5.96	$5.65	$5.22

47

Table of Contents

The increase in diluted EPS from continuing operations attributable to Raytheon Company common stockholders of $0.31 in 2013 compared to 2012 and $0.43 in 2012 compared to 2011 was primarily due to the decrease in diluted weighted average shares outstanding, which was affected by the common stock share activity shown in the table below.

Our common stock share activity for the years ended 2013, 2012, and 2011 was as follows:

(Shares in millions)	2013	2012	2011
Beginning balance	328.1	338.9	359.4
Warrants exercised	—	—	3.3
Stock plans activity	2.4	5.8	4.0
Treasury stock repurchases	(16.0)	(16.6)	(27.8)
Ending balance	314.5	328.1	338.9

Warrants to purchase shares of our common stock, with an exercise price of $37.50 per share, were included in our calculations of diluted EPS at December 31, 2011. These warrants expired in June 2011.

Diluted Earnings (Loss) per Share from Discontinued Operations Attributable to Raytheon Company Common Stockholders

Diluted earnings (loss) per share from discontinued operations attributable to Raytheon Company common stockholders were earnings of $0.20 in 2013, a loss of less than $0.01 in 2012, and earnings of $0.05 in 2011. The increase in diluted earnings (loss) per share from discontinued operations attributable to Raytheon Company common stockholders of $0.20 in 2013 compared to 2012 and the decrease of $0.05 in 2012 compared to 2011 were primarily due to the activity described above in Income (Loss) from Discontinued Operations, Net of Tax.

Diluted EPS Attributable to Raytheon Company Common Stockholders

(In millions, except per share amounts)	2013	2012	2011
Net income attributable to Raytheon Company	$1,996	$1,888	$1,866
Diluted weighted-average shares outstanding	324.2	334.2	353.6
Diluted EPS attributable to Raytheon Company	$6.16	$5.65	$5.28

The increases in diluted EPS attributable to Raytheon Company common stockholders of $0.51 in 2013 compared to 2012 and $0.37 in 2012 compared to 2011 were primarily due to the decreases in diluted shares and the changes in Diluted Earnings (Loss) per Share from Discontinued Operations Attributable to Raytheon Company Common Stockholders described above.

Adjusted EPS

Adjusted EPS was as follows:

	2013	2012	2011
Diluted EPS from continuing operations attributable to Raytheon Company common stockholders	$5.96	$5.65	$5.22
EPS impact of the FAS/CAS Adjustment	0.50	0.50	0.62
Per share impact of 2012 R&D tax credit	(0.08)	0.07	—
EPS impact of the early retirement of debt charges	—	0.06	—
EPS impact of UKBA LOC Adjustment	—	—	0.17
EPS impact of the 2011 Tax Settlement	—	—	(0.17)
Adjusted EPS	$6.38	$6.28	$5.85

Adjusted EPS is diluted EPS from continuing operations attributable to Raytheon Company common stockholders excluding the EPS impact of the FAS/CAS Adjustment, tax effected at the federal statutory rate of 35%, and from

time to time, certain other items. In addition to the FAS/CAS Adjustment, our 2013 Adjusted EPS also excludes the EPS impact of the R&D tax credit that relates to 2012. In January 2013, Congress approved legislation that included the extension of the R&D tax credit. The legislation retroactively reinstated the R&D tax credit for 2012 and extended it through December 31,

Table of Contents

2013. As a result, we recorded the 2012 benefit in the first quarter of 2013. In addition to the FAS/CAS Adjustment, our 2012 Adjusted EPS also excludes the EPS impact of the make-whole provision on the early retirement of debt and includes the favorable impact from the $25 million ($0.07 per diluted share) 2012 R&D tax credit that was recorded for GAAP reporting in the first quarter of 2013. The difference between the first quarter of 2013 ($0.08 per share) and full-year 2012 ($0.07 per share) impact of the 2012 R&D tax credit is due to a higher number of diluted shares for the full-year 2012 as compared to the first quarter of 2013. In addition to the FAS/CAS Adjustment, our 2011 Adjusted EPS also excludes the EPS impact of the 2011 Tax Settlement, and the UKBA LOC Adjustment tax effected at the 2011 U.K. statutory tax rate of approximately 25%, as described in Commitments and Contingencies, beginning on page 69. We are providing Adjusted EPS because management uses it for the purpose of evaluating and forecasting our financial performance and believes that it provides additional insight into our underlying business performance. We believe it allows investors to benefit from being able to assess our operating performance in the context of how our principal customer, the U.S. Government, allows us to recover pension and other postretirement benefit costs and to better compare our operating performance to others in the industry on that same basis. Adjusted EPS is not a measure of financial performance under GAAP and should be considered supplemental to and not a substitute for financial performance in accordance with GAAP. Adjusted EPS may not be defined and calculated by other companies in the same manner and the amounts presented may not recalculate directly due to rounding.

SEGMENT RESULTS

We report our results in the following segments: IDS; IIS; MS; and SAS. The following provides some context for viewing our segment performance through the eyes of management.

