

RAYTHEON CO/
Form 10-Q
April 26, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended April 1, 2018
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)

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 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 No

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 Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of shares of common stock outstanding as of April 23, 2018 was 287,250,000.

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Cautionary Note Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of federal securities laws, including information regarding our financial outlook, future plans, objectives, business prospects, trends and anticipated financial performance, including with respect to: our liquidity and capital resources; our capital expenditures; our bookings and backlog; our expected tax payments; our pension funding; the impact of new accounting pronouncements; our unrecognized tax benefits; our expectations regarding customer contracts; our international sales; our recognition of revenue on certain performance obligations; the effect of the Tax Cuts and Jobs Act of 2017 (2017 Act), including on our deferred tax balances and one-time transition tax on foreign earnings; our reclassifications of gains or losses on cash flow hedges; the impact and outcome of audits and legal and administrative proceedings, claims, investigations, commitments and contingencies; and the impact of changes in foreign currency rates. 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. These 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 under Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017 and other important factors disclosed previously and from time to time in our other filings with the Securities and Exchange Commission (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, or 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, except as required by law.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RAYTHEON COMPANY

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In millions, except per
share amounts)

	Apr 1, 2018	Dec 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 2,748	\$ 3,103
Short-term investments	—	297
Receivables, net	1,639	1,324
Contract assets	5,444	5,247
Inventories	640	594
Prepaid expenses and other current assets	489	761
Total current assets	10,960	11,326
Property, plant and equipment, net	2,478	2,439
Goodwill	14,871	14,871
Other assets, net	2,188	2,224
Total assets	\$ 30,497	\$ 30,860
Liabilities, Redeemable Noncontrolling Interest and Equity		
Current liabilities		
Commercial paper	\$ 300	\$ 300
Contract liabilities	2,949	2,927
Accounts payable	1,255	1,519
Accrued employee compensation	921	1,342
Other current liabilities	1,354	1,260
Total current liabilities	6,779	7,348
Accrued retiree benefits and other long-term liabilities	8,238	8,287
Long-term debt	4,751	4,750
Commitments and contingencies (Note 10)		
Redeemable noncontrolling interest (Note 11)	492	512
Equity		
Raytheon Company stockholders' equity		

Common stock, par value, \$0.01 per share, 1,450 shares authorized, 287 and 288 shares outstanding at April 1, 2018 and December 31, 2017, respectively	3		3	
Additional paid-in capital	—		—	
Accumulated other comprehensive loss	(9,095)	(7,935)
Retained earnings	19,329		17,895	
Total Raytheon Company stockholders' equity	10,237		9,963	
Noncontrolling interests in subsidiaries	—		—	
Total equity	10,237		9,963	
Total liabilities, redeemable noncontrolling interest and equity	\$	30,497	\$	30,860

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In millions, except per share amounts)	Three Months Ended	
	Apr 1, 2018	Apr 2, 2017
Net sales		
Products	\$5,254	\$5,044
Services	1,013	956
Total net sales	6,267	6,000
Operating expenses		
Cost of sales—products	3,737	3,617
Cost of sales—services	795	749
General and administrative expenses	694	686
Total operating expenses	5,226	5,052
Operating income	1,041	948
Non-operating (income) expense, net		
Retirement benefits non-service expense	239	207
Interest expense	47	58
Interest income	(7)	(5)
Other (income) expense, net	5	(7)
Total non-operating (income) expense, net	284	253
Income from continuing operations before taxes	757	695
Federal and foreign income taxes	133	198
Income from continuing operations	624	497
Income (loss) from discontinued operations, net of tax	(1)	3
Net income	623	500
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	(10)	(6)
Net income attributable to Raytheon Company	\$633	\$506
Basic earnings per share attributable to Raytheon Company common stockholders:		
Income from continuing operations	\$2.20	\$1.73
Income (loss) from discontinued operations, net of tax	—	0.01
Net income	2.20	1.74
Diluted earnings per share attributable to Raytheon Company common stockholders:		
Income from continuing operations	\$2.20	\$1.73
Income (loss) from discontinued operations, net of tax	—	0.01
Net income	2.19	1.74
Amounts attributable to Raytheon Company common stockholders:		
Income from continuing operations	\$634	\$503
Income (loss) from discontinued operations, net of tax	(1)	3
Net income	\$633	\$506
Dividends declared per share	\$0.8675	\$0.7975

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In millions)	Three Months Ended	
	Apr 1, 2018	Apr 2, 2017
Net income	\$623	\$500
Other comprehensive income (loss), before tax:		
Pension and other postretirement benefit plans, net:		
Amortization of prior service cost included in net income	1	1
Amortization of net actuarial loss included in net income	347	281
Pension and other postretirement benefit plans, net	348	282
Foreign exchange translation	24	11
Cash flow hedges	(10)	(2)
Unrealized gains (losses) on investments and other, net	—	—
Other comprehensive income (loss), before tax	362	291
Income tax benefit (expense) related to items of other comprehensive income (loss)	(71)	(98)
Other comprehensive income (loss), net of tax	291	193
Reclassification of stranded tax effects	(1,451)	—
Total comprehensive income (loss)	(537)	693
Less: Comprehensive income (loss) attributable to noncontrolling interests in subsidiaries	(10)	(6)
Comprehensive income (loss) attributable to Raytheon Company	\$(527)	\$699

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

(In millions)	Common stock	Addition paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total Raytheon Company stockholders' equity	Noncontrolling interests in subsidiaries ⁽¹⁾	Total equity
Balance at December 31, 2017	\$ 3	\$ —	\$ (7,935)	\$ 17,895	\$ 9,963	\$ —	\$ 9,963
Net income (loss)				633	633	—	633
Other comprehensive income (loss), net of tax			291		291		291
Reclassification of stranded tax effects			(1,451)	1,451	—		—
Adjustment of redeemable noncontrolling interest to redemption value				11	11		11
Dividends declared		1		(252)	(251)		(251)
Common stock plans activity		62			62		62
Share repurchases		(63)		(409)	(472)		(472)
Balance at April 1, 2018	\$ 3	\$ —	\$ (9,095)	\$ 19,329	\$ 10,237	\$ —	\$ 10,237
Balance at December 31, 2016	\$ 3	\$ —	\$ (7,411)	\$ 17,565	\$ 10,157	\$ —	\$ 10,157
Net income (loss)				506	506	—	506
Other comprehensive income (loss), net of tax			193		193		193
Adjustment of redeemable noncontrolling interest to redemption value				139	139		139
Dividends declared		1		(232)	(231)		(231)
Common stock plans activity		58			58		58
Share repurchases		(59)		(379)	(438)		(438)
Balance at April 2, 2017	\$ 3	\$ —	\$ (7,218)	\$ 17,599	\$ 10,384	\$ —	\$ 10,384

(1) Excludes redeemable noncontrolling interest which is not considered equity. See "Note 11: Forcepoint Joint Venture" for additional information.

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)	Three Months Ended	
	Apr 1, 2018	Apr 2, 2017
Cash flows from operating activities		
Net income	\$623	\$500
(Income) loss from discontinued operations, net of tax	1	(3)
Income from continuing operations	624	497
Adjustments to reconcile to net cash provided by (used in) operating activities from continuing operations, net of the effect of acquisitions and divestitures		
Depreciation and amortization	135	130
Stock-based compensation	63	57
Deferred income taxes	(77)	(54)
Changes in assets and liabilities		
Receivables, net	(314)	(155)
Contract assets and contract liabilities	(174)	(554)
Inventories	(46)	9
Prepaid expenses and other current assets	138	125
Income taxes receivable/payable	290	244
Accounts payable	(167)	(219)
Accrued employee compensation	(420)	(361)
Other current liabilities	(60)	(1)
Accrued retiree benefits	306	283
Other, net	(15)	(42)
Net cash provided by (used in) operating activities from continuing operations	283	(41)
Net cash provided by (used in) operating activities from discontinued operations	1	—
Net cash provided by (used in) operating activities	284	(41)
Cash flows from investing activities		
Additions to property, plant and equipment	(219)	(86)
Proceeds from sales of property, plant and equipment	—	11
Additions to capitalized internal use software	(12)	(16)
Purchases of short-term investments	—	(399)
Maturities of short-term investments	309	100
Payments for purchases of acquired companies, net of cash received	—	(39)
Other	(1)	(1)
Net cash provided by (used in) investing activities	77	(430)
Cash flows from financing activities		
Dividends paid	(230)	(215)
Net borrowings (payments) on commercial paper	—	—
Repurchases of common stock under share repurchase programs	(400)	(400)
Repurchases of common stock to satisfy tax withholding obligations	(72)	(38)
Contribution from noncontrolling interest in Forcepoint	—	8
Other	(5)	—
Net cash provided by (used in) financing activities	(707)	(645)
Net increase (decrease) in cash, cash equivalents and restricted cash	(346)	(1,116)
Cash, cash equivalents and restricted cash at beginning of the year	3,115	3,303
Cash, cash equivalents and restricted cash at end of period	\$2,769	\$2,187

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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RAYTHEON COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Presentation

We prepared the accompanying unaudited consolidated financial statements of Raytheon Company and all wholly-owned, majority-owned or otherwise controlled subsidiaries on the same basis as our annual audited financial statements. We condensed or omitted certain information and footnote disclosures normally included in our annual audited financial statements, which we prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Our quarterly financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017. As used in this report, the terms “we,” “us,” “our,” “Raytheon” and the “Company” mean Raytheon Company and its subsidiaries, unless the context indicates another meaning.

