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 July 2, 2017

☐ 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 July 24, 2017 was 290,249,000.

RAYTHEON COMPANY

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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 expense and 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 impact of acquisitions, investments and other business arrangements and the tax deductibility of goodwill; the impact and outcome of audits and legal and administrative proceedings, claims, investigations and 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, 2016 and other important factors disclosed previously and from time to time in our other filings with the Securities and Exchange Commission. 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.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RAYTHEON COMPANY

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In millions, except per share amounts)	Jul 2, 2017	Dec 31, 2016
Assets		
Current assets		
Cash and cash equivalents	**$ 2,167**	$ 3,303
Short-term investments	**410**	100
Receivables, net	**1,560**	1,163
Contract assets	**5,728**	5,041
Inventories	**581**	608
Prepaid expenses and other current assets	**491**	670
Total current assets	**10,937**	10,885
Property, plant and equipment, net	**2,172**	2,166
Goodwill	**14,827**	14,788
Other assets, net	**2,293**	2,399
Total assets	**$ 30,229**	$ 30,238
Liabilities, Redeemable Noncontrolling Interest and Equity		
Current liabilities		
Commercial paper	**$ 300**	$ —
Contract liabilities	**2,704**	2,646
Accounts payable	**1,278**	1,520
Accrued employee compensation	**1,179**	1,234
Other current liabilities	**1,126**	1,139
Total current liabilities	**6,587**	6,539
Accrued retiree benefits and other long-term liabilities	**7,731**	7,758
Long-term debt	**4,747**	5,335
Commitments and contingencies (Note 10)		
Redeemable noncontrolling interest (Note 8)	**349**	449
Equity		
Raytheon Company stockholders' equity		
Common stock, par value, $0.01 per share, 1,450 shares authorized, 290 and 293 shares outstanding at July 2, 2017 and December 31, 2016, respectively	**3**	3
Additional paid-in capital	**—**	—
Accumulated other comprehensive loss	**(6,994)**	(7,411)
Retained earnings	**17,806**	17,565
Total Raytheon Company stockholders' equity	**10,815**	10,157
Noncontrolling interests in subsidiaries	**—**	—
Total equity	**10,815**	10,157
Total liabilities, redeemable noncontrolling interest and equity	**$ 30,229**	$ 30,238

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

RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In millions, except per share amounts)	Three Months Ended Jul 2, 2017	Three Months Ended Jul 3, 2016	Six Months Ended Jul 2, 2017	Six Months Ended Jul 3, 2016
Net sales				
Products	**$ 5,275**	$ 5,032	**$ 10,319**	$ 9,858
Services	**1,006**	997	**1,962**	1,973
Total net sales	**6,281**	6,029	**12,281**	11,831
Operating expenses				
Cost of sales—products	**3,877**	3,549	**7,633**	7,188
Cost of sales—services	**808**	813	**1,582**	1,615
General and administrative expenses	**747**	695	**1,476**	1,443
Total operating expenses	**5,432**	5,057	**10,691**	10,246
Operating income	**849**	972	**1,590**	1,585
Non-operating (income) expense, net				
Interest expense	**51**	58	**109**	116
Interest income	**(5)**	(4)	**(10)**	(8)
Other (income) expense, net	**35**	(1)	**28**	(3)
Total non-operating (income) expense, net	**81**	53	**127**	105
Income from continuing operations before taxes	**768**	919	**1,463**	1,480
Federal and foreign income taxes	**221**	205	**419**	362
Income from continuing operations	**547**	714	**1,044**	1,118
Income (loss) from discontinued operations, net of tax	**—**	(1)	**3**	—
Net income	**547**	713	**1,047**	1,118
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	**(6)**	(4)	**(12)**	(27)
Net income attributable to Raytheon Company	**$ 553**	$ 717	**$ 1,059**	$ 1,145
Basic earnings per share attributable to Raytheon Company common stockholders:				
Income from continuing operations	**$ 1.90**	$ 2.41	**$ 3.62**	$ 3.84
Income (loss) from discontinued operations, net of tax	**—**	—	**0.01**	—
Net income	**1.90**	2.41	**3.63**	3.84
Diluted earnings per share attributable to Raytheon Company common stockholders:				
Income from continuing operations	**$ 1.89**	$ 2.41	**$ 3.62**	$ 3.83
Income (loss) from discontinued operations, net of tax	**—**	—	**0.01**	—
Net income	**1.89**	2.41	**3.63**	3.84
Amounts attributable to Raytheon Company common stockholders:				
Income from continuing operations	**$ 553**	$ 718	**$ 1,056**	$ 1,145
Income (loss) from discontinued operations, net of tax	**—**	(1)	**3**	—
Net income	**$ 553**	$ 717	**$ 1,059**	$ 1,145
Dividends declared per share	**$ 0.7975**	$ 0.7325	**$ 1.5950**	$ 1.4650

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

RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended		Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Net income	**$ 547**	$ 713	**$ 1,047**	$ 1,118
Other comprehensive income (loss), before tax:				
Pension and other postretirement benefit plans, net:				
Amortization of prior service cost included in net periodic cost	**1**	1	**2**	2
Amortization of net actuarial loss included in net income	**282**	245	**563**	491
Loss due to settlements	**—**	3	**—**	3
Pension and other postretirement benefit plans, net	**283**	249	**565**	496
Foreign exchange translation	**33**	(13)	**44**	(46)
Cash flow hedges	**10**	4	**8**	8
Unrealized gains (losses) on investments and other, net	**—**	—	**—**	2
Other comprehensive income (loss), before tax	**326**	240	**617**	460
Income tax benefit (expense) related to items of other comprehensive income (loss)	**(102)**	(89)	**(200)**	(183)
Other comprehensive income (loss), net of tax	**224**	151	**417**	277
Total comprehensive income	**771**	864	**1,464**	1,395
Less: Comprehensive income (loss) attributable to noncontrolling interests in subsidiaries	**(6)**	(4)	**(12)**	(27)
Comprehensive income attributable to Raytheon Company	**$ 777**	$ 868	**$ 1,476**	$ 1,422

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

RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

Six Months Ended July 2, 2017 and July 3, 2016 (in millions)	Common stock	Additional 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, 2016	$ 3	$ —	$ (7,411)	$ 17,565	$ 10,157	$ —	$ 10,157
Net income (loss)				**1,059**	**1,059**		**1,059**
Other comprehensive income (loss), net of tax			**417**		**417**		**417**
Adjustment of redeemable noncontrolling interest to redemption value				**134**	**134**		**134**
Distributions and other activity related to noncontrolling interests					**—**		**—**
Dividends declared		**2**		**(466)**	**(464)**		**(464)**
Common stock plans activity		**91**			**91**		**91**
Share repurchases		**(93)**		**(486)**	**(579)**		**(579)**
Balance at July 2, 2017	**$ 3**	**$ —**	**$ (6,994)**	**$ 17,806**	**$ 10,815**	**$ —**	**$ 10,815**
Balance at December 31, 2015	$ 3	$ 398	$ (7,176)	$ 16,956	$ 10,181	$ 202	$ 10,383
Net income (loss)				1,145	1,145	(15)	1,130
Other comprehensive income (loss), net of tax			277		277		277
Adjustment of redeemable noncontrolling interest to redemption value				10	10		10
Distributions and other activity related to noncontrolling interests				(205)	(205)	(187)	(392)
Dividends declared		2		(437)	(435)		(435)
Common stock plans activity		98			98		98
Share repurchases		(498)		(196)	(694)		(694)
Balance at July 3, 2016	$ 3	$ —	$ (6,899)	$ 17,273	$ 10,377	$ —	$ 10,377

(1) Excludes redeemable noncontrolling interest which is not considered equity. See "Note 8: Forcepoint Joint Venture" for additional information.

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

RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016
Cash flows from operating activities		
Net income	**$ 1,047**	$ 1,118
(Income) loss from discontinued operations, net of tax	**(3)**	—
Income from continuing operations	**1,044**	1,118
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	**263**	247
Stock-based compensation	**92**	89
Gain on sale of equity method investment	**—**	(158)
Loss on repayment of long-term debt	**39**	—
Deferred income taxes	**(105)**	(53)
Changes in assets and liabilities		
Receivables, net	**(393)**	(250)
Contract assets and contract liabilities	**(622)**	(492)
Inventories	**27**	(14)
Prepaid expenses and other current assets	**112**	130
Income taxes receivable/payable	**99**	64
Accounts payable	**(238)**	49
Accrued employee compensation	**(54)**	(43)
Other current liabilities	**(25)**	(76)
Accrued retiree benefits	**564**	445
Other, net	**(62)**	15
Net cash provided by (used in) operating activities	**741**	1,071
Cash flows from investing activities		
Additions to property, plant and equipment	**(181)**	(237)
Proceeds from sales of property, plant and equipment	**31**	1
Additions to capitalized internal use software	**(33)**	(26)
Purchases of short-term investments	**(399)**	(472)
Maturities of short-term investments	**100**	599
Payments for purchases of acquired companies, net of cash received	**(39)**	(57)
Other	**(1)**	6
Net cash provided by (used in) investing activities	**(522)**	(186)
Cash flows from financing activities		
Dividends paid	**(447)**	(419)
Net borrowings (payments) on commercial paper	**300**	—
Repayments of long-term debt	**(591)**	—
Loss on repayment of long-term debt	**(38)**	—
Repurchases of common stock under share repurchase programs	**(500)**	(602)
Repurchases of common stock to satisfy tax withholding obligations	**(79)**	(92)
Acquisition of noncontrolling interest in RCCS LLC	**—**	(90)
Contribution from noncontrolling interest in Forcepoint	**8**	11
Other	**—**	(5)
Net cash provided by (used in) financing activities	**(1,347)**	(1,197)
Net increase (decrease) in cash, cash equivalents and restricted cash	**(1,128)**	(312)
Cash, cash equivalents and restricted cash at beginning of the year	**3,303**	2,328
Cash, cash equivalents and restricted cash at end of period	**$ 2,175**	$ 2,016

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

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, 2016. 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 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.

As previously announced, effective January 1, 2017, we elected to early adopt the requirements of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the full retrospective method as discussed below in "Note 2: Accounting Standards". All amounts and disclosures set forth in this Form 10-Q reflect these changes.

Note 2: Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which replaces numerous requirements in U.S. GAAP, including industry-specific requirements, and provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. In July 2015, the FASB approved the deferral of the new standard's effective date by one year. The new standard is effective for annual reporting periods beginning after December 15, 2017. The FASB permits companies to adopt the new standard early, but not before the original effective date of annual reporting periods beginning after December 15, 2016.

Effective January 1, 2017, we elected to early adopt the requirements of Topic 606 using the full retrospective method. The impact to our fiscal quarters and year-ended 2016 and year-ended 2015 income from continuing operations after taxes, net income and basic and diluted earnings per share (EPS) was as follows:

	Three Months Ended				Twelve Months Ended	
(In millions, except per share amounts)	Dec 31, 2016	Oct 2, 2016	Jul 3, 2016	Apr 3, 2016	Dec 31, 2016	Dec 31, 2015
Income from continuing operations after taxes	$ 12	$ 18	$ 9	$ —	$ 39	$ 40
Net income	12	18	9	—	39	40
Basic EPS attributable to Raytheon Company common stockholders:						
Income from continuing operations after taxes	$ 0.04	$ 0.05	$ 0.02	$ —	$ 0.10	$ 0.12
Net income	0.04	0.05	0.02	—	0.11	0.11
Diluted EPS attributable to Raytheon Company common stockholders:						
Income from continuing operations after taxes	$ 0.03	$ 0.05	$ 0.03	$ —	$ 0.11	$ 0.12
Net income	0.04	0.05	0.03	—	0.11	0.11

In addition, the cumulative impact to our retained earnings at January 1, 2015 was $13 million.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This ASU is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows by providing guidance on eight specific cash flow issues, including requirements that cash payments for debt prepayment or debt extinguishment costs be classified as cash outflows for financing activities and proceeds from the settlement of corporate-owned life insurance policies be classified as cash inflows from investing activities. The provisions of ASU 2016-15 are effective for years beginning after December 15, 2017, with early adoption permitted. We elected to early adopt the requirements of the new standard in the first quarter of 2017 using the retrospective transition method, as required by the new standard. The adoption of this ASU had an immaterial impact to our consolidated statements of cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that restricted cash be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for years beginning after December 15, 2017, with early adoption permitted. We elected to early adopt the requirements of the new standard in the first quarter of 2017 using the retrospective transition method, as required by the new standard. The adoption of this ASU had an immaterial impact to our consolidated statements of cash flows.

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)	**Jul 2, 2017**	Dec 31, 2016
Cash and cash equivalents	**$ 2,167**	$ 3,303
Restricted cash	**8**	—
Cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	**$ 2,175**	$ 3,303

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 annual reporting periods beginning after December 15, 2018 with early adoption permitted, and must be adopted using the modified retrospective approach. We are currently evaluating the potential changes from this ASU to our future financial reporting and disclosures. 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 to our results of operations or liquidity.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715)*, which changes certain presentation and disclosure requirements for employers that sponsor defined benefit pension and other postretirement benefit (PRB) plans.

This requires 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. In addition, only the service cost component will be eligible for capitalization when applicable, on a prospective basis. The provisions of ASU 2017-07 are effective for years beginning after December 15, 2017. We are currently evaluating the potential changes from this ASU to our future financial reporting and disclosures. We expect the standard to increase 2016 and 2017 operating income due to the removal of the non-service component of Financial Accounting Standards (FAS) pension expense by $601 million and an estimated $800 million, respectively, and to decrease non-operating income by the same amount with zero impact to net income in both periods. We do not expect a material impact from the new requirement to only allow capitalization of the service cost component of net benefit cost.

Other new pronouncements issued but not effective until after July 2, 2017 are not expected to have a material impact on our financial position, results of operations or liquidity.

Note 3: Significant Accounting Policies Update

Our significant accounting policies are detailed in "Note 1: Summary of Significant Accounting Policies" of our Annual Report on Form 10-K for the year ended December 31, 2016. Significant changes to our accounting policies as a result of adopting Topic 606 are discussed below:

Revenue Recognition—The vast majority of our revenues are from long-term contracts associated with the design, development, manufacture or modification of complex aerospace or defense equipment or related services. These contracts primarily are with the U.S. government (including foreign military sales contracted through the U.S. government). Our contracts with the U.S. government typically are subject to the Federal Acquisition Regulation (FAR) and are priced based on estimated or actual costs of producing goods or providing services. The FAR provides guidance on the types of costs that are allowable in establishing prices for goods and services provided under U.S. government contracts. The pricing for non-U.S. government contracts is based on the specific negotiations with each customer.

Under the typical payment terms of our U.S. government fixed-price contracts, the customer pays us either performance-based payments (PBPs) or progress payments. PBPs are interim payments up to 90% of the contract price based on quantifiable measures of performance or on the achievement of specified events or milestones. Progress payments are interim payments up to 80% of costs incurred as the work progresses. Because the customer retains a small portion of the contract price until completion of the contract, our U.S. government fixed-price contracts generally result in revenue recognized in excess of billings which we present as contract assets on the balance sheet. Amounts billed and due from our customers are classified as receivables on the balance sheet. The portion of the payments retained by the customer until final contract settlement is not considered a significant financing component because the intent is to protect the customer. For our U.S. government cost-type contracts, the customer generally pays us for our actual costs incurred within a short period of time. For non-U.S. government contracts, we typically receive interim payments as work progresses, although for some contracts, we may be entitled to receive an advance payment. We recognize a liability for these advance payments in excess of revenue recognized and present it as contract liabilities on the balance sheet. The advance payment typically is not considered a significant financing component because it is used to meet working capital demands that can be higher in the early stages of a contract and to protect us from the other party failing to adequately complete some or all of its obligations under the contract.

To determine the proper revenue recognition method for contracts for complex aerospace or defense equipment or related services, we evaluate whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or separate the combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. For most of our contracts, the customer contracts with us to provide a significant service of integrating a complex set of tasks and components into a single project or capability (even if that single project results in the delivery of multiple units). Hence, the entire contract is accounted for as one performance obligation. Less commonly, however, we may promise to provide distinct goods or services within a contract in which case we separate the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, we allocate the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. We infrequently sell standard products with observable standalone sales. In cases where we do, the observable standalone sales are used to determine the standalone selling price. More frequently, we sell a customized customer specific solution, and in these cases we typically use the expected cost plus a margin approach to estimate the standalone selling price of each performance obligation.

We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. For certain contracts that meet the foregoing requirements, primarily international direct commercial sale contracts, we recognize revenue before obtaining all regulatory approvals where receipt of those regulatory approvals is virtually certain based upon all known facts and circumstances.

We generally recognize revenue over time as we perform because of continuous transfer of control to the customer. For U.S. government contracts, this continuous transfer of control to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit and take control of any work in process. Similarly, for non-U.S. government contracts, the customer typically controls the work in process as evidenced either by contractual termination clauses or by our rights to payment for work performed to date plus a reasonable profit to deliver products or services that do not have an alternative use to the Company.

Because of control transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. We generally use the cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Costs to fulfill include labor, materials and subcontractors' costs, other direct costs and an allocation of indirect costs including pension and any other postretirement benefit (PRB) expense under U.S. government Cost Accounting Standards (CAS).

Due to the nature of the work required to be performed on many of our performance obligations, the estimation of total revenue and cost at completion (the process described below in more detail) is complex, subject to many variables and requires significant judgment. It is common for our long-term contracts to contain award fees, incentive fees, or other provisions that can either increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics, program milestones or cost targets and can be based upon customer discretion. We estimate variable consideration at the most likely amount to which we expect to be entitled. We include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us.