Given the nature of our business, bookings, net sales, and operating income (and the related operating margin percentage), which we disclose and discuss at the segment level, are most relevant to an understanding of management’s view of our segment performance, and often these measures have significant interrelated effects, as described below. In addition, we disclose and discuss backlog, which represents future sales that we expect to recognize over the remaining contract period, which is generally several years. We also disclose cost of sales and the components of cost of sales within our segment disclosures.

Bookings—We disclose the amount of bookings and notable contract awards for each segment. Bookings generally represent the dollar value of new contracts awarded to us during the reporting period and include firm orders for which funding has not been appropriated. We believe bookings are an important measure of future performance and are an indicator of potential future changes in total net sales, because we cannot record revenues under a new contract without first having a booking in the current or a preceding period.

Bookings are impacted by the timing and amounts of awards in a given period, which are subject to numerous factors, including the desired capability by the customer and urgency of customer needs; fiscal constraints placed on customer budgets; political uncertainty; the timing of customer negotiations; the timing of governmental approvals and notifications; and the timing of option exercises or increases in scope. In addition, due to these factors, quarterly bookings tend to fluctuate from period to period, particularly on a segment basis. As a result, we believe comparing bookings on a quarterly basis or periods less than one year is less meaningful than for longer periods and that shorter term changes in bookings may not necessarily indicate a material trend.

Bookings (In millions)	2013	2012	2011
Integrated Defense Systems	$5,869	$6,633	$7,605
Intelligence, Information and Services	5,046	5,470	6,158
Missile Systems	5,221	7,794	6,747
Space and Airborne Systems	5,996	6,607	6,045
Total	$22,132	$26,504	$26,555

Included in bookings were international bookings of $6,604 million, $5,979 million and $7,692 million in 2013, 2012, and 2011, respectively, which included foreign military bookings through the U.S. Government. International bookings amounted to 30%, 23% and 29% of total bookings in 2013, 2012, and 2011, respectively. Classified bookings amounted to 13%, 16% and 12% of total bookings in 2013, 2012, and 2011, respectively.

Table of Contents

We record bookings for not-to-exceed contract awards (e.g. undefinitized contract awards, binding letter agreements) based on reasonable estimates of expected contract definitization, which will generally not be less than 75% of the award. We subsequently adjust bookings to reflect the actual amounts definitized, or, when prior to definitization, when facts and circumstances indicate that our previously estimated amounts are no longer reasonable. The timing of awards that may cover multiple fiscal years influences the size of bookings in each year. Bookings exclude unexercised contract options and potential orders under ordering-type contracts (e.g., indefinite delivery/indefinite quantity (IDIQ) type contracts), and are reduced for contract cancellations and terminations of bookings recognized in the current year. We reflect contract cancellations and terminations from prior year bookings, as well as the impact of changes in foreign exchange rates, directly as an adjustment to backlog in the period in which the cancellation or termination occurs and the impact is determinable.

Backlog—We disclose period-ending backlog for each segment. Backlog represents the dollar value of firm orders for which work has not been performed. Backlog generally increases with bookings and generally converts into sales as we incur costs under the related contractual commitments. Therefore, we discuss changes in backlog, including any significant cancellations, for each of our segments, as we believe such discussion provides an understanding of the awarded but not executed portions of our contracts.

	Funded Backlog			Total Backlog		
Backlog at December 31 (In millions)	2013	2012	2011	2013	2012	2011
Integrated Defense Systems	$9,397	$9,188	$8,512	$10,916	$11,656	$11,547
Intelligence, Information and Services	2,592	2,848	2,821	5,856	6,409	7,027
Missile Systems	6,859	7,535	6,957	9,162	10,676	9,446
Space and Airborne Systems	4,166	4,476	4,172	7,751	7,440	7,292
Total	$23,014	$24,047	$22,462	$33,685	$36,181	$35,312

Total backlog includes both funded backlog (firm orders for which funding is authorized, appropriated and contractually obligated by the customer for which work has not been performed) and unfunded backlog (firm orders for which funding has not been appropriated and/or contractually obligated by the customer for which work has not been performed). Revenue is generally not recognized on backlog until funded. Backlog excludes unexercised contract options and potential orders under ordering-type contracts (e.g., IDIQ). Both funded and unfunded backlog are affected by changes in foreign exchange rates.

Total Net Sales—We generally express changes in net sales in terms of volume. Volume generally refers to increases or decreases in revenues related to varying amounts of total operating expenses, which are comprised of cost of sales and general and administrative expenses, which include administrative and selling expenses (including bid and proposal costs) and research and development expenses, incurred on individual contracts (i.e., from performance against contractual commitments on our bookings related to engineering, production or service activity). Therefore, we discuss volume changes attributable principally to individual programs unless there is a discrete event (e.g., a major contract termination, natural disaster or major labor strike), or some other unusual item that has a material effect on changes in a segment's volume for a reported period. Due to the nature of our contracts, the amount of costs incurred and related revenues will naturally fluctuate over the lives of our contracts. As a result, in any reporting period, the changes in volume on numerous contracts are likely to be due to normal fluctuations in our engineering, production or service activities.