In the opinion of management, our financial statements reflect all adjustments, which are of a normal recurring nature, necessary for presentation of financial statements for interim periods in accordance with U.S. GAAP and with the instructions to Form 10-Q in Article 10 of Securities and Exchange Commission (SEC) Regulation S-X. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates, and any such differences may be material to our financial statements. In addition, we reclassified certain amounts to conform to our current period presentation.

Note 2: Accounting Standards

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows companies to reclassify stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (2017 Act), from accumulated other comprehensive income to retained earnings. These stranded tax effects refer to the tax amounts included in accumulated other comprehensive income at the previous 35% U.S. statutory tax rate, for which the related deferred tax asset or liability was remeasured to the new 21% U.S. corporate statutory federal tax rate in the period of the 2017 Act enactment. The new standard is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, and can be applied either in the period of adoption or retrospectively to each period impacted by the 2017 Act. We elected to early adopt the new standard in the first quarter of 2018 and we elected to reclassify the stranded income tax effects of the 2017 Act from accumulated other comprehensive income to retained earnings in the period of adoption. This resulted in an increase to accumulated other comprehensive loss (AOCL) of \$1,451 million and an increase in retained earnings of \$1,451 million in the first quarter of 2018, almost all of which related to our pension and other postretirement benefit (PRB) plans, net. The standard did not have an impact on our results of operations or liquidity. Income tax effects remaining in accumulated other comprehensive income will be released into earnings as the related pretax amounts are reclassified to earnings.

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In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which changed certain presentation and disclosure requirements for employers that sponsor defined benefit pension and PRB plans. The new standard required the service cost component of the net benefit cost to be in the same line item as other compensation in operating income and the other components of net benefit cost to be presented outside of operating income on a retrospective basis. The new standard was effective for fiscal years beginning after December 15, 2017. We adopted the requirements of the new standard in the first quarter of 2018 on a retrospective basis for the presentation of only the service cost component in operating expenses, and the reclassification of the other components of the net benefit cost to retirement benefits non-service expense within non-operating (income) expense, net. The impact to our fiscal quarters and year-ended 2017 and year-ended 2016 financial results was as follows:

(In millions)	Three Months Ended				Twelve Months Ended	
	Dec 31, 2017	Oct 1, 2017	Jul 2, 2017	Apr 2, 2017	Dec 31, 2017	Dec 31, 2016
Cost of sales	\$(186)	\$(222)	\$(164)	\$(164)	\$(736)	\$(458)
General and administrative expenses	(44)	(48)	(42)	(43)	(177)	(143)
Total operating expenses	(230)	(270)	(206)	(207)	(913)	(601)
Operating income	230	270	206	207	913	601
Total non-operating (income) expense, net	230	270	206	207	913	601
Income from continuing operations after taxes	—	—	—	—	—	—
Net income	\$—	\$—	\$—	\$—	\$—	\$—

The remaining provisions of the standard did not have a material impact on our financial position, results of operations or liquidity.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize a right-of-use asset and lease liability for most lease arrangements. The new standard is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, and must be adopted using the modified retrospective approach. We intend to adopt the standard on the effective date of January 1, 2019. We are currently evaluating the potential changes from this ASU to our future financial reporting and disclosures and designing and implementing related processes and controls. We expect the standard to have an impact of approximately \$1 billion on our assets and liabilities for the addition of right-of-use assets and lease liabilities, but we do not expect it to have a material impact on our results of operations or liquidity.

Other new pronouncements issued but not effective until after April 1, 2018 are not expected to have a material impact on our financial position, results of operations or liquidity.

Note 3: Changes in Estimates under Percentage of Completion Contract Accounting

We have a companywide standard and disciplined quarterly Estimate at Completion (EAC) process in which management reviews the progress and execution of our performance obligations. 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 performance obligation (e.g., to estimate increases in wages and prices for materials and related support cost allocations), execution 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 in the form of either offset obligations or in-country industrial participation (ICIP) agreements, required under certain contracts. These obligations may or may not be distinct depending on their nature.

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 performance obligations, if we determine we will be successful in mitigating risks surrounding the technical, schedule and cost aspects of those performance obligations 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 performance obligation's percentage of completion. A significant change in one or more of these estimates could affect the profitability of one or more of our performance obligations.

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When estimates of total costs to be incurred exceed total estimates of revenue to be earned on a performance obligation related to complex aerospace or defense equipment or related services, or product maintenance or separately priced extended warranty, a provision for the entire loss on the performance obligation is recognized in the period the loss is recorded.

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

	Three Months Ended	
(In millions, except per share amounts)	Apr 1, 2018	Apr 2, 2017
Operating income	\$115	\$54
Income from continuing operations attributable to Raytheon Company	91	35
Diluted earnings per share (EPS) from continuing operations attributable to Raytheon Company	\$0.32	\$0.12

In addition, net revenue recognized from our performance obligations satisfied in previous periods was \$138 million and \$75 million in the first quarters of 2018 and 2017, respectively. This primarily relates to EAC adjustments that impacted revenue.

Note 4: Earnings Per Share (EPS)

We compute basic and diluted EPS using actual income from continuing operations attributable to Raytheon Company common stockholders, income (loss) from discontinued operations attributable to Raytheon Company common stockholders and net income attributable to Raytheon Company, and our actual weighted-average shares outstanding rather than the numbers presented within our unaudited consolidated financial statements, which are rounded to the nearest million. As a result, it may not be possible to recalculate EPS as presented in our unaudited consolidated financial statements. Furthermore, it may not be possible to recalculate EPS attributable to Raytheon Company common stockholders by adjusting EPS from continuing operations by EPS from discontinued operations.

We include all unvested stock awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, in the number of shares outstanding in our basic EPS calculation as they are considered participating securities. As a result, we have included all of our outstanding unvested awards of restricted stock, as well as restricted stock units (RSUs) and Long-term Performance Plan (LTPP) awards that meet the retirement eligible criteria in our calculation of basic EPS. We disclose EPS for common stock and unvested stock-based payment awards, and separately disclose distributed and undistributed earnings. Distributed earnings represent common stock dividends and dividends earned on unvested awards of restricted stock and stock-based payment awards of retirement eligible employees. Undistributed earnings represent earnings that were available for distribution but were not distributed. Common stock and unvested stock-based payment awards earn dividends equally.

As described in "Note 11: Forcepoint Joint Venture," we record redeemable noncontrolling interest related to Vista Equity Partners' interest in Forcepoint. We reflect the redemption value adjustments for redeemable noncontrolling interest in both the basic and diluted EPS calculation for the portion of redemption value that is in excess of the fair value of noncontrolling interest. As a result, both basic and diluted EPS were increased by \$0.01 in first quarter of 2017.

EPS from continuing operations attributable to Raytheon Company common stockholders and unvested stock-based payment awards was as follows:

Three
Months
Ended

	Apr 1, 2018	Apr 2, 2017
Basic EPS attributable to Raytheon Company common stockholders:		
Distributed earnings	\$0.87	\$0.80
Undistributed earnings	1.33	0.93
Total	\$2.20	\$1.73
Diluted EPS attributable to Raytheon Company common stockholders:		
Distributed earnings	\$0.87	\$0.80
Undistributed earnings	1.33	0.93
Total	\$2.20	\$1.73
Basic and diluted EPS from discontinued operations attributable to Raytheon Company common stockholders and unvested stock-based payment awards was a loss of less than \$0.01 and earnings of \$0.01 for the first quarters of 2018 and 2017, respectively.		

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Income attributable to participating securities was as follows:

(In millions)	Three Months Ended	
	Apr 1, 2018	Apr 2, 2017
Income from continuing operations attributable to participating securities	\$ 7	\$ 7
Income (loss) from discontinued operations, net of tax attributable to participating securities ⁽¹⁾	—	—
Net income attributable to participating securities	\$ 7	\$ 7

⁽¹⁾ Income (loss) from discontinued operations, net of tax attributable to participating securities was a loss of less than \$1 million and income of less than \$1 million for the first quarters of 2018 and 2017, respectively.

The weighted-average shares outstanding for basic and diluted EPS were as follows:

(In millions)	Three Months Ended	
	Apr 1, 2018	Apr 2, 2017
Shares for basic EPS ⁽¹⁾	288.5	292.5
Effect of dilutive securities	0.3	0.3
Shares for diluted EPS	288.8	292.8

⁽¹⁾ Includes 3.2 million and 4.1 million participating securities for the first quarters of 2018 and 2017, respectively.

Note 5: Inventories

Inventories consisted of the following:

(In millions)	Apr 1, Dec 31,	
	2018	2017
Materials and purchased parts	\$ 73	\$ 69
Work in process	545	504
Finished goods	22	21
Total	\$ 640	\$ 594

Precontract costs are costs incurred to fulfill a contract prior to contract award. Precontract costs, including general and administrative expenses that are specifically chargeable to the customer, are deferred in inventories if we determine that the costs are probable of recovery under a specific anticipated contract. All other precontract costs, including start-up costs, are expensed as incurred. Costs that are deferred are recognized as contract costs upon the receipt of the anticipated contract. We included deferred precontract costs of \$121 million and \$101 million in inventories as work in process at April 1, 2018 and December 31, 2017, respectively.