Contracts are often modified to account for changes in contract specifications and requirements. We consider contract modifications to exist when the modification either creates new or changes the existing enforceable rights and obligations. Most of our contract modifications are for goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as if they were part of that existing contract. The effect of a contract modification on the transaction price and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis.

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 referred to as offset obligations, required under certain contracts.

Based on this analysis, any quarterly adjustments to net sales, cost of sales, and the related impact to operating income are recognized as necessary in the period they become known. These adjustments may result from positive program performance, and may result in an increase in operating income during the performance of individual 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.

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		Six Months Ended	
(In millions, except per share amounts)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Operating income	**$ 112**	$ 134	**$ 166**	$ 155
Income from continuing operations attributable to Raytheon Company	**73**	87	**108**	112
Diluted EPS from continuing operations attributable to Raytheon Company	**$ 0.25**	$ 0.29	**$ 0.37**	$ 0.38

In addition, net revenue recognized from our performance obligations satisfied in previous periods was $139 million and $147 million in the second quarters of 2017 and 2016, respectively, and $214 million and $192 million in the first six months of 2017 and 2016, respectively. This primarily relates to EAC adjustments that impacted revenue.

We also sell security software through our Forcepoint™ segment. For the majority of these arrangements, we recognize revenue over the term of the agreement because the software requires continuous updates to provide the intended security functionality. To a lesser extent in all of our business segments, we enter into other types of contracts including service arrangements and non-subscription software and licensing agreements. We recognize revenue for these arrangements over time or at a point in time depending on our evaluation of when the customer obtains control of the promised goods or services. For software arrangements that include multiple performance obligations, including hardware, perpetual software licenses, subscriptions, term licenses and maintenance and/or services, we allocate revenue to each performance obligation based on estimates of the price that we would charge the customer for each promised product or service if it were sold on a standalone basis.

Receivables, Net—Receivables, net, include amounts billed and currently due from customers. The amounts due are stated at their net estimated realizable value. We maintain an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected. The allowance is based upon an assessment of customer creditworthiness, historical payment experience, the age of outstanding receivables and collateral to the extent applicable.

Contract Assets—Contract assets include 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, and right to payment is not just subject to the passage of time. Amounts may not exceed their net realizable value. Contract assets are generally classified as current.

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 both July 2, 2017 and December 31, 2016, we had $32 million of deferred commissions. We had $5 million and $3 million of amortization expense related to deferred commissions in the second quarters of 2017 and 2016, respectively, and $10 million and $5 million in the first six months of 2017 and 2016, respectively.

Contract Liabilities—Our contract liabilities consist of advance payments and billings in excess of revenue recognized and deferred revenue. We may also receive up-front payments related to software license sales primarily for Forcepoint, which in most cases we recognize ratably over the license term. Our contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. We classify advance payments and billings in excess of revenue recognized as current, and deferred revenue as current or noncurrent based on the timing of when we expect to recognize revenue. The noncurrent portion of deferred revenue is included in accrued retiree benefits and other long-term liabilities in our consolidated balance sheets.

In order to determine revenue recognized in the period from contract liabilities, we first allocate revenue to the individual contract liability balance outstanding at the beginning of the period until the revenue exceeds that balance.

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 July 2, 2017, the aggregate amount of the transaction price allocated to remaining performance obligations was $36 billion. 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.

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, 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 restricted stock awards (RSAs), 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 RSAs 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 8: 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.

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

	Three Months Ended		Six Months Ended	
	Jul 2, 2017	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Basic EPS attributable to Raytheon Company common stockholders:				
Distributed earnings	**$ 0.80**	$ 0.73	**$ 1.59**	$ 1.46
Undistributed earnings	**1.10**	1.68	**2.03**	2.38
Total	**$ 1.90**	$ 2.41	**$ 3.62**	$ 3.84
Diluted EPS attributable to Raytheon Company common stockholders:				
Distributed earnings	**$ 0.79**	$ 0.73	**$ 1.59**	$ 1.46
Undistributed earnings	**1.10**	1.68	**2.03**	2.37
Total	**$ 1.89**	$ 2.41	**$ 3.62**	$ 3.83

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 in the second quarters of 2017 and 2016, and earnings of $0.01 and earnings of less than $0.01 in the first six months of 2017 and 2016, respectively.

Income attributable to participating securities was as follows:

	Three Months Ended		Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Income from continuing operations attributable to participating securities	**$ 6**	$ 9	**$ 13**	$ 17
Income (loss) from discontinued operations, net of tax attributable to participating securities(1)	**—**	—	**—**	—
Net income attributable to participating securities	**$ 6**	$ 9	**$ 13**	$ 17

(1) Income (loss) from discontinued operations, net of tax attributable to participating securities was a loss of less than $1 million in the second quarters of 2017 and 2016, and income of less than $1 million in the first six months of 2017 and 2016.

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

	Three Months Ended		Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Shares for basic EPS(1)	**291.7**	297.3	**292.1**	298.2
Dilutive effect of LTPP and RSUs	**0.3**	0.3	**0.3**	0.4
Shares for diluted EPS	**292.0**	297.6	**292.4**	298.6

(1) Includes 3.3 million and 3.8 million participating securities in the second quarters of 2017 and 2016, respectively, and 3.7 million and 4.3 million participating securities in the first six months of 2017 and 2016, respectively.

Note 5: Inventories

Inventories consisted of the following:

(In millions)	**Jul 2, 2017**	Dec 31, 2016
Materials and purchased parts	**$ 67**	$ 66
Work in process	**500**	532
Finished goods	**14**	10
Total	**$ 581**	$ 608

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 $170 million and $189 million in inventories as work in process at July 2, 2017 and December 31, 2016, 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)	**Jul 2, 2017**	Dec 31, 2016	$ change	% change
Contract assets	**$ 5,728**	$ 5,041	$ 687	14 %
Contract liabilities—current	**(2,704)**	(2,646)	(58)	2 %
Contract liabilities—noncurrent	**(113)**	(128)	15	(12)%
Net contract assets (liabilities)	**$ 2,911**	$ 2,267	$ 644	28 %

The $644 million increase in our net contract assets (liabilities) from December 31, 2016 to July 2, 2017 was due to a $687 million increase in our contract assets, primarily due to timing of payments on certain international programs.

In the second quarter and first six months of 2017, we recognized revenue of $340 million and $952 million, respectively, related to our contract liabilities at January 1, 2017. In the second quarter and first six months of 2016, we recognized revenue of $312 million and $958 million, respectively, related to our contract liabilities at January 1, 2016.

Impairment losses recognized on our receivables and contract assets were de minimis in the second quarters and first six months of 2017 and 2016.

Note 7: Acquisitions and Goodwill

In pursuing our business strategies, we acquire and make investments in certain businesses that meet strategic and financial criteria.

In February 2017, our Forcepoint business acquired the Skyfence cloud access security broker business for $39 million in cash, net of cash received, and exclusive of retention payments. Vista Equity Partners contributed 19.7% of the purchase price, which is reflected in contribution from noncontrolling interest in Forcepoint in our consolidated statements of cash flows. Skyfence solutions help companies to determine which cloud applications are in use by employees, analyze content in real-time to prevent malicious or unauthorized leakage and quickly identifies and blocks cyber-attacks. Skyfence will be integrated into our Forcepoint business to expand and enhance Forcepoint's strategy to deliver cybersecurity systems that help customers understand people's behaviors and intent as they interact with data and intellectual property wherever it may reside, including in the fast-growing cloud. In connection with this acquisition, we recorded $35 million of goodwill, primarily related to expected synergies from combining operations and the value of the existing workforce, all of which is expected to be deductible for tax purposes, and $5 million of intangible assets, primarily related to technology, with a weighted-average life of six years. We completed the purchase price allocation process in the second quarter of 2017.

Pro forma financial information and revenue from the date of acquisition has not been provided for this acquisition as it is not material.

A rollforward of goodwill by segment was as follows:

(In millions)		Integrated Defense Systems		Intelligence, Information and Services		Missile Systems		Space and Airborne Systems		Forcepoint(1)		Total
Balance at December 31, 2016	$	1,702	$	2,966	$	4,154	$	4,106	$	1,860	$	14,788
Acquisitions		**—**		**—**		**—**		**—**		**35**		**35**
Effect of foreign exchange rates and other		**3**		**1**		**—**		**—**		**—**		**4**
Balance at July 2, 2017	**$**	**1,705**	**$**	**2,967**	**$**	**4,154**	**$**	**4,106**	**$**	**1,895**	**$**	**14,827**

(1) At July 2, 2017, Forcepoint's fair value is estimated to exceed its net book value by approximately $410 million. As discussed in "Note 8: 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 8: Forcepoint Joint Venture

In May 2015, we created Forcepoint, a new cybersecurity joint venture company (with Vista Equity Partners), through a series of transactions by which we acquired Websense from Vista Equity Partners and combined it with Raytheon Cyber Products, formerly part of our Intelligence, Information and Services (IIS) segment. We then sold 19.7% of the equity interest in the combined company to Vista Equity Partners for $343 million.

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 three years following the closing date, 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 the put 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 put option under the joint venture agreement.

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 $349 million at July 2, 2017, 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 $321 million at July 2, 2017. Adjustments to the redemption value over the period from the date of acquisition to the date the redemption feature becomes puttable are immediately recorded to retained earnings.

A rollforward of redeemable noncontrolling interest was as follows:

	Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016
Beginning balance	**$ 449**	$ 355
Net income (loss)	**(12)**	(13)
Other comprehensive income (loss), net of tax(1)	**1**	—
Contribution from noncontrolling interest	**8**	11
Adjustment of noncontrolling interest to redemption value	**(97)**	(10)
Ending balance	**$ 349**	$ 343

(1) Other comprehensive income (loss), net of tax, was a loss of less than $1 million in the first six months of 2016.

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.

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 $40 million and $25 million, respectively, at July 2, 2017 and $53 million and $48 million, respectively, at December 31, 2016. The fair values of these derivatives are Level 2 in the fair value hierarchy at July 2, 2017 and December 31, 2016 because they are determined based on a market approach utilizing externally quoted forward rates for similar contracts.

We use foreign currency forward contracts to fix the functional currency value of specific commitments, payments and receipts. The aggregate notional amount of the outstanding foreign currency forward contracts was $1,097 million and $1,277 million at July 2, 2017 and December 31, 2016, respectively. The net notional exposure of these contracts was approximately $197 million and $342 million at July 2, 2017 and December 31, 2016, respectively.

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 July 2, 2017 and December 31, 2016, 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 July 2, 2017 and December 31, 2016.

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 at July 2, 2017 and December 31, 2016, 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 July 2, 2017 and December 31, 2016, we had short-term investments of $410 million and $100 million, respectively, 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 and P-1. As of July 2, 2017, our short-term investments had an average maturity of approximately one month. The amortized cost of these securities closely approximated their fair value at July 2, 2017 and December 31, 2016. There were no securities deemed to have other than temporary declines in value in the second quarter of 2017. In the second quarter and first six months of 2017, we recorded unrealized gains on short-term investments of less than $1 million, net of tax, in accumulated other comprehensive loss (AOCL). In the second quarter and first six months of 2016, we recorded unrealized losses on short-term investments of less than $1 million, net of tax, in AOCL, and unrealized gains on short-term investments of less than $1 million, net of tax, in AOCL, respectively. We did not have any sales of short-term investments in the second quarters and first six months of 2017 and 2016. For purposes of computing realized gains and losses on available-for-sale securities, we determine cost on a specific identification basis.

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)	**Jul 2, 2017**	Dec 31, 2016
Carrying value of long-term debt	**$ 4,747**	$ 5,335
Fair value of long-term debt	**5,288**	5,848

In addition, we did not have any transfers of assets or liabilities between levels of the fair value hierarchy during the first six months of 2017.

In the second quarter of 2017, we received net proceeds of $300 million from the issuance of short-term commercial paper and we exercised our call rights to repurchase, at prices based on fixed spreads to the U.S. Treasury rates, $591 million of our long-term debt due March and December 2018 at a loss of $39 million pretax, $25 million after tax, which is included in other (income) expense, net. The commercial paper notes outstanding have original maturities of not more than 90 days from the date of issuance. At July 2, 2017, short-term commercial paper borrowings outstanding were $300 million, which had a weighted average interest rate and original maturity period of 1.221% and 25 days, respectively. At December 31, 2016, there were no commercial paper borrowings outstanding.

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 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)	**Jul 2, 2017**	Dec 31, 2016
Total remediation costs—undiscounted	**$ 210**	$ 219
Weighted average discount rate	**5.2%**	5.2%
Total remediation costs—discounted	**$ 146**	$ 147
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.

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 of us or our affiliates. These instruments expire on various dates through 2025. 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)	**Jul 2, 2017**	Dec 31, 2016
Guarantees	**$ 208**	$ 190
Letters of credit	**2,560**	2,345
Surety bonds	**127**	127

Included in guarantees and letters of credit described above were $208 million and $45 million, respectively, at July 2, 2017, and $180 million and $44 million, respectively, at December 31, 2016, related to our joint venture in Thales-Raytheon Systems Co. Ltd. (TRS). As previously disclosed in our Form 10-K for the year ended December 31, 2016, the joint venture agreement for the

TRS joint venture was amended and restated in 2016, reducing the scope of the joint venture to Thales-Raytheon Systems Air and Missile Defense Command and Control S.A.S. (TRS AMDC2) only. 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 July 2, 2017, 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 July 2, 2017. We had an estimated liability of $3 million at July 2, 2017 and December 31, 2016 related to these guarantees and letters of credit.

As discussed in "Note 8: 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 referred to as offset agreements, as a condition to obtaining orders for our products and services from certain customers in foreign countries. At July 2, 2017, the aggregate amount of our offset agreements, both agreed to and anticipated to be agreed to, had an outstanding notional value of approximately $8.8 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. From time to time, these and other agencies investigate or conduct audits to determine whether our operations are being conducted in accordance with applicable requirements. Such investigations and audits 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)) 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: Stockholders' Equity

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

	Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016
Beginning balance	**292.8**	299.0
Stock plans activity	**1.1**	1.6
Share repurchases	**(3.8)**	(5.5)
Ending balance	**290.1**	295.1

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. At July 2, 2017, we had approximately $1.1 billion available under the 2015 repurchase program. 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 RSAs, RSUs and LTPP awards issued to employees.

Our share repurchases were as follows:

	Six Months Ended			
(In millions)	**Jul 2, 2017**		Jul 3, 2016	
	$	**Shares**	$	Shares
Shares repurchased under our share repurchase programs	**$ 500**	**3.3**	$ 602	4.8
Shares repurchased to satisfy tax withholding obligations	**79**	**0.5**	92	0.7
Total share repurchases	**$ 579**	**3.8**	$ 694	5.5

In March 2017, our Board of Directors authorized an 8.9% increase to our annual dividend payout rate from $2.93 to $3.19 per share. Our Board of Directors also declared dividends of $1.595 per share during the first six months of 2017, compared to dividends of $1.465 per share during the first six months of 2016. Dividends are subject to quarterly approval by our Board of Directors.

Stock-based Compensation Plans

RSAs and RSUs—During the first six months of 2017, we granted 1.0 million combined RSAs and RSUs with a weighted-average grant-date fair value of $152.08, 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 six months of 2017, we granted RSUs subject to the 2017–2019 LTPP plan with an aggregate target award of 0.1 million units and a weighted-average grant-date fair value of $151.94. The performance goals for the 2017–2019 LTPP award are independent of each other and based on three metrics, as defined in the 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 expense attributable to these vesting conditions was $2 million and $1 million in the second quarter and first six months of 2017, respectively. At July 2, 2017, there were 131 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.

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, 2016	$ (7,234)	$ (175)	$ —	$ (2)	$ (7,411)
Before tax amount	**565**	**44**	**8**	**—**	**617**
Tax (expense) or benefit	**(197)**	**—**	**(3)**	**—**	**(200)**
Net of tax amount	**368**	**44**	**5**	**—**	**417**
Balance at July 2, 2017	**$ (6,866)**	**$ (131)**	**$ 5**	**$ (2)**	**$ (6,994)**
Balance at December 31, 2015	$ (7,088)	$ (60)	$ (16)	$ (12)	$ (7,176)
Before tax amount	496	(46)	8	2	460
Tax (expense) or benefit	(178)	—	(4)	(1)	(183)
Net of tax amount	318	(46)	4	1	277
Balance at July 3, 2016	$ (6,770)	$ (106)	$ (12)	$ (11)	$ (6,899)

(1) Pension and PRB plans, net, is shown net of tax benefits of $3,684 million and $3,881 million at July 2, 2017 and December 31, 2016, respectively.
(2) Cash flow hedges are shown net of tax expense of $2 million and tax benefit of $1 million at July 2, 2017 and December 31, 2016, respectively.
(3) Unrealized gains (losses) on investments and other, net are shown net of tax expense of $1 million at both July 2, 2017 and December 31, 2016.

Material amounts reclassified out of AOCL were related to amortization of net actuarial loss associated with our pension and PRB plans and were $563 million and $491 million before tax in the first six months of 2017 and 2016, respectively. This component of AOCL is included in the calculation of net periodic pension expense (income) (see "Note 12: Pension and Other Employee Benefits" for additional details).

We expect $5 million of after tax net unrealized gains on our cash flow hedges at July 2, 2017 to be reclassified into earnings at then-current values over the next 12 months as the underlying hedged transactions occur.

Note 12: 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)	**Jul 2, 2017**	Dec 31, 2016
Marketable securities held in trust	**$ 587**	$ 550

Included in marketable securities held in trust in the table above was $375 million and $354 million at July 2, 2017 and December 31, 2016, respectively, related to the nonqualified defined contribution plans. The liabilities related to the nonqualified defined contribution plans were $384 million and $360 million at July 2, 2017 and December 31, 2016, respectively.