Total net sales by segment were as follows:

Total Net Sales (In millions)	2013	2012	2011
Integrated Defense Systems	$6,489	$6,492	$6,441
Intelligence, Information and Services	6,045	6,335	6,470
Missile Systems	6,599	6,639	6,801
Space and Airborne Systems	6,371	6,823	6,818
Corporate and Eliminations	(1,798)	(1,875)	(1,739)

Total	$23,706	$24,414	$24,791

Total Operating Expenses—We generally disclose operating expenses for each segment in terms of the following: 1) cost of sales—labor; 2) cost of sales—materials and subcontractors; and 3) other costs of sales and other operating expenses.

Table of Contents

Included in cost of sales—labor is the incurred direct labor associated with the performance of contracts in the current period and any applicable overhead and fringe costs. Included in cost of sales—materials and subcontractors is the incurred direct materials, subcontractor costs (which could include effort performed by other Raytheon segments or locations), and applicable overhead allocations in the current period. Included in other cost of sales and other operating expenses is other direct costs not captured in labor or material and subcontractor costs, such as precontract costs previously deferred, costs previously deferred into inventory on contracts using commercial or units of delivery accounting, applicable overhead allocations, general and administrative expenses, which include administrative and selling expenses (including bid and proposal costs) and research and development expenses, other direct costs (such as ancillary services and travel expenses) and adjustments for loss contracts.

Operating Income (and the related operating margin percentage)—We generally express changes in segment operating income in terms of volume, net changes in EAC adjustments or changes in contract mix and other program performance.

The impact of changes in volume on operating income excludes the impact of net EAC adjustments and the impact of changes in contract mix and other program performance and is calculated based on changes in costs on individual programs at an overall margin for the segment.

Changes in net EAC adjustments typically relate to the current period impact of revisions to total estimated revenues and costs at completion. These changes reflect improved or deteriorated operating performance or award fee rates. We have a Company-wide standard and disciplined quarterly EAC process in which management reviews the progress and performance of our contracts. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities, and the related changes in estimates of revenues and costs. The risks and opportunities include management's judgment about the ability and cost to achieve the schedule (e.g., the number and type of milestone events), technical requirements (e.g., a newly-developed product versus a mature product), and other contract requirements. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the contract (e.g. to estimate increases in wages and prices for materials and related support cost allocations), performance by our subcontractors, the availability and timing of funding from our customer, and overhead cost rates, among other variables. These estimates also include the estimated cost of satisfying our industrial cooperation agreements, sometimes referred to as offset obligations, required under certain contracts. Based on this analysis, any quarterly adjustments to net sales, cost of sales, and the related impact to operating income are recognized as necessary in the period they become known. These adjustments may result from positive program performance, and may result in an increase in operating income during the performance of individual contracts, if we determine we will be successful in mitigating risks surrounding the technical, schedule, and cost aspects of those contracts or realizing related opportunities. Likewise, these adjustments may result in a decrease in operating income if we determine we will not be successful in mitigating these risks or realizing related opportunities. Changes in estimates of net sales, cost of sales, and the related impact to operating income are recognized quarterly on a cumulative catch-up basis, which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a contract's percentage of completion. A significant change in one or more of these estimates could affect the profitability of one or more of our contracts. Given that we have over 15,000 individual contracts and the types and complexity of the assumptions and estimates we must make on an on-going basis, as discussed above, we have both favorable and unfavorable EAC adjustments. We had the following aggregate EAC adjustments for the periods presented:

EAC Adjustments (In millions)	2013	2012	2011
Gross favorable	$1,129	$1,026	$1,041
Gross unfavorable	(572)	(413)	(493)
Total net EAC adjustments	$557	$613	$548

In recent years, our net EAC adjustments generally have been between 2.0% and 2.5% of total net sales. For 2013, 2012 and 2011, our net EAC adjustments as a percentage of total net sales were 2.3%, 2.5% and 2.2%, respectively.

There were no significant individual EAC adjustments in 2013 and 2012. There was one significant individual EAC adjustment in 2011 for the UKBA LOC Adjustment of $80 million.

Table of Contents

The $56 million decrease in net EAC adjustments in 2013 compared to 2012 was primarily due to the decrease in net EAC adjustments at SAS as described beginning on page 59.

The $65 million increase in net EAC adjustments in 2012 compared to 2011 was primarily due to the impact of the UKBA LOC Adjustment described above.

Changes in contract mix and other program performance refer to changes in operating margin due to a change in the relative volume of contracts with higher or lower fee rates such that the overall average margin rate for the segment changes and other drivers of program performance, including margin rate increases or decreases due to EAC adjustments in prior periods. A higher or lower expected fee rate at the initial award of a contract typically correlates to the contract's risk profile, which is often specifically driven by the type of customer and related procurement regulations, the type of contract (e.g., fixed price vs. cost plus), the maturity of the product or service, and the scope of work. Changes in contract mix and other performance also include all other items which are not related to volume or EAC adjustments.

Because each segment has thousands of contracts in any reporting period, changes in operating income and margin are likely to be due to normal changes in volume, net EAC adjustments, and contract mix and other performance on many contracts with no single change, or series of related changes, materially driving a segment's change in operating income or operating margin percentage.