Note 6: Contract Assets and Contract Liabilities

Our contract assets consist of unbilled amounts typically resulting from sales under long-term contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. Our contract liabilities consist of advance payments and billings in excess of costs incurred and deferred revenue. The noncurrent portion of deferred revenue is included in accrued retiree benefits and other long-term liabilities in our consolidated balance sheets.

Net contract assets (liabilities) consisted of the following:

(In millions, except percentages)	Apr 1, 2018	Dec 31, 2017	\$ Change	% Change
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Contract assets	\$5,444	\$5,247	\$ 197	3.8	%
Contract liabilities—current	(2,949)	(2,927)	(22)	0.8	%
Contract liabilities—noncurrent	(119)	(127)	8	(6.3)	%
Net contract assets (liabilities)	\$2,376	\$2,193	\$ 183	8.3	%

The \$183 million increase in our net contract assets (liabilities) from December 31, 2017 to April 1, 2018 was primarily due to a \$197 million increase in our contract assets, principally due to the timing of milestone payments on certain international programs.

In the first quarters of 2018 and 2017, we recognized revenue of \$652 million and \$612 million related to our contract liabilities at January 1, 2018 and January 1, 2017, respectively.

Impairment losses recognized on our receivables and contract assets were de minimis in the first quarters of 2018 and 2017.

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Note 7: Deferred Commissions

Our incremental direct costs of obtaining a contract, which consist of sales commissions primarily for our security software sales at Forcepoint, are deferred and amortized over the period of contract performance or a longer period, generally the estimated life of the customer relationship, if renewals are expected and the renewal commission is not commensurate with the initial commission. We classify deferred commissions as current or noncurrent based on the timing of when we expect to recognize the expense. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets, and other assets, net, respectively, in our consolidated balance sheets. At April 1, 2018 and December 31, 2017, we had deferred commissions of \$38 million and \$37 million, respectively. Amortization expense related to deferred commissions was \$8 million and \$5 million in the first quarters of 2018 and 2017, respectively.

Note 8: Acquisitions and Goodwill

In pursuing our business strategies, we acquire and make investments in certain businesses that meet strategic and financial criteria. There were no acquisitions in the first quarter of 2018.

A rollforward of goodwill by segment was as follows:

(In millions)	Integrated Intelligence, Defense Systems	Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint ⁽¹⁾	Total
Balance at December 31, 2017	\$ 1,706	\$ 2,967	\$ 4,154	\$ 4,106	\$ 1,938	\$14,871
Effect of foreign exchange rates and other	—	—	—	—	—	—
Balance at April 1, 2018	\$ 1,706	\$ 2,967	\$ 4,154	\$ 4,106	\$ 1,938	\$14,871

At April 1, 2018, Forcepoint's fair value was estimated to exceed its net book value by approximately \$1.3 billion.

(1) As discussed in "Note 11: Forcepoint Joint Venture," we are required to determine Forcepoint's fair value on a quarterly basis due to the accounting related to the redeemable noncontrolling interest.

Note 9: Derivatives and Other Financial Instruments

Derivatives—Our primary market exposures are to foreign exchange rates and interest rates, and we use certain derivative financial instruments to help manage these exposures. We execute these instruments with financial institutions that we judge to be credit-worthy, and the majority of our foreign currency forward contracts are denominated in currencies of major industrial countries. We do not hold or issue derivative financial instruments for trading or speculative purposes.

We use foreign currency forward contracts to fix the functional currency value of specific commitments, payments and receipts. The aggregate notional amount of our outstanding foreign currency forward contracts was \$1,215 million and \$1,354 million at April 1, 2018 and December 31, 2017, respectively. The net notional exposure of these contracts was approximately \$522 million and \$525 million at April 1, 2018 and December 31, 2017, respectively.

The fair value of asset derivatives included in other assets, net and liability derivatives included in other current liabilities in our consolidated balance sheets related to foreign currency contracts were \$27 million and \$25 million, respectively, at April 1, 2018 and \$28 million and \$17 million, respectively, at December 31, 2017. The fair values of these derivatives are Level 2 in the fair value hierarchy because they are determined based on a market approach utilizing externally quoted forward rates for similar contracts.

Our foreign currency forward contracts contain offset or netting provisions to mitigate credit risk in the event of counterparty default, including payment default and cross default. At April 1, 2018 and December 31, 2017, the fair value of our counterparty default exposure was less than \$1 million and spread across numerous highly rated counterparties.

There were no interest rate swaps outstanding at April 1, 2018 or December 31, 2017.

Other Financial Instruments—We invest in marketable securities in accordance with our short-term investment policy and cash management strategy. These marketable securities are classified as available-for-sale and are recorded at fair value as short-term investments in our consolidated balance sheets. These investments are deemed Level 2 assets under the fair value hierarchy as their fair value is determined under a market approach using valuation models that utilize observable inputs, including maturity date, issue date, settlement date and current rates. At April 1, 2018 we had no short-term investments as all short-term investments outstanding at December 31, 2017 matured in the first quarter of 2018. At December 31, 2017, we had short-term investments of \$297 million, consisting of highly rated bank certificates of deposit with a minimum long-term debt rating of A or A2 and a minimum short-term debt rating of A-1 or P-1. The amortized cost of these securities closely approximated their fair value at

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December 31, 2017. In the first quarter of 2017, we recorded unrealized gains on short-term investments of less than \$1 million, net of tax, in AOCL. We did not have any sales of short-term investments in the first quarters of 2018 or 2017.

In addition to the financial instruments discussed above, we hold other financial instruments, including cash and cash equivalents, notes receivable, commercial paper and long-term debt. The carrying amounts for cash and cash equivalents, notes receivable and commercial paper approximated their fair values. The carrying value of long-term debt was recorded at amortized cost. The estimated fair value of long-term debt was determined based on quoted prices in inactive markets, which falls within Level 2 of the fair value hierarchy. The carrying value and estimated fair value of long-term debt were as follows:

(In millions)	Apr 1, 2018	Dec 31, 2017
Carrying value of long-term debt	\$4,751	\$4,750
Fair value of long-term debt	5,154	5,293

We did not have any transfers of assets or liabilities between levels of the fair value hierarchy during the first quarter of 2018.

At April 1, 2018, short-term commercial paper borrowings outstanding were \$300 million, which had a weighted-average interest rate and original maturity period of 2.051% and 9 days, respectively. At December 31, 2017, short-term commercial paper borrowings outstanding were \$300 million, which had a weighted-average interest rate and original maturity period of 1.583% and 20 days, respectively. The commercial paper notes outstanding have original maturities of not more than 90 days from the date of issuance.

Supplemental Cash Flow Information—The following table provides a reconciliation of cash and cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of such amounts in the consolidated statements of cash flows:

(In millions)	Apr 1, 2018	Dec 31, 2017
Cash and cash equivalents	\$2,748	\$3,103
Restricted cash	21	12
Cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	\$2,769	\$3,115

Note 10: Commitments and Contingencies

Environmental Matters—We are involved in various stages of investigation and cleanup related to remediation of various environmental sites. Our estimate of the liability of total environmental remediation costs includes the use of a discount rate and takes into account that a portion of these costs is eligible for future recovery through the pricing of our products and services to the U.S. government. We regularly assess the probability of recovery of these costs, which requires us to make assumptions about the extent of cost recovery under our contracts and the amount of future contract activity. We consider such recovery probable based on government contracting regulations and our long history of receiving reimbursement for such costs, and accordingly have recorded the estimated future recovery of these costs from the U.S. government within prepaid expenses and other current assets, in our consolidated balance sheets. Our estimates regarding remediation costs to be incurred were as follows:

(In millions, except percentages)	Apr 1, 2018	Dec 31, 2017
Total remediation costs—undiscounted	\$210	\$206
Weighted-average discount rate	5.2 %	5.2 %
Total remediation costs—discounted	\$147	\$142
Recoverable portion	95	92

We also lease certain government-owned properties and generally are not liable for remediation of preexisting environmental contamination at these sites. As a result, we generally do not provide for these costs in our consolidated financial statements.

Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative cleanup methods and technologies, the uncertainty of insurance coverage and the unresolved extent of our responsibility, it is difficult to determine the ultimate outcome of environmental matters. However, we do not expect any additional liability to have a material adverse effect on our financial position, results of operations or liquidity.

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Financing Arrangements and Other—We issue guarantees, and banks and surety companies issue, on our behalf, letters of credit and surety bonds to meet various bid, performance, warranty, retention and advance payment obligations for us or our affiliates. These instruments expire on various dates through 2026. Additional guarantees of project performance for which there is no stated value also remain outstanding. The stated values outstanding consisted of the following:

(In millions)	Apr 1, Dec 31,	
	2018	2017
Guarantees	\$ 224	\$ 216
Letters of credit	2,797	2,416
Surety bonds	166	166

All guarantees at April 1, 2018 and December 31, 2017 related to our joint venture in Thales-Raytheon Systems Air and Missile Defense Command and Control S.A.S. (TRS AMDC2). Included in letters of credit above were \$49 million and \$47 million at April 1, 2018 and December 31, 2017, respectively, related to our joint venture in TRS AMDC2. We provide these guarantees and letters of credit to TRS AMDC2 and other affiliates to assist these entities in obtaining financing on more favorable terms, making bids on contracts and performing their contractual obligations. While we expect these entities to satisfy their loans and meet their project performance and other contractual obligations, their failure to do so may result in a future obligation to us. We periodically evaluate the risk of TRS AMDC2 and other affiliates failing to meet their obligations described above. At April 1, 2018, we believe the risk that TRS AMDC2 and other affiliates will not be able to meet their obligations is minimal for the foreseeable future based on their current financial condition. All obligations were current at April 1, 2018. We had an estimated liability of \$2 million at both April 1, 2018 and December 31, 2017 related to these guarantees.