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

	Three Months Ended		Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Service cost	**$ 116**	$ 123	**$ 233**	$ 246
Interest cost	**267**	273	**534**	545
Expected return on plan assets	**(345)**	(380)	**(690)**	(759)
Amounts reflected in net funded status	**38**	16	**77**	32
Amortization of prior service cost included in net periodic pension expense	**1**	1	**2**	2
Recognized net actuarial loss	**280**	245	**559**	490
Loss due to settlements	**—**	—	**—**	3
Amounts reclassified during the period	**281**	246	**561**	495
Net periodic pension expense (income)	**$ 319**	$ 262	**$ 638**	$ 527

Net periodic pension expense (income) includes expense of less than $1 million and income of $1 million from foreign Pension Benefits plans in the second quarters of 2017 and 2016, respectively, and expense of $1 million and income of $2 million in the first six months of 2017 and 2016, respectively.

Net periodic PRB expense was $5 million and $3 million in the second quarters of 2017 and 2016, respectively, and $11 million and $7 million in the first six months of 2017 and 2016, respectively.

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

(In millions)	**Jul 2, 2017**	Dec 31, 2016
Long-term pension liabilities	**$ 7,061**	$ 7,074
Long-term PRB liabilities	**357**	358
Total long-term pension and PRB liabilities	**$ 7,418**	$ 7,432

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

	Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016
Required pension contributions	**$ 74**	$ 79
PRB contributions	**11**	10

We did not make any discretionary contributions to our pension plans during the first six months of 2017 and 2016; however, we periodically evaluate whether to make discretionary contributions.

Note 13: 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 and 2017 tax years. We are also under audit by multiple state and foreign tax authorities.

There has been no material change in our unrecognized tax benefit since December 31, 2016.

Note 14: 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 includes 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.

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As previously announced, effective January 1, 2017, we elected to early adopt the requirements of Topic 606 using the full retrospective method as discussed in "Note 2: Accounting Standards". The amounts and presentation of our business segments, including corporate and eliminations for intersegment activity, set forth in this Form 10-Q reflect these changes.

Segment financial results were as follows:

	Three Months Ended		Six Months Ended	
Total Net Sales (in millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Integrated Defense Systems	**$ 1,462**	$ 1,399	**$ 2,860**	$ 2,735
Intelligence, Information and Services	**1,555**	1,587	**3,062**	3,119
Missile Systems	**1,901**	1,706	**3,657**	3,429
Space and Airborne Systems	**1,608**	1,547	**3,163**	2,992
Forcepoint	**138**	137	**282**	276
Eliminations	**(372)**	(326)	**(722)**	(673)
Total business segment sales	**6,292**	6,050	**12,302**	11,878
Acquisition Accounting Adjustments	**(11)**	(21)	**(21)**	(47)
Total	**$ 6,281**	$ 6,029	**$ 12,281**	$ 11,831

	Three Months Ended		Six Months Ended	
Intersegment Sales (in millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Integrated Defense Systems	**$ 17**	$ 16	**$ 32**	$ 33
Intelligence, Information and Services	**173**	165	**350**	332
Missile Systems	**37**	33	**65**	68
Space and Airborne Systems	**140**	109	**266**	234
Forcepoint	**5**	3	**9**	6
Total	**$ 372**	$ 326	**$ 722**	$ 673

	Three Months Ended		Six Months Ended	
Operating Income (in millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Integrated Defense Systems	**$ 245**	$ 376	**$ 457**	$ 522
Intelligence, Information and Services	**115**	120	**226**	224
Missile Systems	**236**	233	**452**	425
Space and Airborne Systems	**218**	205	**408**	372
Forcepoint	**2**	10	**18**	28
Eliminations	**(37)**	(34)	**(74)**	(67)
Total business segment operating income	**779**	910	**1,487**	1,504
Acquisition Accounting Adjustments	**(42)**	(51)	**(84)**	(109)
FAS/CAS Adjustment	**109**	109	**217**	214
Corporate	**3**	4	**(30)**	(24)
Total	**$ 849**	$ 972	**$ 1,590**	$ 1,585

	Three Months Ended		Six Months Ended	
Intersegment Operating Income (in millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Integrated Defense Systems	**$ 1**	$ 1	**$ 2**	$ 1
Intelligence, Information and Services	**17**	16	**34**	32
Missile Systems	**3**	3	**6**	6
Space and Airborne Systems	**13**	10	**26**	22
Forcepoint	**3**	4	**6**	6
Total	**$ 37**	$ 34	**$ 74**	$ 67

The FAS/CAS Adjustment, which is reported as a separate line in our segment results above, represents the difference between our pension and PRB expense or income under FAS in accordance with U.S. GAAP and our pension and PRB expense under U.S. government CAS. 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 components of the FAS/CAS Adjustment were as follows:

	Three Months Ended		Six Months Ended	
FAS/CAS Adjustment Income (Expense) (in millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
FAS/CAS Pension Adjustment	**$ 109**	$ 108	**$ 218**	$ 213
FAS/CAS PRB Adjustment	**—**	1	**(1)**	1
FAS/CAS Adjustment	**$ 109**	$ 109	**$ 217**	$ 214

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

Total Assets (in millions)	**Jul 2, 2017**	Dec 31, 2016
Integrated Defense Systems[(1)]	**$ 4,906**	$ 4,573
Intelligence, Information and Services[(1)]	**4,300**	4,315
Missile Systems[(1)]	**7,757**	6,970
Space and Airborne Systems[(1)]	**6,543**	6,564
Forcepoint[(1)]	**2,483**	2,548
Corporate	**4,240**	5,268
Total	**$ 30,229**	$ 30,238

(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 July 2, 2017 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	Total
United States							
Sales to the U.S. government[1]							
Fixed-price contracts	$ 216	$ 256	$ 657	$ 512	$ 25	$ —	$ 1,666
Cost-type contracts	388	912	507	717	3	—	2,527
Direct commercial sales and other							
Fixed-price contracts	1	37	—	7	42	—	87
Cost-type contracts	—	2	—	1	—	—	3
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	41	45	116	24	—	—	226
Cost-type contracts	38	13	16	2	—	—	69
Direct commercial sales and other							
Fixed-price contracts	142	47	78	64	15	—	346
Cost-type contracts	42	—	—	—	—	—	42
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	258	6	88	46	—	—	398
Cost-type contracts	41	—	6	5	—	—	52
Direct commercial sales and other							
Fixed-price contracts	233	5	265	47	5	—	555
Cost-type contracts	—	—	—	—	—	—	—
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	2	1	36	11	—	—	50
Cost-type contracts	6	1	23	1	—	—	31
Direct commercial sales and other							
Fixed-price contracts	34	51	71	31	32	—	219
Cost-type contracts	3	6	1	—	—	—	10
Total net sales	1,445	1,382	1,864	1,468	122	—	6,281
Intersegment sales	17	173	37	140	5	(372)	—
Acquisition Accounting Adjustments	—	—	—	—	11	(11)	—
Reconciliation to business segment sales	$ 1,462	$ 1,555	$ 1,901	$ 1,608	$ 138	$ (383)	$ 6,281

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

Total Net Sales by Geographic Areas (in millions)	Three Months Ended July 2, 2017 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	$ 605	$ 1,207	$ 1,164	$ 1,237	$ 70	$ 4,283
Asia/Pacific	263	105	210	90	15	683
Middle East and North Africa	532	11	359	98	5	1,005
All other (principally Europe)	45	59	131	43	32	310
Total net sales	$ 1,445	$ 1,382	$ 1,864	$ 1,468	$ 122	$ 6,281

Total Net Sales by Major Customers (in millions)	Three Months Ended July 2, 2017 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government(1)	$ 604	$ 1,168	$ 1,164	$ 1,229	$ 28	$ 4,193
U.S. direct commercial sales and other	1	39	—	8	42	90
Foreign military sales through the U.S. government	386	66	285	89	—	826
Foreign direct commercial sales and other(1)	454	109	415	142	52	1,172
Total net sales	$ 1,445	$ 1,382	$ 1,864	$ 1,468	$ 122	$ 6,281

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

Total Net Sales by Contract Type (in millions)	Three Months Ended July 2, 2017 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	$ 927	$ 448	$ 1,311	$ 742	$ 119	$ 3,547
Cost-type contracts	518	934	553	726	3	2,734
Total net sales	$ 1,445	$ 1,382	$ 1,864	$ 1,468	$ 122	$ 6,281

Disaggregation of Total Net Sales (in millions)	Three Months Ended July 3, 2016 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	Total
United States							
Sales to the U.S. government[(1)]							
Fixed-price contracts	$ 198	$ 330	$ 599	$ 632	$ 18	$ —	$ 1,777
Cost-type contracts	357	839	502	523	3	—	2,224
Direct commercial sales and other							
Fixed-price contracts	—	37	—	7	47	—	91
Cost-type contracts	3	18	—	—	—	—	21
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	42	42	66	27	—	—	177
Cost-type contracts	27	15	26	2	—	—	70
Direct commercial sales and other							
Fixed-price contracts	130	40	58	65	12	—	305
Cost-type contracts	46	—	—	—	—	—	46
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	202	28	84	41	—	—	355
Cost-type contracts	45	1	9	—	—	—	55
Direct commercial sales and other							
Fixed-price contracts	288	9	244	98	4	—	643
Cost-type contracts	—	—	—	—	—	—	—
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	—	—	25	3	—	—	28
Cost-type contracts	5	—	26	2	—	—	33
Direct commercial sales and other							
Fixed-price contracts	39	55	34	38	29	—	195
Cost-type contracts	1	8	—	—	—	—	9
Total net sales	1,383	1,422	1,673	1,438	113	—	6,029
Intersegment sales	16	165	33	109	3	(326)	—
Acquisition Accounting Adjustments	—	—	—	—	21	(21)	—
Reconciliation to business segment sales	$ 1,399	$ 1,587	$ 1,706	$ 1,547	$ 137	$ (347)	$ 6,029

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

Total Net Sales by Geographic Areas (in millions)	Three Months Ended July 3, 2016 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	$ 558	$ 1,224	$ 1,101	$ 1,162	$ 68	$ 4,113
Asia/Pacific	245	97	150	94	12	598
Middle East and North Africa	535	38	337	139	4	1,053
All other (principally Europe)	45	63	85	43	29	265
Total net sales	$ 1,383	$ 1,422	$ 1,673	$ 1,438	$ 113	$ 6,029

Total Net Sales by Major Customers (in millions)	Three Months Ended July 3, 2016 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government(1)	$ 555	$ 1,169	$ 1,101	$ 1,155	$ 21	$ 4,001
U.S. direct commercial sales and other	3	55	—	7	47	112
Foreign military sales through the U.S. government	321	86	236	75	—	718
Foreign direct commercial sales and other(1)	504	112	336	201	45	1,198
Total net sales	$ 1,383	$ 1,422	$ 1,673	$ 1,438	$ 113	$ 6,029

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

Total Net Sales by Contract Type (in millions)	Three Months Ended July 3, 2016 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	$ 899	$ 541	$ 1,110	$ 911	$ 110	$ 3,571
Cost-type contracts	484	881	563	527	3	2,458
Total net sales	$ 1,383	$ 1,422	$ 1,673	$ 1,438	$ 113	$ 6,029

Disaggregation of Total Net Sales (in millions)	Six Months Ended July 2, 2017 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	Total
United States							
Sales to the U.S. government[1]							
Fixed-price contracts	$ 401	$ 519	$ 1,260	$ 1,043	$ 47	$ —	$ 3,270
Cost-type contracts	757	1,774	991	1,379	6	—	4,907
Direct commercial sales and other							
Fixed-price contracts	3	70	1	13	95	—	182
Cost-type contracts	1	4	—	1	—	—	6
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	85	88	187	42	—	—	402
Cost-type contracts	72	29	33	4	—	—	138
Direct commercial sales and other							
Fixed-price contracts	301	85	125	138	26	—	675
Cost-type contracts	81	—	—	—	—	—	81
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	528	10	193	94	—	—	825
Cost-type contracts	78	2	12	5	—	—	97
Direct commercial sales and other							
Fixed-price contracts	456	12	497	91	11	—	1,067
Cost-type contracts	—	—	—	—	—	—	—
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	2	2	63	20	—	—	87
Cost-type contracts	11	1	39	3	—	—	54
Direct commercial sales and other							
Fixed-price contracts	44	104	189	64	67	—	468
Cost-type contracts	8	12	2	—	—	—	22
Total net sales	2,828	2,712	3,592	2,897	252	—	12,281
Intersegment sales	32	350	65	266	9	(722)	—
Acquisition Accounting Adjustments	—	—	—	—	21	(21)	—
Reconciliation to business segment sales	$ 2,860	$ 3,062	$ 3,657	$ 3,163	$ 282	$ (743)	$ 12,281

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

Total Net Sales by Geographic Areas (in millions)	Six Months Ended July 2, 2017 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	$ 1,162	$ 2,367	$ 2,252	$ 2,436	$ 148	$ 8,365
Asia/Pacific	539	202	345	184	26	1,296
Middle East and North Africa	1,062	24	702	190	11	1,989
All other (principally Europe)	65	119	293	87	67	631
Total net sales	$ 2,828	$ 2,712	$ 3,592	$ 2,897	$ 252	$ 12,281

Total Net Sales by Major Customers (in millions)	Six Months Ended July 2, 2017 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government[(1)]	$ 1,158	$ 2,293	$ 2,251	$ 2,422	$ 53	$ 8,177
U.S. direct commercial sales and other	4	74	1	14	95	188
Foreign military sales through the U.S. government	776	132	527	168	—	1,603
Foreign direct commercial sales and other[(1)]	890	213	813	293	104	2,313
Total net sales	$ 2,828	$ 2,712	$ 3,592	$ 2,897	$ 252	$ 12,281

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

Total Net Sales by Contract Type (in millions)	Six Months Ended July 2, 2017 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	$ 1,820	$ 890	$ 2,515	$ 1,505	$ 246	$ 6,976
Cost-type contracts	1,008	1,822	1,077	1,392	6	5,305
Total net sales	$ 2,828	$ 2,712	$ 3,592	$ 2,897	$ 252	$ 12,281

Disaggregation of Total Net Sales (in millions)	Six Months Ended July 3, 2016						
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	Total
United States							
Sales to the U.S. government[(1)]							
Fixed-price contracts	$ 377	$ 598	$ 1,248	$ 1,161	$ 37	$ —	$ 3,421
Cost-type contracts	734	1,694	981	1,068	7	—	4,484
Direct commercial sales and other							
Fixed-price contracts	6	76	—	17	92	—	191
Cost-type contracts	4	30	—	1	—	—	35
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	61	84	146	59	—	—	350
Cost-type contracts	56	17	39	4	—	—	116
Direct commercial sales and other							
Fixed-price contracts	250	74	94	120	23	—	561
Cost-type contracts	91	—	1	—	—	—	92
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	392	36	184	83	—	—	695
Cost-type contracts	94	1	17	—	—	—	112
Direct commercial sales and other							
Fixed-price contracts	534	53	421	154	7	—	1,169
Cost-type contracts	—	—	—	—	—	—	—
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	7	1	59	16	—	—	83
Cost-type contracts	12	—	47	3	—	—	62
Direct commercial sales and other							
Fixed-price contracts	78	106	123	72	57	—	436
Cost-type contracts	6	17	1	—	—	—	24
Total net sales	2,702	2,787	3,361	2,758	223	—	11,831
Intersegment sales	33	332	68	234	6	(673)	—
Acquisition Accounting Adjustments	—	—	—	—	47	(47)	—
Reconciliation to business segment sales	$ 2,735	$ 3,119	$ 3,429	$ 2,992	$ 276	$ (720)	$ 11,831

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

Total Net Sales by Geographic Areas (in millions)	Six Months Ended July 3, 2016					
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	$ 1,121	$ 2,398	$ 2,229	$ 2,247	$ 136	$ 8,131
Asia/Pacific	458	175	280	183	23	1,119
Middle East and North Africa	1,020	90	622	237	7	1,976
All other (principally Europe)	103	124	230	91	57	605
Total net sales	$ 2,702	$ 2,787	$ 3,361	$ 2,758	$ 223	$ 11,831

Total Net Sales by Major Customers (in millions)	Six Months Ended July 3, 2016 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government[(1)]	$ 1,111	$ 2,292	$ 2,229	$ 2,229	$ 44	$ 7,905
U.S. direct commercial sales and other	10	106	—	18	92	226
Foreign military sales through the U.S. government	622	139	492	165	—	1,418
Foreign direct commercial sales and other[(1)]	959	250	640	346	87	2,282
Total net sales	$ 2,702	$ 2,787	$ 3,361	$ 2,758	$ 223	$ 11,831

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

Total Net Sales by Contract Type (in millions)	Six Months Ended July 3, 2016 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	$ 1,705	$ 1,028	$ 2,275	$ 1,682	$ 216	$ 6,906
Cost-type contracts	997	1,759	1,086	1,076	7	4,925
Total net sales	$ 2,702	$ 2,787	$ 3,361	$ 2,758	$ 223	$ 11,831

With respect to the unaudited consolidated financial information of Raytheon Company for the six months ended July 2, 2017 and July 3, 2016, PricewaterhouseCoopers LLP (PricewaterhouseCoopers) reported that it has applied limited procedures in accordance with professional standards for a review of such information. Its report dated July 27, 2017, 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, as amended (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 Shareholders of Raytheon Company:

We have reviewed the accompanying consolidated balance sheet of Raytheon Company and its subsidiaries as of July 2, 2017, and the related consolidated statements of operations and of comprehensive income for the three-month and six-month periods ended July 2, 2017 and July 3, 2016 and the consolidated statements of equity and of cash flows for the six-month periods ended July 2, 2017 and July 3, 2016. This interim financial information is the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 Public Company Accounting Oversight Board (United States), 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.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of operations, of comprehensive income, of equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 15, 2017, which included a paragraph describing a change in the manner of accounting for the income tax effects of share-based payment transactions, we expressed an unqualified opinion on those consolidated financial statements. As discussed in Note 2 to the accompanying consolidated interim financial information, the Company changed its method of accounting for revenue transactions in 2017. The accompanying December 31, 2016 consolidated balance sheet reflects this change.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Boston, Massachusetts
July 27, 2017

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: sensing; effects; command, control, communications, computers, cyber and intelligence; mission support; and cybersecurity. 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, 2016.