Operating income by segment was as follows:

Operating Income (In millions)	2013	2012	2011
Integrated Defense Systems	$1,115	$1,047	$998
Intelligence, Information and Services	510	536	480
Missile Systems	830	861	939
Space and Airborne Systems	920	988	951
FAS/CAS Adjustment	(249)	(255)	(337)
Corporate and Eliminations	(188)	(188)	(201)
Total	$2,938	$2,989	$2,830

Integrated Defense Systems

(In millions, except percentages)	2013	2012	2011	% Change 2013 compared to 2012	2012 compared to 2011
Total Net Sales	$6,489	$6,492	$6,441	— %	0.8 %
Total Operating Expenses					
Cost of sales—labor	2,272	2,292	2,302	(0.9)%	(0.4)%
Cost of sales—materials and subcontractors	2,149	2,229	2,192	(3.6)%	1.7 %
Other cost of sales and other operating expenses	953	924	949	3.1 %	(2.6)%
Total Operating Expenses	5,374	5,445	5,443	(1.3)%	— %
Operating Income	$1,115	$1,047	$998	6.5 %	4.9 %
Operating Margin	17.2 %	16.1 %	15.5 %		

52

Table of Contents

Change in Operating Income (in millions)	Year Ended 2013 Versus Year Ended 2012	Year Ended 2012 Versus Year Ended 2011
Volume	$(13)	$3
Net change in EAC adjustments	(7)	(14)
Mix and other performance	88	60
Total Change in Operating Income	$68	$49

(In millions, except percentages)	2013	2012	2011	% Change 2013 compared to 2012	% Change 2012 compared to 2011
Bookings	$5,869	$6,633	$7,605	(11.5)%	(12.8)%
Total Backlog	10,916	11,656	11,547	(6.3)%	0.9 %

IDS is a leader in integrated air and missile defense; radar solutions; naval combat and ship electronic systems; command, control, communications, computers and intelligence (C4I) solutions; and international and domestic Air Traffic Management (ATM) systems. IDS delivers combat-proven performance against the complete spectrum of airborne and ballistic missile threats and is a world leader in the technology, development, and production of sensors and mission systems. IDS provides solutions to the U.S. Department of Defense (DoD), the U.S. Intelligence Community, and the Federal Aviation Administration (FAA), as well as more than 50 international customers which represent approximately half of IDS' business.

Total Net Sales—Total net sales in 2013 were relatively consistent with 2012. Included in total net sales in 2013 was $275 million of lower net sales from the scheduled completion of certain production phases on an international Patriot program awarded in the first quarter of 2008. The decrease was offset by higher net sales of $339 million on other integrated air and missile defense programs for international and domestic customers, driven principally by scheduled program production requirements and timing of new awards, and higher net sales of $115 million on a missile defense radar program for an international customer driven principally by scheduled program production requirements. The remaining change in total net sales was spread across numerous programs with no individual or common significant driver.

Total net sales in 2012 were relatively consistent with 2011. Included in total net sales in 2012 was higher net sales of $281 million on an international Patriot program awarded in the second quarter of 2011 as the program transitioned into full production, $194 million on a missile defense radar program for an international customer as the program transitioned into full production, $155 million on various Patriot programs for an international customer, driven principally by scheduled program production requirements, $109 million on a close combat tactical radar program and $59 million on an air traffic control program due to planned increases in production. These increases were partially offset by $210 million of lower net sales from the scheduled completion of certain design and production phases on an international Patriot program awarded in the first quarter of 2008, $164 million from the scheduled completion of certain design and production phases on a U.S. Navy combat systems program, $144 million of lower net sales on various global integrated sensors programs, $74 million of lower net sales on various air traffic control programs due to planned declines in production and $61 million of lower net sales on an international C4I program driven principally by program schedule requirements. The remaining change in total net sales was spread across numerous programs with no individual or common significant driver.

Total Operating Expenses—Total operating expenses in 2013 were relatively consistent with 2012.

Total operating expenses in 2012 were relatively consistent with 2011. Included in total operating expenses in 2012 were higher total operating expenses of $611 million from the activity on the programs with higher net sales, and for the reasons described above in Total Net Sales, partially offset by $589 million from the activity on the programs with lower net sales, and for the reasons described above in Total Net Sales.

Operating Income and Margin—The increase in operating income of $68 million in 2013 compared to 2012 was primarily due to a change in mix and other performance of $88 million, principally driven by higher net sales on certain international

Table of Contents

Patriot programs. Included in net EAC adjustments was approximately $42 million driven primarily by the reduction of expected costs to fulfill contractual commitments on nine contracts related to industrial cooperation agreements for an international customer driven by favorable experience in the fourth quarter of 2013. The increase in operating margin in 2013 compared to 2012 was primarily due to the change in mix and other performance.

The increase in operating income of $49 million in 2012 compared to 2011 was primarily due to a change in mix and other performance of $60 million, principally driven by higher net sales on certain international Patriot programs. The increase in operating margin in 2012 compared to 2011 was primarily due to the change in mix and other performance.

Backlog and Bookings—Backlog was $10,916 million, $11,656 million and $11,547 million at December 31, 2013, 2012 and 2011, respectively. The decrease in backlog of $740 million or 6% at December 31, 2013 compared to December 31, 2012 was primarily due to sales in excess of bookings in 2013, principally across our Global Integrated Sensors product line. The increase in backlog of $109 million at December 31, 2012 compared to December 31, 2011 was primarily due to bookings in excess of external sales, principally within our C4I product line, primarily on an international C4I program, partially offset by sales in excess of bookings across our Integrated Air & Missile Defense product line.