As discussed in “Note 11: Forcepoint Joint Venture,” under the joint venture agreement between Raytheon Company and Vista Equity Partners, Raytheon may be required to purchase Vista Equity Partners’ interest in Forcepoint.

We have entered into industrial cooperation agreements, sometimes in the form of either offset agreements or in-country industrial participation (ICIP) agreements, as a condition to obtaining orders for our products and services from certain customers in foreign countries. At April 1, 2018, the aggregate amount of our offset agreements, both agreed to and anticipated to be agreed to, had an outstanding notional value of approximately \$9.5 billion. These agreements are designed to return economic value to the foreign country by requiring us to engage in activities supporting local defense or commercial industries, promoting a balance of trade, developing in-country technology capabilities or addressing other local development priorities. Offset agreements may be satisfied through activities that do not require a direct cash payment, including transferring technology, providing manufacturing, training and other consulting support to in-country projects, and the purchase by third parties (e.g., our vendors) of supplies from in-country vendors. These agreements may also be satisfied through our use of cash for activities such as subcontracting with local partners, purchasing supplies from in-country vendors, providing financial support for in-country projects and making investments in local ventures. Such activities may also vary by country depending upon requirements as dictated by their governments. We typically do not commit to offset agreements until orders for our products or services are definitive. The amounts ultimately applied against our offset agreements are based on negotiations with the customers and typically require cash outlays that represent only a fraction of the notional value in the offset agreements. Offset programs usually extend over several or more years and may provide for penalties in the event we fail to perform in accordance with offset requirements. We have historically not been required to pay any such penalties.

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 Defense Contract Audit Agency (DCAA); the Defense Contract Management Agency (DCMA); the Inspectors General of the U.S. Department of Defense (DoD) and other departments and

agencies; the Government Accountability Office (GAO); the Department of Justice (DOJ); and Congressional Committees. Other areas of our business operations may also be subject to audit and investigation by these and/or other agencies. From time to time, agencies investigate or conduct audits to determine whether our operations are being conducted in accordance with applicable requirements. Such investigations and audits may be initiated due to a number of reasons, including as a result of a whistleblower complaint. 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 Foreign Corrupt Practices Act (FCPA) and International Traffic in Arms Regulations (ITAR))

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may also be investigated or audited. Other than as specifically disclosed herein, 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.

In addition, various other claims and legal proceedings generally incidental to the normal course of business are pending or threatened against, or initiated by, us. We do not expect any of these proceedings to result in any additional liability or gains that would materially affect our financial position, results of operations or liquidity. In connection with certain of our legal matters, we may be entitled to insurance recovery for qualified legal costs or other incurred costs. We do not expect any insurance recovery to have a material impact on the financial exposure that could result from these matters.

Note 11: Forcepoint Joint Venture

Forcepoint is a cybersecurity joint venture company with Vista Equity Partners. The joint venture agreement between Raytheon and Vista Equity Partners provides Vista Equity Partners with certain rights to require Forcepoint to pursue an initial public offering at any time after four years and three months following the closing date of May 29, 2015, or pursue a sale of the company at any time after five years following the closing date. In either of these events, Raytheon has the option to purchase all, but not less than all, of Vista Equity Partners' interest in Forcepoint for cash at a price equal to fair value as determined under the joint venture agreement. Additionally, Vista Equity Partners has the ability to liquidate its ownership through a put option, which became exercisable on May 29, 2017. The put option allows Vista Equity Partners to require Raytheon to purchase all, but not less than all, of Vista Equity Partners' interest in Forcepoint for cash at a price equal to fair value as determined under the joint venture agreement. Lastly, at any time on or after May 29, 2018, Raytheon has the option to purchase all, but not less than all, of Vista Equity Partners' interest in Forcepoint at a price equal to fair value as determined under the joint venture agreement. The joint venture agreement provides for the process under which the parties would determine the fair value of the interest and could result in a payment by Raytheon shortly after the exercise of Vista Equity Partners' put option or Raytheon's purchase option; however, the ultimate timing will depend on the actions of the parties and other factors. The estimate of fair value for purposes of presenting the redeemable noncontrolling interest in our consolidated balance sheets could differ from the parties' determination of fair value for the interest under the joint venture agreement.

Vista Equity Partners' adjusted equity interest in the Forcepoint joint venture was 19.5% at April 1, 2018. Vista Equity Partners' interest in Forcepoint is presented as redeemable noncontrolling interest, outside of stockholders' equity, in our consolidated balance sheets. The redeemable noncontrolling interest is recognized at the greater of the estimated redemption value as of the balance sheet date, which was \$492 million at April 1, 2018, or the carrying value, defined as the initial value adjusted for Vista Equity Partners' share of the cumulative impact of net income (loss), other changes in accumulated other comprehensive income (loss) and additional contributions, which was \$300 million at April 1, 2018. Adjustments to the redemption value over the period from the date of acquisition to the redemption date are immediately recorded to retained earnings.

A rollforward of redeemable noncontrolling interest was as follows:

	Three Months Ended	
(In millions)	Apr 1, 2018	Apr 2, 2017
Beginning balance	\$512	\$449
Net income (loss)	(10)	(6)
Other comprehensive income (loss), net of tax ⁽¹⁾	1	—
Contribution from noncontrolling interest	—	8
Adjustment of noncontrolling interest to redemption value	(11)	(102)

Ending balance \$492 \$349

(1) Other comprehensive income (loss), net of tax, was income of less than \$1 million for the first quarter of 2017.

Note 12: Stockholders' Equity

The changes in shares of our common stock outstanding were as follows:

(In millions)	Three Months	
	Ended	
	Apr 1,	Apr 2,
	2018	2017
Beginning balance	288.4	292.8
Stock plans activity	1.0	1.1
Share repurchases	(2.2)	(2.9)
Ending balance	287.2	291.0

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From time to time, our Board of Directors authorizes the repurchase of shares of our common stock. In November 2015, our Board authorized the repurchase of up to \$2.0 billion of our outstanding common stock. In November 2017, our Board also authorized the repurchase of up to an additional \$2.0 billion of our outstanding common stock. At April 1, 2018, we had approximately \$2.4 billion available under the 2017 and 2015 repurchase programs. Share repurchases will take place from time to time at management's discretion depending on market conditions.

Share repurchases also include shares surrendered by employees to satisfy tax withholding obligations in connection with restricted stock, RSUs and LTPP awards issued to employees.

Our share repurchases were as follows:

(In millions)	Three Months Ended			
	Apr 1, 2018		Apr 2, 2017	
	\$	Shares	\$	Shares
Shares repurchased under our share repurchase programs	\$4001.9		\$4002.7	
Shares repurchased to satisfy tax withholding obligations	72	0.3	38	0.2
Total share repurchases	\$4722.2		\$4382.9	

In March 2018, our Board of Directors authorized an 8.8% increase to our annual dividend payout rate from \$3.19 to \$3.47 per share. Our Board of Directors also declared dividends of \$0.8675 per share during the first quarter of 2018, compared to dividends of \$0.7975 per share during the first quarter of 2017. Dividends are subject to quarterly approval by our Board of Directors.

Stock-based Compensation Plans

Restricted Stock and RSUs—During the first quarter of 2018, we granted 0.7 million combined shares of restricted stock and RSUs with a weighted-average grant-date fair value of \$213.39 per share, calculated under the intrinsic value method. These awards generally vest in equal installments on each of the second, third and fourth anniversary dates of the award's grant date.

LTPP—During the first quarter of 2018, we granted RSUs subject to the 2018–2020 LTPP plan with an aggregate target award of 0.1 million units and a weighted-average grant-date fair value of \$205.43 per share. The performance goals for the 2018–2020 LTPP award are independent of each other and based on three metrics, as defined in the LTPP award agreements: return on invested capital (ROIC), weighted at 50%; total shareholder return (TSR) relative to a peer group, weighted at 25%; and cumulative free cash flow from continuing operations (CFCF), weighted at 25%. The ultimate award, which is determined at the end of the three-year cycle, can range from zero to 200% of the target award and includes dividend equivalents, which are not included in the aggregate target award numbers. The grant-date fair value is based upon the value determined under the intrinsic value method for the CFCF and ROIC portions of the award and the Monte Carlo simulation method for the TSR portion of the award.

Forcepoint Plans—In 2015, Forcepoint established long-term incentive plans that provide for awards of unit appreciation rights and profits interests in the joint venture to Forcepoint management and key employees. Awards are approved by the Board of Forcepoint. These awards vest over a specified period of time and settlement is subject to a liquidity event defined as either a change in control or an initial public offering of the joint venture. In certain limited circumstances other vesting conditions may apply, and the impact attributable to these vesting conditions was expense of \$1 million for the first quarter of 2018 and income of \$1 million for the first quarter of 2017. At April 1, 2018, there were 174 thousand combined units and/or profits interests authorized for award under these plans.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes gains and losses associated with pension and PRB, foreign exchange translation adjustments, the effective portion of gains and losses on derivative instruments qualified as cash

flow hedges, and unrealized gains (losses) on available-for-sale investments. The computation of other comprehensive income (loss) and its components are presented in the consolidated statements of comprehensive income (loss).