As previously announced, effective January 1, 2017, we elected to early adopt the requirements of Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) using the full retrospective method 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, 2016 and our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

CRITICAL ACCOUNTING ESTIMATES UPDATE

Our consolidated financial statements are based on the application of U.S. Generally Accepted Accounting Principles (GAAP), which require us to make estimates and assumptions about future events that affect the amounts reported in our unaudited consolidated financial statements and the accompanying notes. Our critical accounting estimates are detailed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2016. Significant changes to our critical accounting estimates as a result of adopting Topic 606 are discussed below:

Revenue Recognition

We determine the appropriate revenue recognition for our contracts with customers by analyzing the type, terms and conditions of each contract or arrangement with a customer. We classify contract revenues as product or service according to the predominant attributes of the relevant underlying contracts unless the contract can clearly be split between product and service. We define service revenue as revenue from activities that are not associated with the design, development or production of tangible assets, the delivery of software code or a specific capability. Our service revenue is primarily related to our IIS business segment.

The following provides additional information about our contracts with customers, the judgments we make in accounting for those contracts, and the resulting amounts recognized in our financial statements.

Accounting for long-term contracts for complex aerospace or defense equipment (or related services)—To determine the proper revenue recognition method for contracts for complex aerospace or defense equipment or related services, we evaluate whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or separate the combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. For most of our contracts, the customer contracts with us to provide a significant service of integrating a complex set of tasks and components into a single project or capability (even if that single project results in the delivery of multiple units). Hence, the entire contract is accounted for as one performance obligation. Less commonly, however, we may promise to provide distinct goods or services within a contract in which case we separate the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, we allocate the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. We infrequently sell standard products with observable standalone sales. In cases where we do, the observable standalone sales are used to determine the standalone selling price. More frequently, we sell a customized customer specific solution, and in these cases we typically use the expected cost plus a margin approach to estimate the standalone selling price of each performance obligation.

We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. For certain contracts that meet the foregoing requirements, primarily international direct commercial sale contracts, we recognize revenue before obtaining all regulatory approvals where receipt of those regulatory approvals is virtually certain based upon all known facts and circumstances.

We generally recognize revenue over time as we perform because of continuous transfer of control to the customer. For U.S. government contracts, this continuous transfer of control to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit and take control of any work in process. Similarly, for non-U.S. government contracts, the customer typically controls the work in process as evidenced either by contractual termination clauses or by our rights to payment for work performed to date plus a reasonable profit to deliver products or services that do not have an alternative use to the Company.

Because of control transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. We generally use the cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Costs to fulfill include labor, materials and subcontractors' costs, other direct costs and an allocation of indirect costs including pension and any other postretirement benefit (PRB) expense under U.S. government Cost Accounting Standards (CAS).

Due to the nature of the work required to be performed on many of our performance obligations, the estimation of total revenue and cost at completion (the process described below in more detail) is complex, subject to many variables and requires significant judgment. It is common for our long-term contracts to contain award fees, incentive fees, or other provisions that can either increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics, program milestones or cost targets and can be based upon customer discretion. We estimate variable consideration at the most likely amount to which we expect to be entitled. We include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us.

Contracts are often modified to account for changes in contract specifications and requirements. We consider contract modifications to exist when the modification either creates new or changes the existing enforceable rights and obligations. Most of our contract modifications are for goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as if they were part of that existing contract. The effect of a contract modification on the transaction price and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis.

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 referred to as offset obligations, required under certain contracts.

Based on this analysis, any quarterly adjustments to net sales, cost of sales, and the related impact to operating income are recognized as necessary in the period they become known. These adjustments may result from positive program performance, and may result in an increase in operating income during the performance of individual 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. 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		Six Months Ended	
(In millions, except per share amounts)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Operating income	**$ 112**	$ 134	**$ 166**	$ 155
Income from continuing operations attributable to Raytheon Company	**73**	87	**108**	112
Diluted earnings per share (EPS) from continuing operations attributable to Raytheon Company	**$ 0.25**	$ 0.29	**$ 0.37**	$ 0.38

In addition, net revenue recognized from our performance obligations satisfied in previous periods was $139 million and $147 million in the second quarters of 2017 and 2016, respectively, and $214 million and $192 million in the first six months of 2017 and 2016, respectively. This primarily relates to EAC adjustments that impacted revenue.

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 in the second quarter of 2017 was approximately the following:

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

	Three Months Ended		% of Total Net Sales	
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Net sales				
Products	**$ 5,275**	$ 5,032	**84.0%**	83.5%
Services	**1,006**	997	**16.0%**	16.5%
Total net sales	**$ 6,281**	$ 6,029	**100.0%**	100.0%

Total Net Sales - Second Quarter of 2017 vs. Second Quarter of 2016—The increase in total net sales of $252 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to higher external net sales of $191 million at MS primarily due to higher net sales on the Standard Missile-2 (SM-2) program due to the recognition of previously deferred precontract costs based on contract award in the second quarter of 2017, higher net sales on the Standard Missile-3 (SM-3®) program primarily due to planned increases in production and higher net sales on the Paveway™ program principally driven by international requirements.

Products and Services Net Sales - Second Quarter of 2017 vs. Second Quarter of 2016—The increase in products net sales of $243 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to higher external products net sales of $164 million at MS primarily due to the programs described above in Total Net Sales. Services net sales in the second quarter of 2017 were relatively consistent with the second quarter of 2016.

	Six Months Ended		% of Total Net Sales	
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Net sales				
Products	**$ 10,319**	$ 9,858	**84.0%**	83.3%
Services	**1,962**	1,973	**16.0%**	16.7%
Total net sales	**$ 12,281**	$ 11,831	**100.0%**	100.0%

Total Net Sales - First Six Months of 2017 vs. First Six Months of 2016—The increase in total net sales of $450 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to higher external net sales of $231 million at MS primarily due to higher net sales on the SM-3 program principally driven by planned increases in production, higher net sales on the Paveway program principally driven by international requirements, higher net sales on an international missile defense program due to planned increases in production and higher net sales on the SM-2 program due to the recognition of previously deferred precontract costs based on contract award in the second quarter of 2017, partially offset by lower net sales on the Advanced Medium-Range Air-to-Air Missile (AMRAAM®) program driven by the recognition of previously deferred precontract costs based on contract award in the first six months of 2016 and lower net sales on the Exoatmospheric Kill Vehicle (EKV) program due to planned production ramp down, with the remaining change spread across numerous programs with no individual or common significant driver.

Products and Services Net Sales - First Six Months of 2017 vs. First Six Months of 2016—The increase in products net sales of $461 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to higher external products net sales of $195 million at SAS and $186 million at MS. The increase in external products net sales at SAS was primarily due to higher net sales on the Next Generation Jammer (NGJ) program for the U.S. Navy, awarded in the second quarter of 2016 and higher net sales on a domestic classified program awarded in the third quarter of 2016, partially offset by lower net sales on an international classified program awarded in the first quarter of 2016 due to planned reduced schedule requirements, with the remaining change spread across numerous programs with no individual or common significant driver. The increase in external products net sales at MS was 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. Services net sales in the first six months of 2017 were relatively consistent with first six months of 2016. Included in the change in services net sales were lower external services net sales of $56 million at SAS primarily due to a decrease in volume on the Airborne Early Warning Radar Systems program, with the remaining change spread across numerous programs with no individual or common significant driver, and higher external services net sales of $45 million at MS was spread across numerous programs with no individual or common significant driver.

Sales to Major Customers - Second Quarter of 2017 vs. Second Quarter of 2016 and First Six Months of 2017 vs. First Six Months of 2016

	Three Months Ended		% of Total Net Sales	
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Sales to the U.S. government[(1)(2)]	**$ 4,193**	$ 4,001	**67%**	66%
U.S. direct commercial sales and other	**90**	112	**1%**	2%
Foreign military sales through the U.S. government	**826**	718	**13%**	12%
Foreign direct commercial sales and other[(1)]	**1,172**	1,198	**19%**	20%
Total net sales	**$ 6,281**	$ 6,029	**100%**	100%

(1) Excludes foreign military sales through the U.S. government.
(2) Includes sales to the U.S. Department of Defense (DoD) of $4,024 million, or 64% of total net sales, in the second quarter of 2017 and $3,789 million, or 63% of total net sales, in the second quarter of 2016.

	Six Months Ended		% of Total Net Sales	
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Sales to the U.S. government[(1)(2)]	**$ 8,177**	$ 7,905	**67%**	67%
U.S. direct commercial sales and other	**188**	226	**1%**	2%
Foreign military sales through the U.S. government	**1,603**	1,418	**13%**	12%
Foreign direct commercial sales and other[(1)]	**2,313**	2,282	**19%**	19%
Total net sales	**$ 12,281**	$ 11,831	**100%**	100%

(1) Excludes foreign military sales through the U.S. government.
(2) Includes sales to the U.S. DoD of $7,806 million, or 64% of total net sales, in the first six months of 2017 and $7,504 million, or 63% of total net sales, in the first six months of 2016.

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.

	Three Months Ended		% of Total Net Sales	
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Cost of sales				
Products	**$ 3,877**	$ 3,549	**61.7%**	58.9%
Services	**808**	813	**12.9%**	13.5%
Total cost of sales	**$ 4,685**	$ 4,362	**74.6%**	72.4%

Total Cost of Sales - Second Quarter of 2017 vs. Second Quarter of 2016—The increase in total cost of sales of $323 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to higher external cost of sales of $181 million at IDS and $172 million at MS. The increase in external cost of sales at IDS was driven principally by the tax-free gain of $158 million from the sale of our equity method investment in Thales-Raytheon Systems Company S.A.S. (TRS SAS) in the second quarter of 2016. In the second quarter of 2016, we amended the joint venture agreement for the Thales-Raytheon Systems Co. Ltd. (TRS) joint venture, reducing the scope of the joint venture to Thales-Raytheon Systems Air and Missile Defense Command and Control S.A.S. (TRS AMDC2) only, which we account for using the equity method. As a result of the amendment, we acquired Thales S.A.'s noncontrolling interest in Raytheon Command and Control Solutions LLC (RCCS LLC) and sold our equity method investment in TRS SAS. We recorded the sale of our equity method investment in TRS SAS at fair value, which resulted in a tax-free gain of $158 million that was recorded in operating income through a reduction in cost of sales at our IDS segment. The increase in external cost of sales at MS was primarily due to the programs discussed above in Total Net Sales.

Products and Services Cost of Sales - Second Quarter of 2017 vs. Second Quarter of 2016—The increase in products cost of sales of $328 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to higher external products cost of sales of $190 million at IDS and $152 million at MS. The increase in external products cost of sales at IDS was driven principally by the tax-free gain of $158 million from the sale of our equity method investment in TRS SAS in the second quarter of 2016. The increase in external products cost of sales at MS was due to the programs described above in Total Net Sales. Services cost of sales in the second quarter of 2017 were relatively consistent with the second quarter of 2016.

	Six Months Ended		% of Total Net Sales	
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Cost of sales				
Products	**$ 7,633**	$ 7,188	**62.2%**	60.8%
Services	**1,582**	1,615	**12.9%**	13.7%
Total cost of sales	**$ 9,215**	$ 8,803	**75.1%**	74.5%

Total Cost of Sales - First Six Months of 2017 vs. First Six Months of 2016—The increase in total cost of sales of $412 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to higher external cost of sales of $220 million at MS and $176 million at IDS. The increase in external cost of sales at MS was 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. The increase in external cost of sales at IDS was driven principally by the tax-free gain of $158 million from the sale of our equity method investment in TRS SAS in the second quarter of 2016.

Products and Services Cost of Sales - First Six Months of 2017 vs. First Six Months of 2016—The increase in products cost of sales of $445 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to higher external products cost of sales of $203 million at IDS and $186 million at MS. The increase in external products cost of sales at IDS was principally driven by the tax-free gain of $158 million from the sale of our equity method investment in TRS SAS. The increase in external products cost of sales at MS was 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. Services cost of sales in the first six months of 2017 were relatively consistent with the first six months of 2016.

General and Administrative Expenses

(In millions, except percentages)	Three Months Ended Jul 2, 2017	Jul 3, 2016	% of Total Net Sales Jul 2, 2017	Jul 3, 2016
Administrative and selling expenses	**$ 547**	$ 514	**8.7%**	8.5%
Research and development expenses	**200**	181	**3.2%**	3.0%
Total general and administrative expenses	**$ 747**	$ 695	**11.9%**	11.5%

The increase in administrative and selling expenses of $33 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to an increase in selling and marketing expenses of $16 million principally driven by increased selling and marketing expense of $10 million at Forcepoint, primarily driven by higher costs related to the sales organization due to increased salesforce staffing. The remaining change in administrative and selling expenses was spread across numerous items and is consistent with the increase in total net sales described above in Total Net Sales.

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 (refunds) allocated to our contracts were $4 million and $(2) million in the second quarters of 2017 and 2016, respectively.

The increase in research and development expenses of $19 million in the second quarter of 2017 compared to the second quarter of 2016 was spread across numerous projects with no individual or common significant driver.

(In millions, except percentages)	Six Months Ended Jul 2, 2017	Jul 3, 2016	% of Total Net Sales Jul 2, 2017	Jul 3, 2016
Administrative and selling expenses	**$ 1,105**	$ 1,063	**9.0%**	9.0%
Research and development expenses	**371**	380	**3.0%**	3.2%
Total general and administrative expenses	**$ 1,476**	$ 1,443	**12.0%**	12.2%

The increase in administrative and selling expenses of $42 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to an increase in selling and marketing expenses of $29 million principally driven by increased selling and marketing expense of $18 million at Forcepoint, primarily driven by higher costs related to the sales organization due to increased salesforce staffing.

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 $13 million and $11 million in the first six months of 2017 and 2016, respectively.

The decrease in research and development expenses of $9 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to decreased research and development expenses of $15 million at MS driven principally by lower independent research and development activity related to advanced technologies efforts that substantially completed in 2016.

Total Operating Expenses

(In millions, except percentages)	Three Months Ended Jul 2, 2017	Jul 3, 2016	Six Months Ended Jul 2, 2017	Jul 3, 2016
Total operating expenses	**$ 5,432**	$ 5,057	**$ 10,691**	$ 10,246
% of Total Net Sales	**86.5%**	83.9%	**87.1%**	86.6%

The increase in total operating expenses of $375 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to the increase in total cost of sales of $323 million, the primary drivers of which are described above in Total Cost of Sales.

The increase in total operating expenses of $445 million in the first six months of 2017 compared to the first six months of 2016 was due to the increase in total cost of sales of $412 million, the primary drivers of which are described above in Total Cost of Sales.

Operating Income

	Three Months Ended		Six Months Ended	
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Operating income	**$ 849**	$ 972	**$ 1,590**	$ 1,585
% of Total Net Sales	**13.5%**	16.1%	**12.9%**	13.4%

The decrease in operating income of $123 million in the second quarter of 2017 compared to the second quarter of 2016 was due to the increase in total operating expenses of $375 million, the primary drivers of which are described above in Total Operating Expenses and include the tax-free gain of $158 million from the sale of our equity method investment in TRS SAS in the second quarter of 2016 as described in Total Cost of Sales, partially offset by the increase in total net sales of $252 million, the primary drivers of which are described above in Total Net Sales.

Operating income in the first six months of 2017 was relatively consistent with the first six months of 2016. Included in Operating Income in the first six months of 2016 was the tax-free gain of $158 million from the sale of our equity method investment in TRS SAS in the second quarter of 2016 as described in Total Cost of Sales.

Total Non-Operating (Income) Expense, Net

	Three Months Ended		Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Non-operating (income) expense, net				
Interest expense	**$ 51**	$ 58	**$ 109**	$ 116
Interest income	**(5)**	(4)	**(10)**	(8)
Other (income) expense, net	**35**	(1)	**28**	(3)
Total non-operating (income) expense, net	**$ 81**	$ 53	**$ 127**	$ 105

The increase in total non-operating (income) expense, net of $28 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to the $39 million pretax charge associated with the make-whole provision on the early repurchase of long-term debt in second quarter of 2017, partially offset by a decrease in interest expense of $7 million due to the repurchase of long-term debt in second quarter of 2017.

The increase in total non-operating (income) expense, net of $22 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to the $39 million pretax charge associated with the make-whole provision on the early repurchase of long-term debt in second quarter of 2017, partially offset by a $7 million change in the mark-to-market of marketable securities held in trust associated with certain of our nonqualified deferred compensation plans, due to net gains of $12 million in the first six months of 2017 compared to net gains of $5 million in the first six months of 2016, and a decrease in interest expense of $7 million due to the repurchase of long-term debt in second quarter of 2017.

Federal and Foreign Income Taxes

	Three Months Ended		Six Months Ended	
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Federal and foreign income taxes	**$ 221**	$ 205	**$ 419**	$ 362
Effective tax rate	**28.8%**	22.3%	**28.6%**	24.5%

Our effective tax rate in the second quarter of 2017 was 28.8% compared to 22.3% in the second quarter of 2016. The increase of 6.5% was primarily due to the tax-free gain related to the sale of our equity method investment in TRS SAS in the second quarter of 2016 disclosed above in Total Cost of Sales, which decreased the 2016 rate by 6.1%. The remaining decrease of 0.4% is composed of various items which individually or collectively are not significant.