The bookings decrease of $764 million in 2013 compared to 2012 includes the $38 million increase in the specifically disclosed bookings below and a decrease from other IAMD programs primarily due to the timing of expected international awards and lower bookings on a close combat tactical radar program due to the completion of the program. In 2013, IDS booked $1,277 million on a ground based air defense system for Oman. IDS also booked $393 million for the Engineering and Manufacturing Development (EMD) phase of the Air and Missile Defense Radar (AMDR) for the U.S. Navy. In addition, IDS booked $353 million on the Aegis weapon system for the U.S. Navy, $310 million to provide Patriot engineering services support for U.S. and international customers, $297 million to provide advanced Patriot air and missile defense capability for an international customer, $204 million to provide Consolidated Contractor Logistics Support (CCLS), $173 million for the production of a AN/TPY-2 radar, $147 million for the radar sustainment contract for the Missile Defense Agency (MDA), $126 million for the Wide Area Augmentation System - Geostationary Earth Orbit program for the Federal Aviation Administration (FAA), $123 million on the Standard Terminal Automation Replacement System (STARS) program for the FAA, $93 million for in-service support for the Collins class submarine for the Royal Australian Navy, $84 million to provide air and missile defense capability for the U.S. Army, and $75 million on the Zumwalt-class destroyer program for the U.S. Navy.

The bookings decrease of $972 million in 2012 compared to 2011 was driven primarily by the $1,681 million decrease in the specifically disclosed bookings below. In 2012, IDS booked $650 million on an international C4I program, $422 million for production and sustainment of U.S. Army/U.S. Navy Transportable Radar Surveillance (AN/TPY-2) radars for the Missile Defense Agency (MDA), $366 million on the Zumwalt-class destroyer program for the U.S. Navy, $301 million to provide Patriot engineering services support for U.S. and international customers, $293 million to provide technical and logistics support for a Hawk and Patriot air and missile defense program for an international customer, $293 million on an Early Warning Surveillance Radar System (EWSRS) support program for Taiwan, $240 million to provide engineering services, production and support for the Aegis weapon system for the U.S. Navy, $199 million to provide Consolidated Contractor Logistics Support (CCLS) for the MDA, $198 million for the production of Airborne Low Frequency Sonar (ALFS) systems for the U.S. Navy, $184 million to provide advanced Patriot air and missile defense capability for an international customer, $173 million on the Standard Terminal Automation Replacement System (STARS) program for the FAA, $172 million for the Upgraded Early Warning Radar (UEWR) system for the MDA and the U.S. Air Force, and $126 million to provide air and missile defense capability for the U.S. Army.

In 2011, IDS booked $3,147 million for the Patriot Air and Missile Defense System, including $1,698 million for the Kingdom of Saudi Arabia, $560 million for Taiwan, $340 million for other international customers, and $257 million to provide engineering services support for U.S. and international customers. IDS booked $1,027 million for AN/TPY-2 radars, spares and training for the United Arab Emirates (UAE), MDA and U.S. Army. IDS also booked $345 million on the Zumwalt-class destroyer program for the U.S. Navy, $268 million for the production of ALFS systems and spares for the U.S. Navy and the Australian Navy, $211 million for the production of Sentinel radars, spares and services for the U.S. Army and international customers, $193 million to provide CCLS for the MDA, and $107 million for development on the competitively awarded Space Fence program for the U.S. Air Force.

Table of Contents

Intelligence, Information and Services

(In millions, except percentages)	2013	2012	2011	% Change 2013 compared to 2012	2012 compared to 2011
Total Net Sales	$6,045	$6,335	$6,470	(4.6)%	(2.1)%
Total Operating Expenses					
Cost of sales—labor	2,345	2,417	2,400	(3.0)%	0.7 %
Cost of sales—materials and subcontractors	2,521	2,669	2,807	(5.5)%	(4.9)%
Other cost of sales and other operating expenses	669	713	783	(6.2)%	(8.9)%
Total Operating Expenses	5,535	5,799	5,990	(4.6)%	(3.2)%
Operating Income	$510	$536	$480	(4.9)%	11.7 %
Operating Margin	8.4 %	8.5 %	7.4 %		

Change in Operating Income (in millions)	Year Ended 2013 Versus Year Ended 2012	Year Ended 2012 Versus Year Ended 2011
Volume	$(24)	$(4)
Net change in EAC adjustments	(17)	42
Mix and other performance	15	18
Total Change in Operating Income	$(26)	$56

(In millions, except percentages)	2013	2012	2011	% Change 2013 compared to 2012	2012 compared to 2011
Bookings	$5,046	$5,470	$6,158	(7.8)%	(11.2)%
Total Backlog	5,856	6,409	7,027	(8.6)%	(8.8)%

IIS provides a full range of technical and professional services to intelligence, defense, federal and commercial customers worldwide. IIS specializes in global Intelligence, Surveillance and Reconnaissance (ISR), navigation, DoD space and weather solutions, cybersecurity, analytics, training, logistics, mission support, and engineering and sustainment solutions. Key customers include the U.S. Intelligence Community, DoD agencies, the U.S. Armed Forces, the FAA, the National Oceanic and Atmospheric Administration (NOAA), Department of Homeland Security (DHS), the National Aeronautics and Space Administration (NASA) and an increasing number of international customers.