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A rollforward of accumulated other comprehensive income (loss) was as follows:

(In millions)	Pension and PRB plans, net ⁽¹⁾	Foreign exchange translation	Cash flow hedges ⁽²⁾	Unrealized gains (losses) on investments and other, net ⁽³⁾	Total
Balance at December 31, 2017	\$(7,843)	\$ (95)	\$ 6	\$ (3)	\$(7,935)
Before tax amount	348	24	(10)	—	362
Tax (expense) or benefit	(73)	—	2	—	(71)
Net of tax amount	275	24	(8)	—	291
Reclassification of stranded tax effects	(1,452)	—	1	—	(1,451)
Balance at April 1, 2018	\$(9,020)	\$ (71)	\$ (1)	\$ (3)	\$(9,095)
Balance at December 31, 2016	\$(7,234)	\$ (175)	\$ —	\$ (2)	\$(7,411)
Before tax amount	282	11	(2)	—	291
Tax (expense) or benefit	(99)	—	1	—	(98)
Net of tax amount	183	11	(1)	—	193
Balance at April 2, 2017	\$(7,051)	\$ (164)	\$ (1)	\$ (2)	\$(7,218)

(1) Pension and PRB plans, net, is shown net of cumulative tax benefits of \$2,398 million and \$3,923 million at April 1, 2018 and December 31, 2017, respectively.

(2) Cash flow hedges are shown net of cumulative tax expense of zero and \$3 million at April 1, 2018 and December 31, 2017, respectively.

(3) Unrealized gains (losses) on investments and other, net are shown net of cumulative tax expense of \$1 million at April 1, 2018 and December 31, 2017.

On December 22, 2017, the President signed the 2017 Act, which reduced the U.S. corporate statutory federal tax rate to 21% for 2018. At December 31, 2017 the deferred tax amounts recorded through other comprehensive income prior to the enactment date using the prior 35% statutory tax rate remained in other comprehensive income despite the fact that the related deferred tax assets and liabilities were remeasured to reflect the newly enacted tax rate of 21%. These are referred to as stranded tax effects. Under ASU 2018-02 we have elected to reclassify these stranded tax effects from AOCL to retained earnings in the first quarter of 2018. See “Note 2: Accounting Standards” for additional details. After the enactment date, any deferred tax amounts recorded to other comprehensive income are recorded at the 21% tax rate. The income tax effects remaining in AOCL will be released into earnings as the related pretax amounts are reclassified to earnings.

Other material amounts reclassified out of AOCL related to the amortization of net actuarial loss associated with our pension plans which were \$344 million and \$279 million before tax in the first quarters of 2018 and 2017, respectively. This component of AOCL is included in the calculation of net periodic pension expense (income). See “Note 13: Pension and Other Employee Benefits” for additional details.

We expect \$7 million of after tax net unrealized gains on our cash flow hedges at April 1, 2018 to be reclassified into earnings at then-current values over the next 12 months as the underlying hedged transactions occur.

Note 13: Pension and Other Employee Benefits

We have pension plans covering the majority of our employees hired prior to January 1, 2007, including certain employees in foreign countries (Pension Benefits). Our primary pension obligations relate to our domestic Internal Revenue Service (IRS) qualified pension plans. In addition, we provide certain health care and life insurance benefits

to retired employees and to eligible employees upon retirement through PRB plans.

We also sponsor nonqualified defined benefit and defined contribution plans to provide benefits in excess of qualified plan limits. We have set aside certain assets in a separate trust, which we expect to be used to pay for trust obligations. The fair value of marketable securities held in trust, which are considered Level 1 assets under the fair value hierarchy, consisted of the following:

(In millions)	Apr 1,	Dec 31,
	2018	2017
Marketable securities held in trust	\$ 633	\$ 633

Included in marketable securities held in trust in the table above was \$408 million and \$410 million at April 1, 2018 and December 31, 2017, respectively, related to the nonqualified defined contribution plans. The liabilities related to the nonqualified defined contribution plans were \$422 million at both April 1, 2018 and December 31, 2017.

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The components of net periodic pension expense (income) were as follows:

(In millions)	Three Months Ended Apr 1, Apr 2, 2018 2017	
Operating expense		
Service cost	\$ 127	\$ 117
Non-operating expense		
Interest cost	253	267
Expected return on plan assets	(363)	(345)
Amortization of prior service cost included in net periodic pension expense	1	1
Recognized net actuarial loss	344	279
Total pension non-service expense	235	202
Net periodic pension expense (income)	\$362	\$319

Net periodic pension expense (income) includes income of \$2 million and expense of less than \$1 million from foreign Pension Benefits plans in the first quarters of 2018 and 2017, respectively.

Net periodic PRB expense was \$5 million and \$6 million in the first quarters of 2018 and 2017, respectively.

Long-term pension and PRB liabilities consisted of the following:

(In millions)	Apr 1, 2018	Dec 31, 2017
Long-term pension liabilities	\$7,492	\$7,515
Long-term PRB liabilities	368	368
Total long-term pension and PRB liabilities	\$7,860	\$7,883

We made the following contributions to our pension and PRB plans:

(In millions)	Three Months Ended Apr 1, Apr 2, 2018 2017	
Required pension contributions	\$58	\$ 37
PRB contributions	3	5

We did not make any discretionary contributions to our pension plans during the first quarters of 2018 and 2017; however, we periodically evaluate whether to make discretionary contributions.

Note 14: Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. We have participated in the IRS Compliance Assurance Process (CAP) program since 2011. All IRS examinations of our tax years prior to 2015 are closed. We continue to participate in the CAP program for the 2015, 2016, 2017 and 2018 tax years. We are also under audit by multiple state and foreign tax authorities. In December 2017, we received the IRS Revenue Agent's Report for the 2015 tax year which proposed approximately \$41 million in adjustments related to the Forcepoint transaction and a U.K. share redemption transaction. We disagree with the adjustments and have protested the proposed adjustments with the IRS Appeals division. Therefore, no amount related to these IRS adjustments is reflected in unrecognized tax benefits as of April 1, 2018.

There has been no material change in our unrecognized tax benefit since December 31, 2017.

On December 22, 2017, the President signed the Tax Cuts and Jobs Act of 2017 (2017 Act) which enacted a wide range of changes to the U.S. corporate income tax system. The 2017 Act reduced the U.S. corporate statutory federal tax rate to 21% effective in 2018, eliminated the domestic manufacturing deduction benefit and introduced other tax base broadening measures, changed rules for expensing and capitalizing business expenditures, established a territorial tax system for foreign earnings as well as a minimum tax on certain foreign earnings, provided for a one-time transition tax on previously undistributed foreign earnings, and introduced new rules for the treatment of certain export sales.

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Also on December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 (SAB 118), which provided companies with additional guidance on how to account for the 2017 Act in their financial statements, allowing companies to use a measurement period. At April 1, 2018, we had not completed our accounting for the tax effects of enactment of the 2017 Act. We made a reasonable estimate of the remeasurement of our existing deferred tax balances and the one-time transition tax for foreign earnings and profits (E&P), and recognized these provisional amounts in the fourth quarter of 2017. In the first quarter of 2018, we refined our provisional calculation for the one-time transition tax for foreign E&P and recognized an additional income tax expense of \$13 million. The refinement of the estimate was primarily due to the issuance of new guidance by the IRS, specifically IRS Notices 2018-07, 2018-13 and 2018-26. This amount may change when we finalize the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and finalize the amounts held in cash or other specified assets. We will finalize both provisional estimates before the end of 2018 after completing our reviews and analysis of any additional interpretations issued during this measurement period and our analysis of foreign E&P as it relates to the one-time transition tax.

With the adoption of a minimum tax on foreign earnings, the Company will be subject to tax on global intangible low-taxed income (GILTI) in future periods. We are continuing to evaluate this provision and will not make a policy election on how to account for GILTI (as a period expense or as part of our rate on deferred taxes) until we have the necessary information available, including the interpretations of the new rules, to analyze the impacts and complete our analysis. We will make an election before the end of 2018. Because we have not made a policy election, no amounts for GILTI are included in our deferred taxes.

Although we believe the significant impacts from the 2017 Act are those described above, we continue to review and evaluate the other provisions of the 2017 Act. This review could result in changes to the amounts we have provisionally recorded. We will complete this review and evaluation before the end of 2018.

Note 15: Business Segment Reporting

Our reportable segments, organized based on capabilities and technologies, are: Integrated Defense Systems (IDS); Intelligence, Information and Services (IIS); Missile Systems (MS); Space and Airborne Systems (SAS); and Forcepoint. Segment total net sales and operating income include intersegment sales and profit generally recorded at cost-plus a specified fee, which may differ from what the selling entity would be able to obtain on sales to external customers. Eliminations include intersegment sales and profit eliminations. Corporate operating income includes expenses that represent unallocated costs and certain other corporate costs not considered part of management's evaluation of reportable segment operating performance. Acquisition Accounting Adjustments include the adjustments to record acquired deferred revenue at fair value as part of our purchase price allocation process and the amortization of acquired intangible assets related to historical acquisitions.