Our effective tax rate in the second quarter of 2017 was 6.2% lower than the statutory federal rate primarily due to the tax benefit recognized upon settlement of equity awards, which decreased the rate by 2.9%, the domestic manufacturing deduction, which decreased the rate by 2.8%, and the research and development (R&D) tax credit, which decreased the rate by 1.3%. The offsetting increase of 0.8% is composed of various items which individually or collectively are not significant. In 2016, we elected to early adopt the requirements of ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which requires recognition of excess tax benefits and tax deficiencies in the income statement prospectively, and could result in fluctuations in our effective tax rate period over period depending on how many awards vest in a quarter as well as the volatility of our stock price.

Our effective tax rate in the second quarter of 2016 was 12.7% lower than the statutory federal rate primarily due to the tax-free gain related to the sale of our equity method investment in TRS SAS disclosed above in Total Cost of Sales, which decreased the rate by 6.1%, the tax benefit recognized upon settlement of equity awards, which decreased the rate by 3.1%, the domestic manufacturing deduction, which decreased the rate by 2.3%, and the R&D tax credit, which decreased the rate by 1.0%. The remaining decrease of 0.2% is composed of various items which individually or collectively are not significant.

Our effective tax rate in the first six months of 2017 was 28.6% compared to 24.5% in the first six months of 2016. The increase of 4.1% was primarily due to the tax-free gain related to the sale of our equity method investment in TRS SAS in the second quarter of 2016 disclosed above in Total Cost of Sales, which decreased the 2016 rate by 3.8%. The remaining increase of 0.3% is composed of various items which individually or collectively are not significant.

Our effective tax rate in the first six months of 2017 was 6.4% lower than the statutory federal rate primarily due to the domestic manufacturing deduction, which decreased the rate by 2.9%, the tax benefit recognized upon settlement of equity awards, which decreased the rate by 2.4%, and the R&D tax credit, which decreased the rate by 1.4%. The offsetting increase of 0.3% is composed of various items which individually or collectively are not significant.

Our effective tax rate in the first six months of 2016 was 10.5% lower than the statutory federal rate primarily due to the tax-free gain related to the sale of our equity method investment in TRS SAS disclosed above in Total Cost of Sales, which decreased the rate by 3.8%, the tax benefit recognized upon settlement of equity awards, which decreased the rate by 3.0%, the domestic manufacturing deduction, which decreased the rate by 2.8%, and the R&D tax credit, which decreased the rate by 1.2%. The remaining increase of 0.3% is composed of various items which individually or collectively are not significant.

Income from Continuing Operations

	Three Months Ended		Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Income from continuing operations	**$ 547**	$ 714	**$ 1,044**	$ 1,118

The decrease in income from continuing operations of $167 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to a decrease of $123 million in operating income, the primary drivers of which are described above in Operating Income, and include the tax-free gain of $158 million from the sale of our equity method investment in TRS SAS in the second quarter of 2016 as described in Total Cost of Sales.

The decrease in income from continuing operations of $74 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to an increase of $57 million in federal and foreign income taxes, related primarily to the increase in our effective tax rate, principally driven by the tax-free gain of $158 million related to the sale of our equity method investment in TRS SAS in the second quarter of 2016 disclosed above in Total Cost of Sales.

Net Income

	Three Months Ended		Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Net income	**$ 547**	$ 713	**$ 1,047**	$ 1,118

The decrease in net income of $166 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to the $167 million decrease in income from continuing operations, the primary drivers of which are described above in Income from Continuing Operations.

The decrease in net income of $71 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to the $74 million decrease in income from continuing operations, the primary drivers of which are described above in Income from Continuing Operations.

Diluted EPS from Continuing Operations Attributable to Raytheon Company Common Stockholders

	Three Months Ended		Six Months Ended	
(In millions, except per share amounts)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Income from continuing operations attributable to Raytheon Company	**$ 553**	$ 718	**$ 1,056**	$ 1,145
Diluted weighted-average shares outstanding	**292.0**	297.6	**292.4**	298.6
Diluted EPS from continuing operations attributable to Raytheon Company	**$ 1.89**	$ 2.41	**$ 3.62**	$ 3.83

The decrease in diluted EPS from continuing operations attributable to Raytheon Company common stockholders of $0.52 in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to the decrease in income from continuing operations described above partially offset by a decrease in weighted-average shares outstanding, which was affected by the common stock share activity shown in the table below.

The decrease in diluted EPS from continuing operations attributable to Raytheon Company common stockholders of $0.21 in the first six months of 2017 compared to the first six months of 2016 was primarily due to the decrease in income from continuing operations described above partially offset by a decrease in weighted-average shares outstanding, which was affected by the common stock share activity shown in the table below.

Our common stock share activity was as follows:

	Three Months Ended		Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Beginning balance	**291.0**	296.9	**292.8**	299.0
Stock plans activity	**—**	0.2	**1.1**	1.6
Share repurchases	**(0.9)**	(2.0)	**(3.8)**	(5.5)
Ending balance	**290.1**	295.1	**290.1**	295.1

Diluted EPS Attributable to Raytheon Company Common Stockholders

	Three Months Ended		Six Months Ended	
(In millions, except per share amounts)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Net income attributable to Raytheon Company	**$ 553**	$ 717	**$ 1,059**	$ 1,145
Diluted weighted-average shares outstanding	**292.0**	297.6	**292.4**	298.6
Diluted EPS attributable to Raytheon Company	**$ 1.89**	$ 2.41	**$ 3.63**	$ 3.84

The decrease in diluted EPS attributable to Raytheon Company common stockholders of $0.52 in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to the $0.52 decrease in diluted EPS from continuing operations attributable to Raytheon Company common stockholders described above.

The decrease in diluted EPS attributable to Raytheon Company common stockholders of $0.21 in the first six months of 2017 compared to the first six months of 2016 was primarily due to the $0.21 decrease in diluted EPS from continuing operations attributable to Raytheon Company common stockholders described above.

SEGMENT RESULTS

We report our results in the following segments: Integrated Defense Systems (IDS); Intelligence, Information and Services (IIS); Missile Systems (MS); Space and Airborne Systems (SAS); and Forcepoint.

As previously announced, effective January 1, 2017, we elected to early adopt the requirements of Topic 606 using the full retrospective method as discussed in "Note 2: Accounting Standards" within Item 1 of this Form 10-Q . The amounts and presentation of our business segments, including corporate and eliminations for intersegment activity, set forth in this Form 10-Q reflect these changes.

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

Bookings are impacted by the timing and amounts of awards in a given period, which are subject to numerous factors, including the desired capability by the customer and urgency of customer needs; customer budgets and other fiscal constraints; political and economic and other environmental factors; the timing of customer negotiations; the timing of governmental approvals and notifications; and the timing of option exercises or increases in scope. In addition, due to these factors, quarterly bookings tend to fluctuate from period to period, particularly on a segment basis. As a result, we believe comparing bookings on a quarterly basis or 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		Six Months Ended	
Bookings (in millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Integrated Defense Systems	**$ 1,231**	$ 1,273	**$ 2,862**	$ 2,290
Intelligence, Information and Services	**1,373**	1,599	**3,107**	2,852
Missile Systems	**2,755**	1,891	**3,498**	3,523
Space and Airborne Systems	**1,058**	2,217	**2,533**	4,419
Forcepoint	**115**	123	**220**	220
Total	**$ 6,532**	$ 7,103	**$ 12,220**	$ 13,304

Included in bookings were international bookings of $2,265 million and $2,211 million in the second quarters of 2017 and 2016, respectively, and $4,157 million and $3,866 million in the first six months of 2017 and 2016, respectively, which included foreign military bookings through the U.S. government. International bookings amounted to 35% and 31% of total bookings in the second quarters of 2017 and 2016, respectively, and 34% and 29% of total bookings in the first six months of 2017 and 2016, respectively.

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

Backlog—We disclose period-ending backlog for each segment, which is equivalent to our remaining performance obligations. Backlog represents the dollar value of firm orders for which work has not been performed. Backlog generally increases with bookings and generally converts into sales as we incur costs under the related contractual commitments. Therefore, we discuss changes in backlog, including any individually significant cancellations, for each of our segments, as we believe such discussion provides an understanding of the awarded but not executed portions of our contracts. Backlog excludes unexercised contract options and potential orders under ordering-type contracts (e.g., IDIQ). Backlog is affected by changes in foreign exchange rates.

Backlog (in millions)	**Jul 2, 2017**	Dec 31, 2016
Integrated Defense Systems	**$ 10,055**	$ 10,159
Intelligence, Information and Services	**5,908**	5,662
Missile Systems	**11,382**	11,568
Space and Airborne Systems	**8,398**	8,834
Forcepoint(1)	**425**	486
Total	**$ 36,168**	$ 36,709

(1) Forcepoint backlog excludes the unfavorable impact of $25 million and $45 million at July 2, 2017 and December 31, 2016, respectively, related to the Acquisition Accounting Adjustments to record acquired deferred revenue at fair value.

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

Total net sales by segment were as follows:

	Three Months Ended		Six Months Ended	
Total Net Sales (in millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Integrated Defense Systems	**$ 1,462**	$ 1,399	**$ 2,860**	$ 2,735
Intelligence, Information and Services	**1,555**	1,587	**3,062**	3,119
Missile Systems	**1,901**	1,706	**3,657**	3,429
Space and Airborne Systems	**1,608**	1,547	**3,163**	2,992
Forcepoint	**138**	137	**282**	276
Eliminations	**(372)**	(326)	**(722)**	(673)
Total business segment sales	**6,292**	6,050	**12,302**	11,878
Acquisition Accounting Adjustments	**(11)**	(21)	**(21)**	(47)
Total	**$ 6,281**	$ 6,029	**$ 12,281**	$ 11,831

Total Operating Expenses—We generally disclose operating expenses for each segment in terms of the following: 1) cost of sales—labor; 2) cost of sales—materials and subcontractors; and 3) other costs of sales and other operating expenses. Included in cost of sales—labor is the incurred direct labor associated with the performance of contracts in the current period and any applicable overhead and fringe costs. Included in cost of sales—materials and subcontractors is the incurred direct materials, subcontractor costs (which could include effort performed by other Raytheon segments or locations) and applicable overhead allocations in the current period. Included in other cost of sales and other operating expenses is other direct costs not captured in labor or material and subcontractor costs, such as precontract costs previously deferred, costs previously deferred into inventory on contracts using commercial or units of delivery accounting, applicable overhead allocations, general and administrative expenses, which include administrative and selling expenses (including bid and proposal costs) and research and development expenses, other direct costs (such as ancillary services and travel expenses) and adjustments for loss contracts.

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

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

Changes in net EAC adjustments typically relate to the current period impact of revisions to total estimated revenues and costs at completion. These changes reflect improved or deteriorated operating performance or award fee rates. For a full description of our EAC process, refer to Critical Accounting Estimates. Given that we have thousands of individual contracts and the types and complexity of the assumptions and estimates we must make on an on-going basis, we have both favorable and unfavorable EAC adjustments. We had the following aggregate EAC adjustments for the periods presented:

	Three Months Ended		Six Months Ended	
EAC Adjustments (in millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Gross favorable	**$ 236**	$ 228	**$ 465**	$ 407
Gross unfavorable	**(124)**	(94)	**(299)**	(252)
Total net EAC adjustments	**$ 112**	$ 134	**$ 166**	$ 155

Significant EAC adjustments in the second quarters and first six months of 2017 and 2016 are discussed in the Operating Income and Margin section of each business segment's discussion below. The decrease in net EAC adjustments of $22 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to the decrease in net EAC adjustments at SAS. The increase in net EAC adjustments of $11 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to the increase in net EAC adjustments at IDS partially offset by the decrease in net EAC adjustments at SAS. Refer to the individual segment results for further information.

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

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

Operating income by segment was as follows:

	Three Months Ended		Six Months Ended	
Operating Income (in millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Integrated Defense Systems	**$ 245**	$ 376	**$ 457**	$ 522
Intelligence, Information and Services	**115**	120	**226**	224
Missile Systems	**236**	233	**452**	425
Space and Airborne Systems	**218**	205	**408**	372
Forcepoint	**2**	10	**18**	28
Eliminations	**(37)**	(34)	**(74)**	(67)
Total business segment operating income	**779**	910	**1,487**	1,504
Acquisition Accounting Adjustments	**(42)**	(51)	**(84)**	(109)
FAS/CAS Adjustment	**109**	109	**217**	214
Corporate	**3**	4	**(30)**	(24)
Total	**$ 849**	$ 972	**$ 1,590**	$ 1,585

Integrated Defense Systems

	Three Months Ended			Six Months Ended		
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	% Change	**Jul 2, 2017**	Jul 3, 2016	% Change
Total net sales	**$ 1,462**	$ 1,399	4.5 %	**$ 2,860**	$ 2,735	4.6 %
Total operating expenses						
Cost of sales—labor	**530**	498	6.4 %	**1,065**	1,007	5.8 %
Cost of sales—materials and subcontractors	**465**	482	(3.5)%	**884**	935	(5.5)%
Other cost of sales and other operating expenses	**222**	43	416.3 %	**454**	271	67.5 %
Total operating expenses	**1,217**	1,023	19.0 %	**2,403**	2,213	8.6 %
Operating income	**$ 245**	$ 376	(34.8)%	**$ 457**	$ 522	(12.5)%
Operating margin	**16.8%**	26.9%		**16.0%**	19.1%	

Change in Operating Income (in millions)	Three Months Ended Jul 2, 2017 Versus Three Months Ended Jul 3, 2016	Six Months Ended Jul 2, 2017 Versus Six Months Ended Jul 3, 2016
Volume	**$ 5**	**$ 5**
Net change in EAC adjustments	**5**	**45**
Mix and other performance	**(141)**	**(115)**
Total change in operating income	**$ (131)**	**$ (65)**

	Three Months Ended			Six Months Ended		
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	% Change	**Jul 2, 2017**	Jul 3, 2016	% Change
Bookings	**$ 1,231**	$ 1,273	(3.3)%	**$ 2,862**	$ 2,290	25.0%

Total Net Sales—The increase in total net sales of $63 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to higher net sales of $44 million on an international early warning radar program awarded in the first quarter of 2017, $32 million on a U.S. Navy combat systems program driven by program schedule and $30 million on an international Patriot program driven by an award in the fourth quarter of 2016, partially offset by lower sales of $47 million on an international air and missile defense system program due to the scheduled completion of certain production phases of the program.

The increase in total net sales of $125 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to higher net sales of $109 million on an international early warning radar program awarded in the first quarter of 2017.

Total Operating Expenses—The increase in total operating expenses of $194 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to an increase in other cost of sales and other operating expenses of $179 million and an increase in labor costs of $32 million. The increase in other cost of sales and other operating expenses was principally driven by the tax-free gain of $158 million from the sale of our equity method investment in TRS SAS in the second quarter of 2016 as described in Consolidated Results of Operations. The increase in labor costs was primarily due to activity on the international early warning radar program described above in Total Net Sales.

The increase in total operating expenses of $190 million in the first six months of 2017 compared to the first six months of 2016 was due to an increase in other cost of sales and other operating expenses of $183 million and an increase in labor costs of $58 million, partially offset by a decrease in materials and subcontractors costs of $51 million. The increase in other cost of sales and other operating expenses was principally driven by the tax-free gain of $158 million from the sale of our equity method investment in TRS SAS in the second quarter of 2016 as described in Consolidated Results of Operations. The increase in labor costs was primarily due to activity on the international early warning radar program described above in Total Net Sales. The decrease in materials and subcontractors costs was primarily due to lower activity on an international air and missile defense system program driven by the scheduled completion of certain production phases of the program.

Operating Income and Margin—The decrease in operating income of $131 million and the related decrease in operating margin in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to a change in mix and other performance of $141 million, principally driven by the tax-free gain of $158 million from the sale of our equity method investment in TRS SAS in the second quarter 2016 as described in Consolidated Results of Operations, partially offset by higher volume on the international Patriot program described above in Total Net Sales.

The decrease in operating income of $65 million and the related decrease in operating margin in the first six months of 2017 compared to the first six months of 2016 was primarily due to a change in mix and other performance of $115 million, partially offset by a net change in EAC adjustments of $45 million. The change in mix and other performance was driven principally by the tax-free gain of $158 million from the sale of our equity method investment in TRS SAS in the second quarter of 2016 as described in Consolidated Results of Operations, partially offset by higher volume on an international Patriot program driven by an award in the fourth quarter of 2016. The net change in EAC adjustments was driven principally by a negative profit adjustment of $36 million in the first quarter of 2016 on an international command and control program driven by costs to replace or repair shelters which the subcontractor refused to remedy resulting in the subcontractor being terminated.

Backlog and Bookings—Backlog was $10,055 million at July 2, 2017 compared to $10,159 million at December 31, 2016. Bookings decreased by $42 million in the second quarter of 2017 compared to the second quarter of 2016. In the second quarter of 2017, IDS booked $364 million on the Air and Missile Defense Radar (AMDR) program for the U.S. Navy and $146 million on the Multi-Function RF System (MFRFS) program for the U.S. Army. IDS also booked $178 million on two international Patriot contracts. In the second quarter of 2016, IDS booked $487 million to provide advanced Patriot air and missile defense capabilities for Kuwait. IDS also booked $354 million on the Aegis weapon system for the U.S. Navy and international customers and $117 million for in-service support for the Collins class submarine for the Royal Australian Navy.

Bookings increased by $572 million in the first six months of 2017 compared to the first six months of 2016. In addition to the bookings noted above, in the first six months of 2017, IDS booked $987 million for the Upgraded Early Warning Radar (UEWR) system for Qatar and $232 million to provide Patriot engineering services support for U.S. and international customers. In addition to the bookings noted above, in the first six months of 2016, IDS booked $191 million to provide Patriot engineering services support for U.S. and international customers and $84 million to provide advanced Patriot air and missile defense capability for the U.S. Army. IDS also booked $198 million on a classified program.