Total Net Sales—The decrease in total net sales of $290 million in 2013 compared to 2012 was primarily due to lower net sales of $97 million on classified programs, lower net sales of $64 million on training programs supporting the U.S. Army’s Warfighter FOCUS activities due to a decrease in customer determined activity levels, and lower net sales of $55 million on the National Science Foundation (NSF) Polar program, which was completed in the first quarter of 2012.

The decrease in total net sales of $135 million in 2012 compared to 2011 was primarily due to lower net sales of $121 million on the NSF Polar program, which was completed in the first quarter of 2012. Included in total net sales in 2012 was $54 million of lower net sales on the UKBA program as a result of the program termination. Also included in total net sales in 2012 was $72 million of higher net sales on the Joint Polar Satellite System (JPSS) program primarily due to scheduled design and production efforts and $47 million of higher net sales of cybersecurity solutions driven by recent acquisitions and increased customer orders. The remaining change in total net sales was spread across numerous programs with no individual or common significant driver.

Table of Contents

Total Operating Expenses—The decrease in total operating expenses of $264 million in 2013 compared to 2012 was primarily due to the decrease in materials and subcontractor costs of $148 million. The decrease in materials and subcontractors costs was driven principally by the activity on the programs described above in Total Net Sales. Included in the decrease in total operating expenses was a decrease in other cost of sales and other operating expenses of $44 million, primarily due to the timing of costs applied to contracts through rates, which had an impact of $41 million.

The decrease in total operating expenses of $191 million in 2012 compared to 2011 was primarily due to the decrease in materials and subcontractor costs of $138 million and the decrease in other cost of sales and other operating expenses of $70 million. The decrease in materials and subcontractor costs was driven primarily by the activity on the NSF Polar contract and UKBA program as described above. The decrease in other cost of sales and other operating expenses was primarily due to the UKBA LOC Adjustment in the first quarter of 2011, as described in Commitments and Contingencies, which had an impact of $80 million.

Operating Income and Margin—The decrease in operating income of $26 million in 2013 compared to 2012 was primarily due to a decrease in volume of $24 million and a net change in EAC adjustments of $17 million, partially offset by a change in mix and other performance of $15 million. The decrease in volume was driven primarily by the programs described above in Total Net Sales. The net change in EAC adjustments was driven principally by increased estimated costs to complete a ground control system program. The change in mix and other performance was spread across numerous programs with no individual or common significant driver. Mix and other performance in 2013 included $9 million of legal and other period expenses in connection with the UKBA program dispute and arbitration, compared to $31 million in 2012. Mix and other performance in 2013 also included an insurance recovery for legal expenses of $12 million, compared to $34 million in 2012. Operating income in 2013 and 2012 was reduced by approximately $21 million and $18 million, respectively, of certain cybersecurity-related acquisition costs and investments. Operating margin in 2013 was relatively consistent with 2012.

The increase in operating income of $56 million in 2012 compared to 2011 was primarily due to a net change in EAC adjustments of $42 million, driven principally by the UKBA LOC Adjustment in the first quarter of 2011, which had an impact of $80 million, partially offset by operational efficiencies in 2011 on various customized engineering and depot support programs. Mix and other performance in 2012 included $31 million of legal and other period expenses in connection with the UKBA program dispute and arbitration, compared to $21 million in 2011. Mix and other performance in 2012 also included an insurance recovery for legal expenses of $34 million, compared to $9 million in 2011. Operating income in 2012 and 2011 was reduced by approximately $18 million and $14 million, respectively, of certain cybersecurity-related acquisition costs and investments. The increase in operating margin in 2012 compared to 2011 was primarily due to the net change in EAC adjustments and mix and other performance.

Backlog and Bookings—Backlog was $5,856 million, $6,409 million and $7,027 million at December 31, 2013, 2012 and 2011, respectively. The decrease in backlog of $553 million or 9% at December 31, 2013 compared to December 31, 2012 was primarily due to sales in excess of bookings in 2013, driven primarily by numerous classified contracts, the Joint Polar Satellite System (JPSS) program, and the Global Positioning System Advanced Control Segment (GPS-OCX) program. The decrease in backlog of $618 million at December 31, 2012 compared to December 31, 2011 was primarily due to sales in excess of bookings in 2012, primarily for the GPS-OCX and JPSS programs.

The bookings decrease of $424 million in 2013 compared to 2012 was driven primarily by the $482 million decrease in the specifically disclosed bookings below. In 2013, IIS booked $823 million on domestic training programs and $346 million on foreign training programs in support of the Warfighter FOCUS activities, $251 million to design, develop, and deliver technical training to a commercial customer, and $166 million on a contract to provide ISR support to the U.S. Air Force. IIS also booked $1,530 million on a number of classified contracts, including a $100

million award for international cyber.