Segment financial results were as follows:

	Three Months Ended	
	Apr 1, 2018	Apr 2, 2017
Total Net Sales (in millions)		
Integrated Defense Systems	\$1,489	\$1,398
Intelligence, Information and Services	1,582	1,507
Missile Systems	1,848	1,756
Space and Airborne Systems	1,568	1,555
Forcepoint	141	144
Eliminations	(357)	(350)
Total business segment sales	6,271	6,010
Acquisition Accounting Adjustments	(4)	(10)

Total \$6,267 \$6,000

Three
Months
Ended

Intersegment Sales (in millions)	Apr 1, 2018	Apr 2, 2017
Integrated Defense Systems	\$15	\$15
Intelligence, Information and Services	162	177
Missile Systems	35	28
Space and Airborne Systems	139	126
Forcepoint	6	4
Total	\$357	\$350

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	Three Months Ended	
Operating Income (in millions)	Apr 1, 2018	Apr 2, 2017
Integrated Defense Systems	\$273	\$212
Intelligence, Information and Services	117	111
Missile Systems	212	216
Space and Airborne Systems	193	190
Forcepoint	(7) 16
Eliminations	(40) (37)
Total business segment operating income	748	708
Acquisition Accounting Adjustments	(33) (42)
FAS/CAS Operating Adjustment	354	315
Corporate	(28) (33)
Total	\$1,041	\$948

	Three Months Ended	
Intersegment Operating Income (in millions)	Apr 1, 2018	Apr 2, 2017
Integrated Defense Systems	\$2	\$ 1
Intelligence, Information and Services	17	17
Missile Systems	3	3
Space and Airborne Systems	14	13
Forcepoint	4	3
Total	\$40	\$ 37

The FAS/CAS Operating Adjustment, which is reported as a separate line in our segment results above, represents the difference between the service cost component of our pension and PRB expense or income under Financial Accounting Standards (FAS) in accordance with U.S. GAAP and our pension and PRB expense under U.S. government Cost Accounting Standards (CAS). In the first quarter of 2018, we adopted the requirements of ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, on a retrospective basis, which reclassified all components of FAS expense, other than service cost, to non-operating income. The results of each segment only include pension and PRB expense under CAS that we generally recover through the pricing of our products and services to the U.S. government. The pension and PRB components of the FAS/CAS Operating Adjustment were as follows:

	Three Months Ended	
(In millions)	Apr 1, 2018	Apr 2, 2017
FAS/CAS Pension Operating Adjustment	\$351	\$ 311
FAS/CAS PRB Operating Adjustment	3	4
FAS/CAS Operating Adjustment	\$354	\$ 315

Total assets for each of our business segments were as follows:

Total Assets (in millions)	Apr 1, 2018	Dec 31, 2017
----------------------------	----------------	-----------------

Integrated Defense Systems ⁽¹⁾	\$5,188	\$4,679
Intelligence, Information and Services ⁽¹⁾	4,264	4,230
Missile Systems ⁽¹⁾	7,388	7,338
Space and Airborne Systems ⁽¹⁾	6,733	6,696
Forcepoint ⁽¹⁾	2,466	2,543
Corporate	4,458	5,374
Total	\$30,497	\$30,860

(1) Total assets includes intangible assets. Related amortization expense is included in Acquisition Accounting Adjustments.

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We disaggregate our revenue from contracts with customers by geographic location, customer-type and contract-type for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. See details in the tables below.

Disaggregation of Total Net Sales (in millions)	Three Months Ended April 1, 2018						Total
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	
United States							
Sales to the U.S. government ⁽¹⁾							
Fixed-price contracts	\$226	\$ 252	\$ 584	\$ 544	\$ 21	\$—	\$1,627
Cost-type contracts	402	956	630	642	3	—	2,633
Direct commercial sales and other U.S. sales							
Fixed-price contracts	2	28	11	26	49	—	116
Cost-type contracts	—	4	—	—	—	—	4
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	29	51	96	30	—	—	206
Cost-type contracts	25	14	17	2	—	—	58
Direct commercial sales and other foreign sales ⁽¹⁾							
Fixed-price contracts	146	44	43	50	16	—	299
Cost-type contracts	27	—	—	2	—	—	29
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	195	3	81	54	—	—	333
Cost-type contracts	32	1	6	15	—	—	54
Direct commercial sales and other foreign sales ⁽¹⁾							
Fixed-price contracts	347	5	231	21	6	—	610
Cost-type contracts	—	—	—	—	—	—	—
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	—	—	25	9	—	—	34
Cost-type contracts	8	—	24	1	—	—	33
Direct commercial sales and other foreign sales ⁽¹⁾							
Fixed-price contracts	33	51	65	33	36	—	218
Cost-type contracts	2	11	—	—	—	—	13
Total net sales	1,474	1,420	1,813	1,429	131	—	6,267
Intersegment sales	15	162	35	139	6	(357)	—
Acquisition Accounting Adjustments	—	—	—	—	4	(4)	—
Reconciliation to business segment sales	\$1,489	\$ 1,582	\$ 1,848	\$ 1,568	\$ 141	\$(361)	\$6,267

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

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Total Net Sales by Geographic Area (in millions)	Three Months Ended April 1, 2018					
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	\$630	\$ 1,240	\$ 1,225	\$ 1,212	\$ 73	\$4,380
Asia/Pacific	227	109	156	84	16	592
Middle East and North Africa	574	9	318	90	6	997
All other (principally Europe)	43	62	114	43	36	298
Total net sales	\$1,474	\$ 1,420	\$ 1,813	\$ 1,429	\$ 131	\$6,267

Total Net Sales by Major Customer (in millions)	Three Months Ended April 1, 2018					
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government ⁽¹⁾	\$628	\$ 1,208	\$ 1,214	\$ 1,186	\$ 24	\$4,260
U.S. direct commercial sales and other U.S. sales	2	32	11	26	49	120
Foreign military sales through the U.S. government	289	69	249	111	—	718
Foreign direct commercial sales and other foreign sales ⁽¹⁾	555	111	339	106	58	1,169
Total net sales	\$1,474	\$ 1,420	\$ 1,813	\$ 1,429	\$ 131	\$6,267

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

Total Net Sales by Contract Type (in millions)	Three Months Ended April 1, 2018					
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	\$978	\$ 434	\$ 1,136	\$ 767	\$ 128	\$3,443
Cost-type contracts	496	986	677	662	3	2,824
Total net sales	\$1,474	\$ 1,420	\$ 1,813	\$ 1,429	\$ 131	\$6,267

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Disaggregation of Total Net Sales (in millions)	Three Months Ended April 2, 2017						Total
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	
United States							
Sales to the U.S. government ⁽¹⁾							
Fixed-price contracts	\$ 185	\$ 263	\$ 604	\$ 531	\$ 22	\$—	\$ 1,605
Cost-type contracts	370	861	483	662	3	—	2,379
Direct commercial sales and other U.S. sales							
Fixed-price contracts	2	26	—	7	53	—	88
Cost-type contracts	—	10	—	—	—	—	10
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	44	43	71	18	—	—	176
Cost-type contracts	34	17	17	2	—	—	70
Direct commercial sales and other foreign sales ⁽¹⁾							
Fixed-price contracts	158	37	47	74	12	—	328
Cost-type contracts	39	—	—	—	—	—	39
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	269	5	104	40	—	—	418
Cost-type contracts	38	—	6	—	—	—	44
Direct commercial sales and other foreign sales ⁽¹⁾							
Fixed-price contracts	223	6	233	52	6	—	520
Cost-type contracts	—	—	—	—	—	—	—
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	—	2	26	8	—	—	36
Cost-type contracts	5	—	17	2	—	—	24
Direct commercial sales and other foreign sales ⁽¹⁾							
Fixed-price contracts	11	54	119	33	34	—	251
Cost-type contracts	5	6	1	—	—	—	12
Total net sales	1,383	1,330	1,728	1,429	130	—	6,000
Intersegment sales	15	177	28	126	4	(350)	—
Acquisition Accounting Adjustments	—	—	—	—	10	(10)	—
Reconciliation to business segment sales	\$ 1,398	\$ 1,507	\$ 1,756	\$ 1,555	\$ 144	\$(360)	\$ 6,000

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

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Total Net Sales by Geographic Area (in millions)	Three Months Ended April 2, 2017					
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	\$557	\$ 1,160	\$ 1,087	\$ 1,200	\$ 78	\$4,082
Asia/Pacific	275	97	135	94	12	613
Middle East and North Africa	530	11	343	92	6	982
All other (principally Europe)	21	62	163	43	34	323
Total net sales	\$1,383	\$ 1,330	\$ 1,728	\$ 1,429	\$ 130	\$6,000

Total Net Sales by Major Customer (in millions)	Three Months Ended April 2, 2017					
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government ⁽¹⁾	\$555	\$ 1,124	\$ 1,087	\$ 1,193	\$ 25	\$3,984
U.S. direct commercial sales and other U.S. sales	2	36	—	7	53	98
Foreign military sales through the U.S. government	390	67	241	70	—	768
Foreign direct commercial sales and other foreign sales ⁽¹⁾	436	103	400	159	52	1,150
Total net sales	\$1,383	\$ 1,330	\$ 1,728	\$ 1,429	\$ 130	\$6,000

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

Total Net Sales by Contract Type (in millions)	Three Months Ended April 2, 2017					
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	\$892	\$ 436	\$ 1,204	\$ 763	\$ 127	\$3,422
Cost-type contracts	491	894	524	666	3	2,578
Total net sales	\$1,383	\$ 1,330	\$ 1,728	\$ 1,429	\$ 130	\$6,000

Note 16: Remaining Performance Obligations

Remaining performance obligations represents the transaction price of firm orders for which work has not been performed and excludes unexercised contract options and potential orders under ordering-type contracts (e.g., indefinite-delivery, indefinite-quantity (IDIQ)). As of April 1, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was \$38,139 million. The Company expects to recognize revenue on approximately half and three-quarters of the remaining performance obligations over the next 12 and 24 months, respectively, with the remainder recognized thereafter.