Intelligence, Information and Services

	Three Months Ended			Six Months Ended		
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	% Change	**Jul 2, 2017**	Jul 3, 2016	% Change
Total net sales	**$ 1,555**	$ 1,587	(2.0)%	**$ 3,062**	$ 3,119	(1.8)%
Total operating expenses						
Cost of sales—labor	**651**	650	0.2 %	**1,307**	1,292	1.2 %
Cost of sales—materials and subcontractors	**573**	620	(7.6)%	**1,119**	1,216	(8.0)%
Other cost of sales and other operating expenses	**216**	197	9.6 %	**410**	387	5.9 %
Total operating expenses	**1,440**	1,467	(1.8)%	**2,836**	2,895	(2.0)%
Operating income	**$ 115**	$ 120	(4.2)%	**$ 226**	$ 224	0.9 %
Operating margin	**7.4%**	7.6%		**7.4%**	7.2%	

Change in Operating Income (in millions)	Three Months Ended Jul 2, 2017 Versus Three Months Ended Jul 3, 2016	Six Months Ended Jul 2, 2017 Versus Six Months Ended Jul 3, 2016
Volume	**$ (3)**	**$ (5)**
Net change in EAC adjustments	**4**	**(4)**
Mix and other performance	**(6)**	**11**
Total change in operating income	**$ (5)**	**$ 2**

	Three Months Ended			Six Months Ended		
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	% Change	**Jul 2, 2017**	Jul 3, 2016	% Change
Bookings	**$ 1,373**	$ 1,599	(14.1)%	**$ 3,107**	$ 2,852	8.9%

Total Net Sales—Total net sales in the second quarter of 2017 were relatively consistent with the second quarter of 2016. Included in the change in total net sales was lower net sales of $21 million on a program for the U.S. Army which substantially completed in 2016 and higher net sales of $35 million on programs in support of the U.S. Army's Warfighter FOCUS activities driven principally by customer determined activity levels.

Total net sales in the first six months of 2017 were relatively consistent with the first six months of 2016. Included in the change was lower net sales of $41 million on a program for the U.S. Army which substantially completed in 2016, lower net sales of $38 million on a classified program for an international customer, which substantially completed in 2016, higher net sales of $49 million on programs in support of the U.S. Army's Warfighter FOCUS activities driven principally by customer determined activity levels and higher net sales of $42 million on a U.S. Air Force program due to increased contract activities.

Total Operating Expenses—Total operating expenses in the second quarter of 2017 were relatively consistent with the second quarter of 2016. The decrease in materials and subcontractors costs of $47 million was driven principally by the programs described above in Total Net Sales with the remaining change spread across numerous programs with no individual or common significant driver. The increase in other cost of sales and other operating expenses of $19 million was spread across numerous programs with no individual or common significant driver.

Total operating expenses in the first six months of 2017 were relatively consistent with the first six months of 2016. Over half of the decrease in material and subcontractors costs of $97 million was driven principally by activity on the program for the U.S. Army and on the classified program for an international customer, both described above in Total Net Sales. This was partially offset by activity on the programs in support of the U.S. Army's Warfighter FOCUS activities described above in Total Net Sales, with the remaining change spread across numerous programs with no individual or common significant driver. The increase in other cost of sales and other operating expenses of $23 million was spread across numerous programs with no individual or common significant driver.

Operating Income and Margin—Operating income and margin in the second quarter of 2017 were relatively consistent with the second quarter of 2016.

Operating income and margin in the first six months of 2017 were relatively consistent with the first six months of 2016. Included in mix and other performance in the first six months of 2017 was a $2 million gain on a real estate transaction in the first quarter of 2017.

Backlog and Bookings—Backlog was $5,908 million at July 2, 2017 compared to $5,662 million at December 31, 2016. The increase in backlog of $246 million or 4% at July 2, 2017 compared to December 31, 2016 was primarily due to the U.S. Air Force programs bookings described below. Bookings decreased by $226 million in the second quarter of 2017 compared to the second quarter of 2016. In the second quarter of 2017, IIS booked $308 million on domestic training programs and $66 million on foreign training programs in support of Warfighter FOCUS activities. IIS also booked $555 million on a number of classified contracts, including $228 million on a multi-year award for a classified customer. In the second quarter of 2016, IIS booked $445 million on domestic training programs and $129 million on foreign training programs in support of Warfighter FOCUS activities. IIS also booked $483 million on a number of classified contracts.

Bookings increased by $255 million in the first six months of 2017 compared to the first six months of 2016. In addition to the bookings above, in the first six months of 2017, IIS booked approximately $1.1 billion on U.S. Air Force programs and $390 million on a number of classified contracts. In addition to the bookings above, in the first six months of 2016, IIS booked approximately $400 million on U.S. Air Force programs and $555 million on a number of classified contracts.

Missile Systems

	Three Months Ended			Six Months Ended		
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	% Change	**Jul 2, 2017**	Jul 3, 2016	% Change
Total net sales	**$ 1,901**	$ 1,706	11.4%	**$ 3,657**	$ 3,429	6.6 %
Total operating expenses						
Cost of sales—labor	**561**	528	6.3%	**1,110**	1,054	5.3 %
Cost of sales—materials and subcontractors	**845**	706	19.7%	**1,626**	1,353	20.2 %
Other cost of sales and other operating expenses	**259**	239	8.4%	**469**	597	(21.4)%
Total operating expenses	**1,665**	1,473	13.0%	**3,205**	3,004	6.7 %
Operating income	**$ 236**	$ 233	1.3%	**$ 452**	$ 425	6.4 %
Operating margin	**12.4%**	13.7%		**12.4%**	12.4%	

Change in Operating Income (in millions)	Three Months Ended Jul 2, 2017 Versus Three Months Ended Jul 3, 2016	Six Months Ended Jul 2, 2017 Versus Six Months Ended Jul 3, 2016
Volume	**$ 27**	**$ 28**
Net change in EAC adjustments	**(8)**	**(2)**
Mix and other performance	**(16)**	**1**
Total change in operating income	**$ 3**	**$ 27**

	Three Months Ended			Six Months Ended		
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	% Change	**Jul 2, 2017**	Jul 3, 2016	% Change
Bookings	**$ 2,755**	$ 1,891	45.7%	**$ 3,498**	$ 3,523	(0.7)%

Total Net Sales—The increase in total net sales of $195 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to $46 million of higher net sales on the Standard Missile-2 (SM-2) program due to the recognition of previously deferred precontract costs based on contract award in the second quarter of 2017, $38 million of higher net sales on the Standard Missile-3 (SM-3®) program primarily due to planned increases in production and $36 million of higher net sales on the Paveway™ program principally driven by international requirements.

The increase in total net sales of $228 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to $79 million of higher net sales on the SM-3 program principally driven by planned increases in production, $76 million of higher net sales on the Paveway program principally driven by international requirements, $47 million of higher net sales on an international missile defense program due to planned increases in production and $41 million of higher net sales on the SM-2 program due to the recognition of previously deferred precontract costs based on contract award in the second quarter of 2017, partially offset by $100 million of lower net sales on the Advanced Medium-Range Air-to-Air Missile (AMRAAM®) program driven by the recognition of previously deferred precontract costs based on contract award in the first six months of 2016 and $57 million of lower net sales on the Exoatmospheric Kill Vehicle (EKV) program due to planned production ramp down, with the remaining change spread across numerous programs with no individual or common significant driver.

Total Operating Expenses—The increase in total operating expenses of $192 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to an increase in materials and subcontractors costs of $139 million, an increase in labor costs of $33 million and an increase in other cost of sales and other operating expenses of $20 million. Approximately half of the increase in materials and subcontractors costs was driven by activity on the Woomera Mobile Range Upgrade program, the Phalanx® program and an international missile defense program, all driven by program requirements, with the remaining change spread across numerous programs with no individual or common significant driver. The increase in labor costs was primarily due to higher activity on certain classified programs. The increase in other cost of sales and other operating expenses was driven principally by higher general and administrative expenses driven by independent research and development activities, which had an impact of $45 million and the amount of previously deferred precontract costs based on contract awards, which had an impact of $33 million, partially offset by the timing of costs applied to contracts through rates, which had an impact of $29 million.

The increase in total operating expenses of $201 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to an increase in materials and subcontractors costs of $273 million and an increase in labor costs of $56 million, partially offset by a decrease in other cost of sales and other operating expenses of $128 million. A little less than half of the increase in materials and subcontractors costs was driven by activity on the Phalanx program due to program requirements and the Paveway and international missile defense programs both described above in Total Net Sales. The remaining change was spread across numerous programs with no individual or common significant driver. Approximately half of the increase in labor costs was driven by certain classified programs with the remaining change spread across numerous programs with no individual or common significant driver. The decrease in other cost of sales and other operating expenses was driven principally by the timing of costs applied to contracts through rates, which had an impact of $46 million and the amount of previously deferred precontract costs based on contract awards, which had an impact of $45 million.

Operating Income and Margin—Operating income in the second quarter of 2017 was relatively consistent with the second quarter of 2016. The decrease in operating margin in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to mix and other performance and the net change in EAC adjustments. The change in mix and other performance was spread across numerous programs with no individual or common significant driver. The net change in EAC adjustments was driven by increased labor costs on a land weapon system program.

The increase in operating income of $27 million in the first six months of 2017 compared to the first six months of 2016 was due to an increase in volume of $28 million. The increase in volume was spread across numerous programs with no individual or common significant driver. Operating margin in the first six months of 2017 was relatively consistent with the first six months of 2016.

Backlog and Bookings—Backlog was $11,382 million at July 2, 2017 compared to $11,568 million at December 31, 2016. Bookings increased by $864 million in the second quarter of 2017 compared to the second quarter of 2016. In the second quarter of 2017, MS booked $690 million for Paveway for international customers, $619 million for SM-2 for the U.S. Navy and international customers, $436 million for SM-3 for the Missile Defense Agency (MDA), $116 million for the Long Range Precision Fires (LRPF) Missile system for the U.S. Army, $113 million for AIM-9X Sidewinder™ short-range air-to-air missiles, and $90 million for AMRAAM. MS also booked $214 million on classified contracts. In the second quarter of 2016, MS booked $297 million for AIM-9X Sidewinder short-range air-to-air missiles for the U.S. Navy, U.S. Air Force, U.S. Army and international customers, $292 million for Paveway for the U.S. Air Force and international customers, $217 million for SM-3 for the MDA and an international customer, $186 million for the Woomera Mobile Range Upgrade program for the Royal Australian Air Force, $122 million for the Miniature Air Launched Decoy (MALD®) for the U.S. Air Force, $118 million for Evolved SeaSparrow Missiles (ESSM®) for the U.S. Navy and international customers, and $109 million for AMRAAM for the U.S. Air Force, U.S. Navy, and international customers. MS also booked $95 million on a number of classified contracts.

Bookings decreased by $25 million in the first six months of 2017 compared to the first six months of 2016. In addition to the bookings above, in the first six months of 2017, MS booked $203 million for AIM-9X Sidewinder short-range air-to-air missiles for U.S. and international customers and $159 million for Paveway for international customers. In addition to the bookings above, in the first six months of 2016, MS booked $646 million for AMRAAM for the U.S. Air Force, U.S. Navy and international customers, $272 million for Standard Missile-6 (SM-6®) for the U.S. Navy and $225 million for Paveway for the U.S. Air Force and international customers.

Space and Airborne Systems

	Three Months Ended			Six Months Ended		
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	% Change	**Jul 2, 2017**	Jul 3, 2016	% Change
Total net sales	**$ 1,608**	$ 1,547	3.9 %	**$ 3,163**	$ 2,992	5.7 %
Total operating expenses						
Cost of sales—labor	**659**	625	5.4 %	**1,325**	1,225	8.2 %
Cost of sales—materials and subcontractors	**478**	462	3.5 %	**920**	854	7.7 %
Other cost of sales and other operating expenses	**253**	255	(0.8)%	**510**	541	(5.7)%
Total operating expenses	**1,390**	1,342	3.6 %	**2,755**	2,620	5.2 %
Operating income	**$ 218**	$ 205	6.3 %	**$ 408**	$ 372	9.7 %
Operating margin	**13.6%**	13.3%		**12.9%**	12.4%	

Change in Operating Income (in millions)	Three Months Ended Jul 2, 2017 Versus Three Months Ended Jul 3, 2016	Six Months Ended Jul 2, 2017 Versus Six Months Ended Jul 3, 2016
Volume	**$ 9**	**$ 20**
Net change in EAC adjustments	**(23)**	**(28)**
Mix and other performance	**27**	**44**
Total change in operating income	**$ 13**	**$ 36**

	Three Months Ended			Six Months Ended		
(In millions, except percentages)	**Jul 2, 2017**	Jul 3, 2016	% Change	**Jul 2, 2017**	Jul 3, 2016	% Change
Bookings	**$ 1,058**	$ 2,217	(52.3)%	**$ 2,533**	$ 4,419	(42.7)%

Total Net Sales—Total net sales increased $61 million in the second quarter of 2017 compared to the second quarter of 2016. Included in the change in total net sales were higher net sales of $32 million on a domestic classified program awarded in the third quarter of 2016 and lower net sales of $50 million on an international classified program awarded in the first quarter of 2016 due to planned reduced schedule requirements. The remaining change was spread across numerous programs with no individual or common significant driver.

The increase in total net sales of $171 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to higher net sales of $68 million on the Next Generation Jammer (NGJ) program for the U.S. Navy, awarded in the second quarter of 2016 and higher net sales of $60 million on the domestic classified program awarded in the third quarter of 2016, partially offset by lower net sales of $61 million on an international classified program awarded in the first quarter of 2016 due to planned reduced schedule requirements. The remaining change was spread across numerous programs with no individual or common significant driver.

Total Operating Expenses—The increase in total operating expenses of $48 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to an increase in labor costs of $34 million, approximately half of which was driven by activity on the domestic classified program described above in Total Net Sales, with the remaining change spread across numerous programs with no individual or common significant driver.

The increase in total operating expenses of $135 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to an increase in labor costs of $100 million and an increase in materials and subcontractors costs of $66 million, partially offset by a decrease in other costs of sales and other operating expenses of $31 million. The increase in labor costs was primarily driven by activity on the NGJ and domestic classified programs described above in Total Net Sales. The increase in materials and subcontractors costs was primarily driven by the activity on certain classified programs and activity on the NGJ program described above in Total Net Sales, partially offset by activity on the international classified program awarded in the first quarter of 2016 described above in Total Net Sales. The decrease in other cost of sales and other operating expenses was primarily due to a gain of $15 million on a real estate transaction in the second quarter of 2017 and the amount of previously deferred precontract costs based on contract awards, which had an impact of $13 million, partially offset by the timing of costs applied to contracts through rates, which had an impact of $26 million. The remaining change in other cost of sales and other operating expenses was spread across numerous programs with no individual or common significant driver.

Operating Income and Margin—The increase in operating income of $13 million in the second quarter of 2017 compared to the second quarter of 2016 was due primarily to a change in mix and other performance of $27 million and an increase in volume of $9 million, partially offset by a net change in EAC adjustments of $23 million. The increase in mix and other performance was driven primarily by a gain of $15 million on a real estate transaction in the second quarter of 2017. The increase in volume was spread across numerous programs with no individual or common significant driver. The net change in EAC adjustments was principally driven by labor and material production efficiencies on tactical radar systems programs in the second quarter of 2016. The increase in operating margin in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to the change in mix and other performance, partially offset by the net change in EAC adjustments.

The increase in operating income of $36 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to a change in mix and other performance of $44 million and an increase in volume of $20 million, partially offset by a net change in EAC adjustments of $28 million. The increase in mix and other performance was primarily driven by a gain of $15 million on a real estate transaction in the second quarter of 2017 with the remaining change spread across numerous programs with no individual or common significant driver. Approximately half of the increase in volume was driven by activity on the programs discussed above in Total Net Sales, with the remaining change spread across numerous programs with no individual or common significant driver. The net change in EAC adjustments was primarily driven by labor and material production efficiencies on tactical radar systems programs in the first six months of 2016. The increase in operating margin in the first six months of 2017 compared to the first six months of 2016 was primarily due to the change in mix and other performance, partially offset by the net change in EAC adjustments.

Backlog and Bookings—Backlog was $8,398 million at July 2, 2017 compared to $8,834 million at December 31, 2016. The decrease in backlog of $436 million or 5% at July 2, 2017 compared to December 31, 2016 was primarily due to sales in excess of bookings principally within the Intelligence, Surveillance and Reconnaissance Systems product line. Bookings decreased by $1,159 million in the second quarter of 2017 compared to the second quarter of 2016. In the second quarter of 2017, SAS booked $91 million for radar components for the U.S. Navy. SAS also booked $137 million on a number of classified contracts. In the second quarter of 2016, SAS booked $992 million on the NGJ program for the U.S. Navy and $90 million on the next-generation Multi-Spectral Targeting System (MTS) for the U.S. Air Force. SAS also booked $424 million on a number of classified contracts.

Bookings decreased by $1,886 million in the first six months of 2017 compared to the first six months of 2016. In addition to the bookings noted above, in the first six months of 2017, SAS booked $256 million for Active Electronically Scanned Array (AESA) radars for the U.S. Air Force and $250 million on two contracts for international customers, one for military processors and one for radar warning receivers. SAS also booked $402 million on a number of classified contracts. In addition to the bookings noted above, in the first six months of 2016, SAS booked over $650 million on an international classified program, $553 million on the Joint Polar Satellite System (JPSS) program for NASA, and $470 million on a number of domestic classified contracts.