The bookings decrease of $688 million in 2012 compared to 2011 was driven primarily by the $560 million decrease in the specifically disclosed bookings below. In 2012, IIS booked $900 million on domestic training programs and $394 million on foreign training programs in support of the Warfighter FOCUS activities, $246 million for work on the Air Traffic Control Optimum Training Solution (ATCOTS) contract to maintain and improve air traffic control (ATC) training and support the FAA in meeting the current and future ATC demands, and $172 million on a contract to provide ISR support to the U.S. Air Force. Additionally, IIS booked $1,886 million on a number of classified contracts.

Table of Contents

In 2011, IIS booked $994 million on domestic training programs and $347 million on foreign training programs in support of the Warfighter FOCUS activities, $520 million on the JPSS program for NASA, $183 million on a contract to provide ISR support to the U.S. Air Force, $150 million to provide operational and logistics support to the NSF Office of Polar Programs, $134 million for development on the GPS-OCX program for the U.S. Air Force, $120 million to design, develop and deliver technical training to a commercial customer and $100 million with Australia for base operations, maintenance and support services at the Harold E. Holt Naval Communications station. In addition, IIS booked $1,610 million on a number of classified contracts.

Missile Systems

(In millions, except percentages)	2013	2012	2011	% Change 2013 compared to 2012	2012 compared to 2011
Total Net Sales	$6,599	$6,639	$6,801	(0.6)%	(2.4)%
Total Operating Expenses					
Cost of sales—labor	2,008	1,977	1,912	1.6 %	3.4 %
Cost of sales—materials and subcontractors	2,732	2,766	2,812	(1.2)%	(1.6)%
Other cost of sales and other operating expenses	1,029	1,035	1,138	(0.6)%	(9.1)%
Total Operating Expenses	5,769	5,778	5,862	(0.2)%	(1.4)%
Operating Income	$830	$861	$939	(3.6)%	(8.3)%
Operating Margin	12.6 %	13.0 %	13.8 %		

Change in Operating Income (in millions)	Year Ended 2013 Versus Year Ended 2012	Year Ended 2012 Versus Year Ended 2011
Volume	$(1)	$(10)
Net change in EAC adjustments	14	(42)
Mix and other performance	(44)	(26)
Total Change in Operating Income	$(31)	$(78)

(In millions, except percentages)	2013	2012	2011	% Change 2013 compared to 2012	2012 compared to 2011
Bookings	$5,221	$7,794	$6,747	(33.0)%	15.5 %
Total Backlog	9,162	10,676	9,446	(14.2)%	13.0 %

MS is a premier developer and producer of missile and combat systems for the armed forces of the U.S. and other allied nations. Leveraging its capabilities in advanced airframes, guidance and navigation systems, high-resolution sensors, surveillance, targeting, and netted systems, MS develops and supports a broad range of advanced weapon systems, including missiles, smart munitions, close-in weapon systems, projectiles, kinetic kill vehicles, directed energy effectors and advanced combat sensor solutions. Key customers include the U.S. Navy, Army, Air Force and Marine Corps, the MDA and the armed forces of more than 40 allied nations.

Total Net Sales—Total net sales in 2013 were relatively consistent with 2012. Included in total net sales was $247 million of lower net sales on U.S. Army sensor programs driven principally by planned declines in production due to the U.S. Army budget environment and higher net sales of $156 million on an international Paveway™ program due to planned production increases and development efforts and $114 million on an air warfare systems program due to higher volume driven by scheduled increases in production and development efforts. The remaining change in total net sales was spread across numerous programs with no individual or common significant driver.

Table of Contents

The decrease in total net sales of $162 million in 2012 compared to 2011 was primarily due to $188 million of lower net sales on U.S. Army sensor programs driven principally by planned declines in production and $141 million of lower net sales on an air warfare systems program due to lower volume driven by scheduled lower production rates. The lower net sales were partially offset by higher net sales of $170 million on the Standard Missile 3 (SM-3™) program due to higher volume driven by scheduled increases in production and development efforts.

Total Operating Expenses—Total operating expenses in 2013 were relatively consistent with 2012.

The decrease in total operating expenses of $84 million in 2012 compared to 2011 was primarily due to the decrease in other cost of sales and other operating expenses of $103 million. The decrease in other cost of sales and other operating expenses was driven principally by the amount of previously deferred precontract costs based on contract awards or funding, which had an impact of $83 million, and lower refurbishment costs due to scheduled lower production rates on the Phalanx program.

Operating Income and Margin—The decrease in operating income of $31 million in 2013 compared to 2012 was primarily due to the $44 million change in mix and other performance principally driven by $34 million due to lower net sales on certain air warfare systems programs and $26 million due to the activity on the U.S. Army sensor programs described above in Total Net Sales, partially offset by $17 million of costs related to ending a supplier agreement and $14 million for inventory valuation allowances in 2012. The decrease in operating margin in 2013 compared to 2012 was primarily due to the change in mix and other performance.