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With respect to the unaudited consolidated financial information of Raytheon Company for the three months ended April 1, 2018 and April 2, 2017, PricewaterhouseCoopers LLP (PricewaterhouseCoopers) reported that it has applied limited procedures in accordance with professional standards for a review of such information. Its report dated April 26, 2018, appearing below, states that the firm did not audit and does not express an opinion on that unaudited consolidated financial information. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers is not subject to the liability provisions of Section 11 of the Securities Act of 1933 (Securities Act) for its report on the unaudited consolidated financial information because that report is not a “report” or a “part” of a registration statement prepared or certified by PricewaterhouseCoopers within the meaning of Sections 7 and 11 of the Securities Act.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Raytheon Company

Results of Review of Financial Statements

We have reviewed the accompanying consolidated balance sheet of Raytheon Company and its subsidiaries as of April 1, 2018, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for the three-month periods ended April 1, 2018 and April 2, 2017, including the related notes (collectively referred to as the “interim financial statements”). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheet of the Company as of December 31, 2017, and the related consolidated statements of operations, comprehensive income, equity and cash flows for the year then ended (not presented herein), and in our report dated February 14, 2018, which included a paragraph describing a change in the manner of accounting for revenue from contracts with customers in 2017 and the manner of accounting for the income tax effects of share-based payment transactions in 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These interim financial statements are the responsibility of the Company’s management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Boston, Massachusetts
April 26, 2018

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We develop technologically advanced and integrated products, services and solutions in our core markets: integrated air and missile defense; electronic warfare; command, control, communications, computers, cyber, intelligence, surveillance and reconnaissance; space systems; effects; and cyber. We serve both domestic and international customers primarily as a prime contractor or subcontractor on a broad portfolio of defense and related programs for government customers.

We operate in five segments: Integrated Defense Systems (IDS); Intelligence, Information and Services (IIS); Missile Systems (MS); Space and Airborne Systems (SAS); and Forcepoint. For a more detailed description of our segments, see "Business Segments" within Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2017.

As previously announced, effective January 1, 2018, we adopted the requirements of Accounting Standards Update (ASU) 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost on a retrospective basis as discussed in "Note 2: Accounting Standards" within Item 1 of this Form 10-Q. All amounts and disclosures set forth in this Form 10-Q reflect these changes.

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017 and our unaudited consolidated financial statements included in this Form 10-Q.

CONSOLIDATED RESULTS OF OPERATIONS

As described in our "Cautionary Note Regarding Forward-Looking Statements" on page 3 of this Form 10-Q, our interim period results of operations and period-to-period comparisons of such results, particularly at a segment level, may not be indicative of our future operating results. Additionally, we use a fiscal calendar, which may result in differences in the number of work days in the current and comparable prior interim period and could affect period-to-period comparisons. The following discussions of comparative results among periods, including the discussion of segment results, should be viewed in this context.

Total Net Sales

The composition of external net sales by products and services for each segment for the first quarter of 2018 was approximately the following:

(% of segment total external net sales)	IDS	IIS	MS	SAS	Forcepoint	
Products	90	%45	%95	%100	%90	%
Services	10	%55	%5	%—	%10	%

(In millions, except percentages)	Three Months Ended		% of Total Net Sales	
	Apr 1, 2018	Apr 2, 2017	Apr 1, 2018	Apr 2, 2017
Net sales				
Products	\$5,254	\$5,044	83.8 %	84.1 %
Services	1,013	956	16.2 %	15.9 %
Total net sales	\$6,267	\$6,000	100.0 %	100.0 %

Total Net Sales - First Quarter of 2018 vs. First Quarter of 2017—The increase in total net sales of \$267 million in the first quarter of 2018 compared to the first quarter of 2017 was primarily due to higher external net sales of \$91 million at IDS, \$90 million at IIS and \$85 million at MS. The increase in external net sales at IDS was primarily due to higher

net sales on an international Patriot® program awarded in the first quarter of 2018, partially offset by lower net sales on certain international Patriot programs due to the scheduled completion of certain production phases of the programs. The increase in external net sales at IIS was primarily due to higher net sales on classified programs and higher net sales on programs in support of the U.S. Army's Warfighter Field Operations Customer Support (Warfighter FOCUS) activities driven principally by customer determined activity levels. The increase in external net sales at MS was primarily due to higher net sales on classified programs and higher net sales on the Standard Missile-2 (SM-2) program due to planned increases in production, partially offset by lower net sales on the Exoatmospheric Kill Vehicle (EKV) program and lower net sales on the Tube-launched, Optically-tracked, Wireless-guided (TOW®) program both due to planned declines in production.

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Products and Services Net Sales - First Quarter of 2018 vs. First Quarter of 2017—The increase in products net sales of \$210 million in the first quarter of 2018 compared to the first quarter of 2017 was primarily due to higher external products net sales of \$89 million at IDS and \$69 million at MS. The increase in external products net sales at IDS was primarily due to the programs discussed above. The increase in external products net sales at MS was primarily due to the programs discussed above, partially offset by lower external product net sales on the Paveway™ program due to international requirements. The increase in services net sales of \$57 million in the first quarter of 2018 compared to the first quarter of 2017 was primarily due to higher external services net sales of \$64 million at IIS primarily due to the programs in support of the U.S. Army's Warfighter FOCUS activities discussed above with the remaining change spread across numerous programs with no individual or common significant driver.

Sales to Major Customers - First Quarter of 2018 vs. First Quarter of 2017

(In millions, except percentages)	Three Months Ended		% of Total Net Sales	
	Apr 1, 2018	Apr 2, 2017	Apr 1, 2018	Apr 2, 2017
Sales to the U.S. government ⁽¹⁾⁽²⁾	\$4,260	\$3,984	68 %	66 %
U.S. direct commercial sales and other U.S. sales	120	98	2 %	2 %
Foreign military sales through the U.S. government	718	768	11 %	13 %
Foreign direct commercial sales and other foreign sales ⁽¹⁾	1,169	1,150	19 %	19 %
Total net sales	\$6,267	\$6,000	100 %	100 %

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

(2) Includes sales to the U.S. Department of Defense (DoD) of \$4,080 million, or 65% of total net sales, in the first quarter of 2018 and \$3,782 million, or 63% of total net sales, in the first quarter of 2017.

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.

(In millions, except percentages)	Three Months Ended		% of Total Net Sales	
	Apr 1, 2018	Apr 2, 2017 ⁽¹⁾	Apr 1, 2018	Apr 2, 2017 ⁽¹⁾
Cost of sales				
Products	\$3,737	\$3,617	59.6 %	60.3 %
Services	795	749	12.7 %	12.5 %
Total cost of sales	\$4,532	\$4,366	72.3 %	72.8 %

Amounts have been recasted to reflect the adoption of ASU 2017-07, Compensation - Retirement Benefits (Topic (1)715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, as discussed in "Note 2: Accounting Standards" within Item 1 of this Form 10-Q.

Total Cost of Sales - First Quarter of 2018 vs. First Quarter of 2017—The increase in total cost of sales of \$166 million in the first quarter of 2018 compared to the first quarter of 2017 was primarily due to higher external cost of sales at IIS and MS primarily due to the programs described above in Total Net Sales.

Products and Services Cost of Sales - First Quarter of 2018 vs. First Quarter of 2017—The increase in products cost of sales of \$120 million in the first quarter of 2018 compared to the first quarter of 2017 was primarily due to higher external products cost of sales at MS primarily due to the programs described above in Total Net Sales. The increase in services cost of sales of \$46 million in the first quarter of 2018 compared to the first quarter of 2017 was primarily

due to higher external services cost of sales at IIS primarily due to the programs described above in Total Net Sales, with the remaining change spread across numerous programs with no individual or common significant driver.

General and Administrative Expenses

(In millions, except percentages)	Three Months Ended		% of Total Net Sales	
	Apr 1, 2018	Apr 2, 2017 ⁽¹⁾	Apr 1, 2018	Apr 2, 2017 ⁽¹⁾
Administrative and selling expenses	\$528	\$ 523	8.4 %	8.7 %
Research and development expenses	166	163	2.6 %	2.7 %
Total general and administrative expenses	\$694	\$ 686	11.1 %	11.4 %

Amounts have been recasted to reflect the adoption of ASU 2017-07, Compensation - Retirement Benefits (Topic (1)715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, as discussed in "Note 2: Accounting Standards" within Item 1 of this Form 10-Q.

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Administrative and selling expenses in the first quarter of 2018 were relatively consistent with the first quarter of 2017.

Included in administrative and selling expenses is the provision for state income taxes, which 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 \$10 million and \$9 million in the first quarters of 2018 and 2017, respectively.

Research and development expenses in the first quarter of 2018 were relatively consistent with the first quarter of 2017.

Total Operating Expenses

(In millions, except percentages)	Three Months Ended	
	Apr 1, 2018	Apr 2, 2017 ⁽¹⁾
Total operating expenses	\$5,226	\$5,052
% of Total Net Sales	83.4 %	84.2 %

Amounts have been recasted to reflect the adoption of ASU 2017-07, Compensation - Retirement Benefits (Topic (1)715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, as discussed in "Note 2: Accounting Standards" within Item 1 of this Form 10-Q.