Forcepoint

(In millions, except percentages)	Three Months Ended Jul 2, 2017	Jul 3, 2016	% Change	Six Months Ended Jul 2, 2017	Jul 3, 2016	% Change
Total net sales	**$ 138**	$ 137	0.7 %	**$ 282**	$ 276	2.2 %
Total operating expenses						
Cost of sales	**26**	28	(7.1)%	**51**	52	(1.9)%
Selling and marketing	**58**	48	20.8 %	**112**	94	19.1 %
Research and development	**35**	32	9.4 %	**67**	64	4.7 %
General and administrative	**17**	19	(10.5)%	**34**	38	(10.5)%
Total operating expenses	**136**	127	7.1 %	**264**	248	6.5 %
Operating income (loss)	**$ 2**	$ 10	(80.0)%	**$ 18**	$ 28	(35.7)%
Operating margin	**1.4%**	7.3%		**6.4%**	10.1%	

(In millions, except percentages)	Three Months Ended Jul 2, 2017	Jul 3, 2016	% Change	Six Months Ended Jul 2, 2017	Jul 3, 2016	% Change
Bookings	**$ 115**	$ 123	(6.5)%	**$ 220**	$ 220	—%

Total Net Sales— Total net sales in the second quarter of 2017 were relatively consistent with the second quarter of 2016. Included in total net sales was $4 million of higher Network Security sales primarily due to new business growth and $5 million of lower sales related to filtering products within Cloud Security. Total net sales excluded the unfavorable impact related to the deferred revenue acquisition accounting adjustments described below in Acquisition Accounting Adjustments.

The increase in total net sales of $6 million in the first six months of 2017 compared to the first six months of 2016 was primarily driven by $9 million of higher sales due to a higher mix of bookings with upfront sales recognition within Cloud Security and Data & Insider Threat Security and $8 million of higher Network Security sales due to new business growth, partially offset by $11 million of lower sales related to filtering products within Cloud Security. Total net sales excluded the unfavorable impact related to the deferred revenue acquisition accounting adjustments described below in Acquisition Accounting Adjustments.

Total Operating Expenses—We disclose our operating expenses for the segment, which excludes amortization of acquired intangible assets and certain other acquisition and acquisition related expenses, in terms of the following:

- Cost of sales—labor and overhead costs associated with analytic and technical support services; infrastructure costs associated with maintaining our databases; and labor, materials and overhead costs associated with providing our product offerings.
- Selling and marketing—labor costs related to personnel engaged in selling and marketing and customer support functions; costs related to public relations, advertising, promotions and travel; and related overhead costs.
- Research and development—labor costs for the development and management of new and existing products; and related overhead costs.
- General and administrative expenses—labor costs for our executive, finance and administrative personnel; third party professional service fees; and related overhead costs.

Total operating expenses in the second quarter of 2017 increased $9 million compared to the second quarter of 2016 primarily due to an increase in selling and marketing expense of $10 million, which was principally driven by higher costs related to the sales organization due to increased salesforce staffing. Total operating expenses excluded amortization of acquired intangible assets as described below in Acquisition Accounting Adjustments and certain unallocated costs which are included in Corporate.

Total operating expenses in the first six months of 2017 increased $16 million compared to the first six months of 2016 primarily driven by an increase in selling and marketing expense of $18 million, which was principally driven by higher costs related to the sales organization due to increased salesforce staffing. Total operating expenses excluded amortization of acquired intangible assets as described below in Acquisition Accounting Adjustments and certain unallocated costs which are included in Corporate.

Operating Income and Margin—The decrease in operating income of $8 million and the related decrease in operating margin in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to the increase in total operating expenses described above.

The decrease in operating income of $10 million and the related decrease in operating margin in the first six months of 2017 compared to the first six months of 2016 was primarily due to the increase in total operating expenses described above, partially offset by the increase in total net sales described above.

Backlog and Bookings—Backlog was $425 million at July 2, 2017 compared to $486 million at December 31, 2016. The decrease in backlog of $61 million or 13% at July 2, 2017 compared to December 31, 2016 was primarily due to the seasonality of the Cloud Security and Data & Insider Threat Security products experiencing lower bookings in the first half of each year.

Bookings decreased by $8 million in the second quarter of 2017 compared to the second quarter of 2016 primarily due to a $7 million decrease in Cloud Security bookings principally driven by filtering products.

Bookings in the first six months of 2017 were relatively consistent with the first six months of 2016. Included in the change in bookings was a $13 million decrease in Cloud Security bookings principally driven by filtering products, an $8 million increase in Data & Insider Threat Security bookings and a $7 million increase in Network Security bookings.

Acquisition Accounting Adjustments

Acquisition Accounting Adjustments include the adjustments to record acquired deferred revenue at fair value as part of our purchase price allocation process, referred to as the deferred revenue adjustment, and the amortization of acquired intangible assets related to historical acquisitions. These adjustments are not considered part of management's evaluation of segment results.

The components of Acquisition Accounting Adjustments were as follows:

	Three Months Ended		Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Deferred revenue adjustment	**$ (11)**	$ (21)	**$ (21)**	$ (47)
Amortization of acquired intangibles	**(31)**	(30)	**(63)**	(62)
Total Acquisition Accounting Adjustments	**$ (42)**	$ (51)	**$ (84)**	$ (109)

The deferred revenue adjustment for the second quarters and first six months of 2017 and 2016 relates to the Forcepoint segment.

Amortization of acquired intangibles by segment was as follows:

	Three Months Ended		Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016	**Jul 2, 2017**	Jul 3, 2016
Integrated Defense Systems	**$ —**	$ —	**$ —**	$ —
Intelligence, Information and Services	**5**	4	**10**	9
Missile Systems	**1**	1	**1**	1
Space and Airborne Systems	**2**	4	**5**	9
Forcepoint	**23**	21	**47**	43
Total	**$ 31**	$ 30	**$ 63**	$ 62

The change in our Acquisition Accounting Adjustments of $9 million in the second quarter of 2017 compared to the second quarter of 2016 was primarily due to a $10 million decrease in the deferred revenue adjustment, principally driven by the acquisition of Websense in the second quarter of 2015. Amortization of acquired intangibles in the second quarter of 2017 was relatively consistent with the second quarter of 2016.

The change in our Acquisition Accounting Adjustments of $25 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to a $26 million decrease in the deferred revenue adjustment, principally driven by the acquisition of Websense in the second quarter of 2015. Amortization of acquired intangibles in the first six months of 2017 was relatively consistent with the first six months of 2016.

FAS/CAS Adjustment

The FAS/CAS Adjustment represents the difference between our pension and other postretirement benefit (PRB) expense or income under Financial Accounting Standards (FAS) requirements under GAAP and our pension and PRB expense under U.S. government Cost Accounting Standards (CAS). 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 components of the FAS/CAS Adjustment were as follows:

FAS/CAS Adjustment Income (Expense) (in millions)	Three Months Ended **Jul 2, 2017**	Three Months Ended Jul 3, 2016	Six Months Ended **Jul 2, 2017**	Six Months Ended Jul 3, 2016
FAS/CAS Pension Adjustment	**$ 109**	$ 108	**$ 218**	$ 213
FAS/CAS PRB Adjustment	**—**	1	**(1)**	1
FAS/CAS Adjustment	**$ 109**	$ 109	**$ 217**	$ 214

The components of the FAS/CAS Pension Adjustment were as follows:

(In millions)	Three Months Ended **Jul 2, 2017**	Three Months Ended Jul 3, 2016	Six Months Ended **Jul 2, 2017**	Six Months Ended Jul 3, 2016
FAS (expense)	**$ (319)**	$ (262)	**$ (638)**	$ (527)
CAS expense	**428**	370	**856**	740
FAS/CAS Pension Adjustment	**$ 109**	$ 108	**$ 218**	$ 213

The change in our FAS/CAS Pension Adjustment of $1 million in the second quarter of 2017 compared to the second quarter of 2016 was driven by a $58 million increase in our CAS expense and a $57 million increase in our FAS expense. The change in our FAS/CAS Pension Adjustment of $5 million in the first six months of 2017 compared to the first six months of 2016 was driven by a $116 million increase in our CAS expense and a $111 million increase in our FAS expense. The increase in our CAS expense in the second quarter and first six months of 2017 was primarily due to the CAS Harmonization phased transition to the use of a discount rate based on high quality corporate bonds, consistent with the Pension Protection Act of 2006, to measure liabilities in determining the CAS pension expense. The change in the discount rate used to measure liabilities for purposes of determining CAS pension expense has been included in our contracts through our overhead forward pricing rates. The increase in our FAS expense in the second quarter and first six months of 2017 was primarily due to the decrease in our long-term return on assets (ROA) assumption as described in our Annual Report on Form 10-K for the year ended December 31, 2016 and, to a lesser extent, the lower discount rate at December 31, 2016 compared to the discount rate at December 31, 2015.

Corporate

Corporate operating income consists of unallocated costs and certain other corporate costs not considered part of management's evaluation of reportable segment operating performance.

Operating income related to Corporate was as follows:

(In millions)	Three Months Ended **Jul 2, 2017**	Three Months Ended Jul 3, 2016	Six Months Ended **Jul 2, 2017**	Six Months Ended Jul 3, 2016
Corporate	**$ 3**	$ 4	**$ (30)**	$ (24)

Operating income related to Corporate in the second quarter and first six months of 2017 was relatively consistent with the second quarter and first six months of 2016, respectively.

FINANCIAL CONDITION AND LIQUIDITY

Overview

We pursue a capital deployment strategy that balances funding for growing our business, including capital expenditures, acquisitions and research and development; prudently managing our balance sheet, including debt repayments and pension contributions; and returning cash to our shareholders, including dividend payments and share repurchases, as outlined below. Our need for, cost of and access to funds are dependent on future operating results, as well as other external conditions. We currently expect that cash and cash equivalents, available-for-sale securities, cash flow from operations and other available financing resources will be sufficient to meet anticipated operating, capital expenditure, investment, debt service and other financing requirements during the next 12 months and for the foreseeable future.

In addition, the following table highlights selected measures of our liquidity and capital resources at July 2, 2017 and December 31, 2016:

(In millions)	Jul 2, 2017	Dec 31, 2016
Cash and cash equivalents	**$ 2,167**	$ 3,303
Short-term investments	**410**	100
Working capital	**4,350**	4,346
Amount available under credit facilities	**950**	1,250

Operating Activities

	Six Months Ended	
(In millions)	Jul 2, 2017	Jul 3, 2016
Net cash provided by (used in) operating activities	**$ 741**	$ 1,071

The decrease in net cash provided by (used in) operating activities of $330 million in the first six months of 2017 compared to the first six months of 2016, was primarily due to the timing of vendor payments.

Pension Plan Contributions—We made the following contributions to our pension and PRB plans:

	Six Months Ended	
(In millions)	Jul 2, 2017	Jul 3, 2016
Required pension contributions	**$ 74**	$ 79
PRB contributions	**11**	10

Tax Payments and Refunds—We made or (received) the following net tax payments or (refunds):

	Six Months Ended	
(In millions)	Jul 2, 2017	Jul 3, 2016
Federal	**$ 220**	$ 165
Foreign	**55**	27
State	**22**	18

We expect full-year net federal, foreign and state tax payments to be approximately $868 million in 2017.

Interest Payments—We made interest payments on our outstanding debt of $116 million in both the first six months of 2017 and 2016.

Investing Activities

	Six Months Ended	
(In millions)	Jul 2, 2017	Jul 3, 2016
Net cash provided by (used in) investing activities	**$ (522)**	$ (186)

The change in net cash provided by (used in) investing activities of $336 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to our short-term investments activity, which is described below.

Additions to Property, Plant and Equipment and Capitalized Internal Use Software—Additions to property, plant and equipment and capitalized internal use software were as follows:

	Six Months Ended	
(In millions)	Jul 2, 2017	Jul 3, 2016
Additions to property, plant and equipment	**$ 181**	$ 237
Additions to capitalized internal use software	**33**	26

We expect full-year property, plant and equipment and internal use software expenditures to be between approximately $555–$585 million and $95–$110 million, respectively, in 2017, consistent with the anticipated needs of our business and for specific investments including capital assets and facility improvements.

Short-term Investments Activity—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. Activity related to short-term investments was as follows:

	Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016
Purchases of short-term investments	**$ (399)**	$ (472)
Maturities of short-term investments	**100**	599

Acquisitions—In pursuing our business strategies, we acquire and make investments in certain businesses that meet strategic and financial criteria. Payments for purchases of acquired companies, net of cash acquired, were as follows:

	Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016
Payments for purchases of acquired companies, net of cash acquired	**$ (39)**	$ (57)

The decrease of $18 million in payments for purchases of acquired companies, net of cash acquired, in the first six months of 2017 compared to the first six months of 2016 was due to Forcepoint's acquisition of the Stonesoft next-generation firewall (NGFW) business, including the Sidewinder proxy firewall technology, in January 2016, offset by Forcepoint's acquisition of the Skyfence cloud access security broker business in February 2017.

Financing Activities

	Six Months Ended	
(In millions)	**Jul 2, 2017**	Jul 3, 2016
Net cash provided by (used in) financing activities	**$ (1,347)**	$ (1,197)

We generally use cash provided by operating activities and proceeds from the issuance of new debt as our primary source for the repayment of debt, payment of dividends, pension contributions and the repurchase of our common stock. The change in net cash provided by (used in) financing activities of $150 million in the first six months of 2017 compared to the first six months of 2016 was primarily due to the $591 million repayment of long-term debt in the second quarter of 2017, partially offset by the net proceeds from commercial paper issuance of $300 million, the activity on our share repurchases and the $90 million net cash payment that we made to Thales S.A. in the second quarter of 2016 related to our acquisition of Thales S.A.'s noncontrolling interest in RCCS LLC and the sale of our equity method investment in TRS SAS as a result of the amendment to the joint venture agreement as described in Consolidated Results of Operations.

Commercial Paper—In the second quarter of 2017, we received net proceeds of $300 million from the issuance of short-term commercial paper.

Debt—In the second quarter of 2017, we exercised our call rights to repurchase, at prices based on fixed spreads to the U.S. Treasury rates, $591 million of our long-term debt due March and December 2018 at a loss of $39 million pretax, $25 million after tax, which is included in other (income) expense, net.

Share Repurchases—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. At July 2, 2017, we had approximately $1.1 billion available under the 2015 repurchase program. 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 awards (RSAs), restricted stock units (RSUs) and Long-term Performance Plan (LTPP) awards issued to employees.

Our share repurchases were as follows:

(In millions)	Six Months Ended Jul 2, 2017		Six Months Ended Jul 3, 2016	
	$	**Shares**	$	Shares
Shares repurchased under our share repurchase programs	**$ 500**	**3.3**	$ 602	4.8
Shares repurchased to satisfy tax withholding obligations	**79**	**0.5**	92	0.7
Total share repurchases	**$ 579**	**3.8**	$ 694	5.5

Cash Dividends—Our Board of Directors authorized the following cash dividends:

(In millions, except per share amounts)	Six Months Ended Jul 2, 2017	Six Months Ended Jul 3, 2016
Cash dividends declared per share	**$ 1.5950**	$ 1.4650
Total dividends paid	**447**	419

In March 2017, our Board of Directors authorized an 8.9% increase to our annual dividend payout rate from $2.93 to $3.19 per share. Dividends are subject to quarterly approval by our Board of Directors.

CAPITAL RESOURCES

Total long-term debt was $4.7 billion and $5.3 billion at July 2, 2017 and December 31, 2016, respectively. Our outstanding debt bears contractual interest at fixed interest rates ranging from 2.5% to 7.2% and matures at various dates from 2020 through 2044.

Cash and Cash Equivalents and Short-term Investments—Cash and cash equivalents and short-term investments were $2.6 billion and $3.4 billion at July 2, 2017 and December 31, 2016, respectively. We may invest in U.S. Treasuries; AAA/Aaa rated money market funds; certificates of deposit, time deposits and commercial paper of banks with a minimum long-term debt rating of A or A2 and minimum short-term debt rating of A-1 and P-1; and commercial paper of corporations with a minimum long-term debt rating of A- or A3 and minimum short-term debt rating of A-2 and P-2. Cash and cash equivalents and short-term investments balances held at our foreign subsidiaries were approximately $786 million and $641 million at July 2, 2017 and December 31, 2016, respectively. Earnings from our foreign subsidiaries are currently deemed to be indefinitely reinvested. We do not expect such reinvestment to affect our liquidity and capital resources, and we continuously evaluate our liquidity needs and ability to meet global cash requirements as a part of our overall capital deployment strategy. Factors that affect our global capital deployment strategy include anticipated cash flows, the ability to repatriate cash in a tax efficient manner, funding requirements for operations and investment activities, acquisitions and divestitures and capital market conditions.

Commercial Paper—The Company may issue up to $1.25 billion of unsecured commercial paper notes, as the commercial paper is backed by our credit facility. The commercial paper notes outstanding have original maturities of not more than 90 days from the date of issuance. At July 2, 2017, short-term commercial paper borrowings outstanding were $300 million, which had a weighted average interest rate and original maturity period of 1.221% and 25 days, respectively. The maximum amount of short-term commercial paper borrowings outstanding during the first six months of 2017 was $300 million. At December 31, 2016, there were no commercial paper borrowings outstanding.

Credit Facilities—In November 2015, we entered into a $1.25 billion revolving credit facility maturing in November 2020. Under the $1.25 billion credit facility, we can borrow, issue letters of credit and backstop commercial paper. Borrowings under this facility bear interest at various rate options, including LIBOR plus a margin based on our credit ratings. Based on our credit ratings at July 2, 2017, borrowings would generally bear interest at LIBOR plus 80.5 basis points. The credit facility is composed of commitments from 20 separate highly rated lenders, each committing no more than 10% of the facility. As of July 2, 2017 and December 31, 2016, there were no borrowings outstanding under this credit facility and no outstanding letters of credit. At July 2, 2017, there was $300 million of commercial paper outstanding which reduced the remaining amount available for borrowing under the credit facility to $950 million.