The decrease in operating income of $78 million in 2012 compared to 2011 was primarily due to a net change in EAC adjustments of $42 million, which included a $21 million favorable contract resolution in 2011, and a change in mix and other performance of $26 million. The decrease in mix and other performance was primarily due to $17 million of costs related to ending a supplier agreement and $14 million for inventory valuation allowances, and reduced sales on U.S. Army and other production programs, partially offset by both a $15 million negative adjustment in 2011 related to a contract settlement and prior period EAC adjustments on certain classified and close-in weapons systems programs, which had an impact of $20 million. The decrease in operating margin in 2012 compared to 2011 was primarily due to the net change in EAC adjustments.

Backlog and Bookings—Backlog was $9,162 million, $10,676 million and $9,446 million at December 31, 2013, 2012 and 2011, respectively. The decrease in backlog of $1,514 million or 14% at December 31, 2013 compared to December 31, 2012 was primarily due to sales in excess of bookings, principally within our Land Warfare Systems, Air and Missile Defense and Air Warfare Systems product lines. The increase in backlog of $1,230 million at December 31, 2012 compared to December 31, 2011 was primarily due to the higher 2012 bookings described below.

The bookings decrease of $2,573 million in 2013 compared to 2012 was driven primarily by the $2,355 million decrease in the specifically disclosed bookings below. In 2013, MS booked $619 million for the production and development of SM-3 and $586 million for the production of Advanced Medium-Range Air-to-Air Missile (AMRAAM®) for the U.S. Air Force and international customers, $423 million for Phalanx weapon systems for the U.S. Navy and international customers, $396 million for the production of Paveway™ for the U.S. Air Force and international customers, $343 million for the production of Exoatmospheric Kill Vehicle (EKV) contract for the MDA, $281 million for AIM-9X Sidewinder short range Air-To-Air Missiles for the U.S. Navy and international customers, $269 million for production of ESSM™ for the U.S. Navy and international customers, $265 million for the production of Standard Missile-6 (SM-6) for the U.S. Navy, $221 million for the production of Rolling Airframe Missile (RAM™) for the U.S. Navy and international customers, $189 million for the production of the Joint Stand-off Weapon (JSOW) for the U.S. Navy and international customers, and $94 million for the production of the Miniature Air-Launch Decoy (MALD®) program for the U.S. Air Force.

The bookings increase of $1,047 million in 2012 compared to 2011 was driven primarily by the $1,250 million increase in the specifically disclosed bookings below. In 2012, MS booked $1,421 million for the production and development of SM-3™ and $855 million for the EKV production contract for the MDA, $710 million for Tomahawk for the U.S. Navy and international customers, $689 million for the production of Paveway™ for the U.S. Air Force and international customers, $553 million for the production of AMRAAM® for the U.S. Air Force and international customers, $364 million for the production of RAM for the U.S. Navy and international customers, $356 million for the production of tube-launched, optically-tracked, wireless-guided (TOW®) missiles for the U.S. Army, $301 million for production of ESSM™ for the U.S. Navy and international customers, $281 million for the production of SM-6 for the U.S. Navy, $216 million for

Table of Contents

AIM-9X Sidewinder short range Air-To-Air Missiles for the U.S. Navy and international customers, $190 million for Phalanx weapon systems for the U.S. Navy and international customers, and $105 million for production of MALD® for the U.S. Air Force.

In 2011, MS booked $1,402 million for the development of SM-3 for the MDA, $696 million for the production of AMRAAM® for the U.S. Air Force and international customers, $393 million for production of ESSM™ for the U.S. Navy and international customers, $374 million for Phalanx weapon systems for the U.S. Navy and international customers, $311 million for the production of Excalibur for the U.S. Army, U.S. Marines, and an international customer, $270 million for the production of Paveway™ for the U.S. Air Force and international customers, $237 million for the production of Standard Missile-2 (SM-2) for the U.S. Navy and international customers, $225 million for a major classified program, $210 million for production of SM-6 for the U.S. Navy, $191 million for the production of the Joint Stand-off Weapon (JSOW) for the U.S. Navy and international customers, $152 million for the production of TOW® missiles for the U.S. Army, $146 million for the Long Range Advanced Scout Surveillance Systems (LRAS3) program for the U.S. Army, $113 million for production of MALD® for the U.S. Air Force and $71 million for the Thermal Weapon Sight (TWS) program for the U.S. Army.

Space and Airborne Systems

(In millions, except percentages)	2013	2012	2011	% Change 2013 compared to 2012	2012 compared to 2011
Total Net Sales	$6,371	$6,823	$6,818	(6.6)%	0.1 %
Total Operating Expenses					
Cost of sales—labor	2,446	2,452	2,507	(0.2)%	(2.2)%
Cost of sales—materials and subcontractors	2,166	2,567	2,597	(15.6)%	(1.2)%
Other cost of sales and other operating expenses	839	816	763	2.8 %	6.9 %
Total Operating Expenses	5,451	5,835	5,867	(6.6)%	(0.5)%
Operating Income	$920	$988	$951	(6.9)%	3.9 %
Operating Margin	14.4 %	14.5 %	13.9 %		

Change in Operating Income (in millions)	Year Ended 2013 Versus Year Ended 2012	Year Ended 2012 Versus Year Ended 2011
Volume	$(56)	$(2)
Net change in EAC adjustments	(46)	79
Mix and other performance	34	(40)
Total Change in Operating Income		