The increase in total operating expenses of \$174 million in the first quarter of 2018 compared to the first quarter of 2017 was primarily due to the increase in total cost of sales of \$166 million, the primary drivers of which are described above in Total Cost of Sales.

Operating Income

(In millions, except percentages)	Three Months Ended	
	Apr 1, 2018	Apr 2, 2017 ⁽¹⁾
Operating income	\$1,041	\$948
% of Total Net Sales	16.6 %	15.8 %

Amounts have been recasted to reflect the adoption of ASU 2017-07, Compensation - Retirement Benefits (Topic (1)715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, as discussed in "Note 2: Accounting Standards" within Item 1 of this Form 10-Q.

The increase in operating income of \$93 million in the first quarter of 2018 compared to the first quarter of 2017 was due to the increase in total net sales of \$267 million, the primary drivers of which are described above in Total Net Sales, partially offset by the increase in total operating expenses of \$174 million, the primary drivers of which are described above in Total Operating Expenses.

Total Non-Operating (Income) Expense, Net

(In millions)	Three Months Ended	
	Apr 1, 2018	Apr 2, 2017 ⁽¹⁾
Non-operating (income) expense, net		
Retirement benefits non-service expense	\$239	\$207
Interest expense	47	58

Interest income	(7)	(5)
Other (income) expense, net	5	(7)
Total non-operating (income) expense, net	\$284	\$ 253

Amounts have been recasted to reflect the adoption of ASU 2017-07, Compensation - Retirement Benefits (Topic (1)715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, as discussed in "Note 2: Accounting Standards" within Item 1 of this Form 10-Q.

The increase in total non-operating (income) expense, net of \$31 million in the first quarter of 2018 compared to the first quarter of 2017 was primarily due to an increase in retirement benefits non-service expense of \$32 million principally driven by the lower discount rate at December 31, 2017 compared to the discount rate at December 31, 2016 and our annual actuarial update which takes into account final census data as described in our Annual Report on Form 10-K for the year ended December 31, 2017, partially offset by favorable asset performance and higher discretionary pension contributions in 2017. Also included in the change in total non-operating (income) expense, net was a \$12 million change in the mark-to-market of marketable securities held in trust associated with certain of our non-qualified deferred compensation and employee benefit plans, due to net losses of \$4 million in the first quarter of 2018 compared to net gains of \$8 million in the first quarter of 2017, and a decrease in interest expense of \$11 million due to the repurchase of long-term debt in the second quarter of 2017.

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Federal and Foreign Income Taxes

	Three Months Ended	
(In millions, except percentages)	Apr 1, 2018	Apr 2, 2017
Federal and foreign income taxes	\$133	\$198
Effective tax rate	17.6 %	28.5 %

On December 22, 2017, the President signed the Tax Cuts and Jobs Act of 2017 (2017 Act) which enacted a wide range of changes to the U.S. corporate income tax system. The 2017 Act reduced the U.S. corporate statutory federal tax rate to 21% effective in 2018, eliminated the domestic manufacturing deduction benefit and introduced other tax base broadening measures, changed rules for expensing and capitalizing business expenditures, established a territorial tax system for foreign earnings as well as a minimum tax on certain foreign earnings, provided for a one-time transition tax on previously undistributed foreign earnings, and introduced new rules for the treatment of certain export sales.

At April 1, 2018, we have not completed our accounting for the tax effects of enactment of the 2017 Act. We continue to prepare, review and assess certain information and perform analyses related to the 2017 Act. For a more detailed discussion of the effects of the 2017 Act refer to “Note 14: Income Taxes” within Item 1 of this Form 10-Q.

We recognize excess tax benefits and tax deficiencies related to our equity compensation in the income statement which could result in fluctuations in our effective tax rate period over period depending on the volatility of our stock price and how many awards vest in the period.

Our effective tax rate in the first quarter of 2018 was 17.6% compared to 28.5% in the first quarter of 2017. The decrease of 10.9% was primarily due to the decrease in the statutory federal rate, which decreased the rate by 14.0%, foreign derived intangible income (FDII), which decreased the rate by 3.0% and the tax benefit recognized upon settlement of stock-based awards, which decreased the rate by 1.5%, partially offset by the repeal of the domestic manufacturing deduction, which unfavorably impacted the rate by 3.0%, the foreign rate differential, which increased the rate by 1.9% and the one-time transition tax on undistributed foreign earnings, which increased the rate by 1.7%. The remaining increase of 1.0% is composed of various unrelated items which individually or collectively are not significant.

Our effective tax rate in the first quarter of 2018 was 3.4% lower than the statutory federal rate primarily due to the tax benefit recognized upon settlement of stock-based awards, which decreased the rate by 3.4%, FDII, which decreased the rate by 3.0% and the Research and Development tax credit (R&D tax credit), which decreased the rate by 1.8%. Items which increased the effective tax rate were the foreign rate differential, which increased the rate by 1.9% and the one-time transition tax on undistributed foreign earnings, which increased the rate by 1.7%. The remaining increase of 1.2% is composed of various unrelated items which individually or collectively are not significant.

Our effective tax rate in the first quarter of 2017 was 6.5% lower than the statutory federal rate primarily due to the domestic manufacturing deduction, which decreased the rate by 3.0%, the tax benefit recognized upon settlement of equity awards, which decreased the rate by 1.9% and the R&D tax credit, which decreased the rate by 1.4%. The remaining decrease of 0.2% is composed of various items which individually or collectively are not significant.

Income from Continuing Operations

Three
Months

	Ended	
(In millions)	Apr 1, 2018	Apr 2, 2017
Income from continuing operations	\$624	\$497

The increase in income from continuing operations of \$127 million in the first quarter of 2018 compared to the first quarter of 2017 was primarily due to an increase of \$93 million in operating income, the primary drivers of which are described above in Operating Income and a decrease of \$65 million in federal and foreign income taxes, related to the decrease in our effective tax rate described above in Federal and Foreign Income Taxes, partially offset by an increase of \$31 million in total non-operating (income) expense, net, the primary drivers of which are described above in Total Non-Operating (Income) Expense, Net.

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Net Income

	Three Months Ended Apr 1, Apr 2, 2018 2017
(In millions)	
Net income	\$623 \$ 500

The increase in net income of \$123 million in the first quarter of 2018 compared to the first quarter of 2017 was primarily due to the \$127 million increase in income from continuing operations, the primary drivers of which are described above in Income from Continuing Operations.

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

	Three Months Ended Apr 1, Apr 2, 2018 2017
(In millions, except per share amounts)	
Income from continuing operations attributable to Raytheon Company	\$634 \$503
Diluted weighted-average shares outstanding	288.8 292.8
Diluted EPS from continuing operations attributable to Raytheon Company	\$2.20 \$1.73

The increase in diluted EPS from continuing operations attributable to Raytheon Company common stockholders of \$0.47 in the first quarter of 2018 compared to the first quarter of 2017 was primarily due to the increase in income from continuing operations described above in Income from Continuing Operations and a decrease in weighted-average shares outstanding, which was affected by the common stock share activity shown in the table below. Diluted EPS from continuing operations attributable to Raytheon Company common stockholders was increased by \$0.01 in first quarter of 2017 for the impact of our redeemable noncontrolling interest redemption value adjustments, as discussed in "Note 4: Earnings Per Share (EPS)" within Item 1 of this Form 10-Q.

Our common stock share activity was as follows:

	Three Months Ended Apr 1, Apr 2, 2018 2017
(In millions)	
Beginning balance	288.4 292.8
Stock plans activity	1.0 1.1
Share repurchases	(2.2) (2.9)
Ending balance	287.2 291.0

Diluted EPS Attributable to Raytheon Company Common Stockholders

	Three Months Ended Apr 1, Apr 2, 2018 2017
(In millions, except per share amounts)	
Net income attributable to Raytheon Company	\$633 \$506
Diluted weighted-average shares outstanding	288.8 292.8

Diluted EPS attributable to Raytheon Company \$2.19 \$1.74

The increase in diluted EPS attributable to Raytheon Company common stockholders of \$0.45 in the first quarter of 2018 compared to the first quarter of 2017 was primarily due to the \$0.47 increase in diluted EPS from continuing operations attributable to Raytheon Company common stockholders described above in Diluted Earnings Per Share (EPS) from Continuing Operations Attributable to Raytheon Company Common Stockholders.

SEGMENT RESULTS

We report our results in the following segments: IDS; IIS; MS; SAS; and Forcepoint.

The following provides some context for viewing our segment performance through the eyes of management.

Given the nature of our business, bookings, total 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

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backlog, which represents future sales that we expect to recognize over the remaining contract period, which is generally several years. We also disclose total operating expenses and the components of total operating expenses 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 external 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: (1) the desired capability by the customer and urgency of customer needs; (2) customer budgets and other fiscal constraints; (3) political and economic and other environmental factors; (4) the timing of customer negotiations; (5) the timing of governmental approvals and notifications; and (6) 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 for 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.

	Three Months Ended	
Bookings (in millions)	Apr 1, 2018	Apr 2, 2017
Integrated Defense Systems	\$2,475	\$1,631
Intelligence, Information and Services	1,074	1,734
Missile Systems	1,390	743
Space and Airborne Systems	1,272	1,475
Forcepoint		