Under the $1.25 billion credit facility we must comply with certain covenants, including a ratio of total debt to total capitalization of no more than 60%. We were in compliance with the credit facility covenants as of July 2, 2017. Our ratio of total debt to total capitalization, as those terms are defined in the credit facility, was 31.8% at July 2, 2017. We are providing this ratio as this metric is used by our lenders to monitor our leverage and is also a threshold that could limit our ability to utilize this facility.

Shelf Registrations—We have an effective shelf registration with the Securities and Exchange Commission, filed in June 2016, which covers the registration of debt securities, common stock, preferred stock and warrants.

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 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)	**Jul 2, 2017**	Dec 31, 2016
Total remediation costs—undiscounted	**$ 210**	$ 219
Weighted average discount rate	**5.2%**	5.2%
Total remediation costs—discounted	**$ 146**	$ 147
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.

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 of us or our affiliates. These instruments expire on various dates through 2025. 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)	**Jul 2, 2017**	Dec 31, 2016
Guarantees	**$ 208**	$ 190
Letters of credit	**2,560**	2,345
Surety bonds	**127**	127

Included in guarantees and letters of credit described above were $208 million and $45 million, respectively, at July 2, 2017, and $180 million and $44 million, respectively, at December 31, 2016, related to our joint venture in Thales-Raytheon Systems Co. Ltd. (TRS). As previously disclosed in our Form 10-K for the year ended December 31, 2016, the joint venture agreement for the TRS joint venture was amended and restated in 2016, reducing the scope of the joint venture to Thales-Raytheon Systems Air and Missile Defense Command and Control S.A.S. (TRS AMDC2) only. 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 July 2, 2017, 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 July 2, 2017. We had an estimated liability of $3 million, at July 2, 2017 and December 31, 2016 related to these guarantees and letters of credit.

The joint venture agreement between Raytheon and Vista Equity Partners relating to Forcepoint 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. 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 the put option; however, the ultimate timing will depend on the actions of the parties and other factors. Lastly, at any time on or after three years following the closing date, 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. At July 2, 2017, the fair value of the noncontrolling interest is estimated at $349 million and is subject to change based upon market conditions and business performance. The estimate of fair value for purposes of presenting the redeemable noncontrolling interest, outside of stockholders' equity, in our consolidated balance sheets could differ from the parties' determination of fair value for the put option under the joint venture agreement.

We have entered into industrial cooperation agreements, sometimes referred to as offset agreements, as a condition to obtaining orders for our products and services from certain customers in foreign countries. At July 2, 2017, the aggregate amount of our offset agreements, both agreed to and anticipated to be agreed to, had an outstanding notional value of approximately $8.8 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. From time to time, these and other agencies investigate or conduct audits to determine whether our operations are being conducted in accordance with applicable requirements. Such investigations and audits 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)) 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.

We do not expect any material impact on our financial results from regional developments regarding Qatar. Almost all of our contracts in Qatar are foreign military sales contracts through the U.S. government and represent less than 6.5% of our backlog at July 2, 2017.

On June 23, 2016, the U.K. held a referendum in which British citizens approved an exit from the European Union (EU), commonly referred to as "Brexit". As a result of the referendum, there has been a decline in the value of the British pound as compared to the U.S. dollar and volatility in exchange rates may continue as the U.K. negotiates its exit from the EU. The British pound is the functional currency for approximately 2% of our sales. In addition, for any contracts that are not denominated in the same currency as the functional currency (for example, contracts denominated in British pounds where the functional currency is the U.S. dollar), we enter into foreign currency forward contracts to hedge our risk related to foreign currency exchange rate fluctuations. As a result, we currently do not expect the U.K.'s exit from the EU to have a material impact on our financial position, results of operations or liquidity.

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.

Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which replaces numerous requirements in U.S. GAAP, including industry-specific requirements, and provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. In July 2015, the FASB approved the deferral of the new standard's effective date by one year. The new standard is effective for annual reporting periods beginning after December 15, 2017. The FASB permits companies to adopt the new standard early, but not before the original effective date of annual reporting periods beginning after December 15, 2016.

Effective January 1, 2017, we elected to early adopt the requirements of Topic 606 using the full retrospective method. The impact to our fiscal quarters and year-ended 2016 and year-ended 2015 income from continuing operations after taxes, net income and basic and diluted earnings per share (EPS) was as follows:

	Three Months Ended				Twelve Months Ended	
(In millions, except per share amounts)	Dec 31, 2016	Oct 2, 2016	Jul 3, 2016	Apr 3, 2016	Dec 31, 2016	Dec 31, 2015
Income from continuing operations after taxes	$ 12	$ 18	$ 9	$ —	$ 39	$ 40
Net income	12	18	9	—	39	40
Basic EPS attributable to Raytheon Company common stockholders:						
Income from continuing operations after taxes	$ 0.04	$ 0.05	$ 0.02	$ —	$ 0.10	$ 0.12
Net income	0.04	0.05	0.02	—	0.11	0.11
Diluted EPS attributable to Raytheon Company common stockholders:						
Income from continuing operations after taxes	$ 0.03	$ 0.05	$ 0.03	$ —	$ 0.11	$ 0.12
Net income	0.04	0.05	0.03	—	0.11	0.11

In addition, the cumulative impact to our retained earnings at January 1, 2015 was $13 million.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This ASU is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows by providing guidance on eight specific cash flow issues, including requirements that cash payments for debt prepayment or debt extinguishment costs be classified as cash outflows for financing activities and proceeds from the settlement of corporate-owned life insurance policies be classified as cash inflows from investing activities. The provisions of ASU 2016-15 are effective for years beginning after December 15, 2017, with early adoption permitted. We elected to early adopt the requirements of the new standard in the first quarter of 2017 using the retrospective transition method, as required by the new standard. The adoption of this ASU had an immaterial impact to our consolidated statements of cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that restricted cash be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for years beginning after December 15, 2017, with early adoption permitted. We elected to early adopt the requirements of the new standard in the first quarter of 2017 using the retrospective transition method, as required by the new standard. The adoption of this ASU had an immaterial impact to our consolidated statements of cash flows.

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)	Jul 2, 2017	Dec 31, 2016
Cash and cash equivalents	$ 2,167	$ 3,303
Restricted cash	8	—
Cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	$ 2,175	$ 3,303

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 annual reporting periods beginning after December 15, 2018 with early adoption permitted, and must be adopted using the modified retrospective approach. We are currently evaluating the potential changes from this ASU to our future financial reporting and disclosures. 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 to our results of operations or liquidity.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715)*, which changes certain presentation and disclosure requirements for employers that sponsor defined benefit pension and other postretirement benefit (PRB) plans. This requires 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. In addition, only the service cost component will be eligible for capitalization when applicable, on a prospective basis. The provisions of ASU 2017-07 are effective for years beginning after December 15, 2017. We are currently evaluating the potential changes from this ASU to our future financial reporting and disclosures. We expect the standard to increase 2016 and 2017 operating income due to the removal of the non-service component of FAS pension expense by $601 million and an estimated $800 million, respectively, and to decrease non-operating income by the same amount with zero impact to net income in both periods. We do not expect a material impact from the new requirement to only allow capitalization of the service cost component of net benefit cost.

Other new pronouncements issued but not effective until after July 2, 2017 are not expected to have a material impact on our financial position, results of operations or liquidity.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market exposures are to interest rates and foreign exchange rates.

We generally supplement our working capital requirements with a combination of variable-rate short-term and fixed-rate long-term financing. We enter into foreign currency forward contracts with commercial banks to fix the foreign currency exchange rates on specific commitments and payments to vendors and customer receipts. We may enter into interest rate swap agreements with commercial and investment banks to manage interest rates associated with our financing arrangements. The market-risk sensitive instruments we use for hedging are entered into with commercial and investment banks and are directly related to a particular asset, liability or transaction for which a firm commitment is in place.

The following tables provide information as of July 2, 2017 and December 31, 2016 about our market risk exposure associated with changing interest rates. For long-term debt obligations, the table presents principal cash flows by maturity date and average interest rates related to outstanding obligations. There were no interest rate swaps outstanding at July 2, 2017 and December 31, 2016.

Principal payments and interest rate detail for long-term debt by contractual maturity dates as of July 2, 2017 and December 31, 2016, respectively, were as follows:

(In millions, except percentages)	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
Fixed-rate debt	**$ —**	**$ —**	**$ —**	**$ 1,500**	**$ —**	**$ 3,292**	**$ 4,792**	**$ 5,288**
Average interest rate	**—**	**—**	**—**	**3.550%**	**—**	**4.229%**	**4.017%**	

(In millions, except percentages)	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
Fixed-rate debt	$ —	$ 591	$ —	$ 1,500	$ —	$ 3,292	$ 5,383	$ 5,848
Average interest rate	—	6.549%	—	3.550%	—	4.229%	4.295%	

In addition, the aggregate notional amount of the outstanding foreign currency forward contracts was $1,097 million and $1,277 million at July 2, 2017 and December 31, 2016, respectively. The net notional exposure of these contracts was approximately $197 million and $342 million at July 2, 2017 and December 31, 2016, respectively.

For foreign currency forward contracts designated and qualifying for hedge accounting, we record the effective portion of the gain or loss on the derivative in accumulated other comprehensive loss, net of tax, and reclassify it into earnings in the same period or periods during which the hedged revenue or cost of sales transaction affects earnings. Unrealized gains of $40 million and $53 million were included in other assets, net, and unrealized losses of $25 million and $48 million were included in other current liabilities at July 2, 2017 and December 31, 2016, respectively.

Realized gains and losses resulting from these cash flow hedges offset the foreign currency exchange gains and losses on the underlying assets or liabilities being hedged. We believe our exposure due to changes in foreign currency rates is not material due to our hedging policy.

At July 2, 2017, we had short-term investments with a fair value of $410 million, which are classified as available-for-sale and consist 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 and P-1. Our exposure due to changes in interest rates is not material due to the nature and amount of our short-term investments (i.e., high quality certificates of deposit which had an average maturity of one month).

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management has conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a–15(e) and 15d–15(e) of the Securities Exchange Act of 1934) as of July 2, 2017.

Conclusion of Evaluation—Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of July 2, 2017 were effective.

Inherent Limitations on Effectiveness of Controls—In designing and evaluating our disclosure controls and procedures, management recognizes that any control, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

Changes in Internal Control Over Financial Reporting—There were no changes in our internal control over financial reporting during the second quarter of 2017 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We primarily engage in providing products and services under contracts with the U.S. government and, to a lesser degree, under direct foreign sales contracts, some of which the U.S. government funds. As a U.S. government contractor, we are subject to many levels of audit and investigation by the U.S. government relating to our contract performance and compliance with applicable rules and regulations. Agencies that oversee contract performance include: the 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. From time to time, these and other agencies investigate or conduct audits to determine whether our operations are being conducted in accordance with applicable requirements. Such investigations and audits 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)) may also be investigated or audited. Other than as specifically disclosed in this Form 10-Q, 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 us. We do not expect these proceedings to result in any additional liability that would materially affect our financial position, results of operations or liquidity.

ITEM 1A. RISK FACTORS

You should carefully review and consider the information regarding certain factors which could materially affect our business, financial condition or future results set forth under Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016. There have been no material changes from the factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the Securities and Exchange Commission.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value (in billions) of Shares that May Yet Be Purchased Under the Plan (2)
April (April 3, 2017 - April 30, 2017)	29	$ 151.23	—	$ 1.2
May (May 1, 2017 - May 28, 2017)	81,894	159.36	81,528	1.2
June (May 29, 2017 - July 2, 2017)	760,944	162.23	537,180	1.1
Total	842,867	$ 161.95	618,708	

(1) Includes shares purchased related to activity under our stock plans. Such activity during the second quarter of 2017 includes the surrender by employees of 224,159 shares to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

(2) In November 2015, our Board of Directors authorized the repurchase of up to $2.0 billion of our outstanding common stock.

ITEM 6. EXHIBITS

The following list of exhibits includes exhibits submitted with this Form 10-Q as filed with the Securities and Exchange Commission and those incorporated by reference to other filings.

10.1	Raytheon 2017 Incentive Plan, filed as Appendix A to the Company's definitive proxy statement filed on April 21, 2017, is hereby incorporated by reference.
10.2	Raytheon 2010 Stock Plan, as amended as of May 24, 2017.*
10.3	Form of Restricted Stock Award Agreement under the Raytheon 2010 Stock Plan.*
10.4	Form of Restricted Stock Unit Award Agreement under the Raytheon 2010 Stock Plan.*
10.5	Form of Performance Stock Unit Award Agreement with respect to the Long-Term Performance Plan, under the Raytheon 2010 Stock Plan.*
10.6	Form of Restricted Stock Unit Award Agreement for Certain Retirement Eligible Employees under Raytheon 2010 Stock Plan.*
10.7	Form of Restricted Stock Unit Award Agreement for Certain Retirement Eligible Non U.S. Employees under Raytheon 2010 Stock Plan.*
15	PricewaterhouseCoopers LLP Awareness Letter.*
31.1	Certification of Thomas A. Kennedy pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Anthony F. O'Brien pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Thomas A. Kennedy pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	Certification of Anthony F. O'Brien pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101	The following materials from Raytheon Company's Quarterly Report on Form 10-Q for the quarter ended July 2, 2017, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.*

* filed electronically herewith

** furnished electronically herewith, and not filed

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RAYTHEON COMPANY

By: /s/ Michael J. Wood

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

July 27, 2017

Exhibit 10.2

As amended May 24, 2017

RAYTHEON 2010 STOCK PLAN

ARTICLE I

1. **Plan Name**. This Plan shall be known as the Raytheon 2010 Stock Plan.

ARTICLE II

2. **Purpose**. This Plan is intended to encourage ownership of Stock by Directors, officers, employees, and consultants of Raytheon Company and its Affiliates and to provide additional incentive for them to promote the success of the Company's business. With respect to any Incentive Stock Options that may be granted hereunder, the Plan is intended to be an incentive stock option plan within the meaning of Section 422 of the Code.

ARTICLE III

3. **Effective Date; Term**. The Plan is effective as of the later of the date on which the Plan is adopted by the Board and the date of the Plan's initial approval by the stockholders (the later of such dates, the "Effective Date"). No Award shall be granted under the Plan after the close of business on the day immediately preceding the tenth (10th) anniversary of the Effective Date. Subject to other applicable provisions of the Plan, all Awards made under the Plan prior to such termination of the Plan shall remain in effect until such Awards have been satisfied or terminated in accordance with the Plan and the terms of such Awards.

ARTICLE IV

4. **Definitions**. As used in the Plan, the following terms have the following meanings:

4.1 ***Affiliate*** means any entity, whether now or hereafter existing, which controls, is controlled by, or is under common control with, the Company (including, but not limited to, joint ventures, limited liability companies, partnerships) or any entity with respect to which the Committee determines that the Company has a material business interest.

4.2 ***Award*** means any stock options (including ISOs and NSOs), SARs (including free-standing and tandem SARs), Restricted Stock Awards, Stock Units, Stock Grants or any combination of the foregoing granted pursuant to the Plan, except, however, when the term is being used under the Plan with respect to a particular category of grant in which case it shall only refer to that particular category of grant.

4.3 ***Award Agreement*** means the agreement between the Company and the Participant or other notice of grant evidencing an Award hereunder. Each Award Agreement with respect to an Award shall incorporate the terms of this Plan, which may be by reference alone, and shall contain such other provisions, consistent with the provisions of the Plan, as may be established by the Committee.

4.4 ***Board*** means the Board of Directors of the Company.

4.5 ***Cause*** means, for purposes of this Plan: (i) the Participant's intentional, persistent failure, dereliction, or refusal to perform such duties as are reasonably assigned to him or her by the officers or directors of the Company or an Affiliate; (ii) the Participant's fraud, dishonesty or other deliberate injury to the Company or an Affiliate in the performance of his or her duties on behalf of, or for, the Company or an Affiliate; (iii) the willful commission by the Participant of a criminal or other act that causes substantial economic damage to the Company or an Affiliate or substantial injury to the business reputation of the Company or an Affiliate; (iv) the Participant's material breach of his or her employment or engagement agreement, if any; or (v) the Participant's breach of any material provision of the Participant's Award Agreement specifying the terms of the particular Award. For purposes of the Plan, no act, or failure to act, on the part of any person shall be considered "willful" unless done or omitted to be done by the person other than in good faith and without reasonable belief that the person's action or omission was in the best interest of the Company or an Affiliate.

4.6 ***Change in Control*** shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied, unless the Committee shall have established a more restrictive definition for purposes of one or more Awards:

(i) Any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person"), other than those Persons in control of the Company as of the date hereof or a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, become the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities; or

(ii) A change in the Board such that individuals who as of the date hereof constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board; or

(iii) The consummation of: (a) a plan of complete liquidation of the Company; (b) an agreement for the sale or disposition of all or substantially all of the Company's assets; (c) a merger, consolidation or reorganization of the Company with or involving any other corporation, other than a merger, consolidation or reorganization that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger, consolidation or reorganization.

However, in no event shall a Change in Control be deemed to have occurred for purposes of this Plan if a Participant is included in a Person that consummates the Change in Control. A Participant shall not be deemed to be included in a Person by reason of ownership of (i) less than 3% of the equity in the Person or (ii) an equity interest in the Person which is otherwise not significant as determined prior to the Change in Control by a majority of the non-employee continuing directors of the Company.

4.7 ***Code*** means the Internal Revenue Code of 1986, as amended, and any related rules, regulations and interpretations.

4.8 ***Committee*** means the Management Development and Compensation Committee ("MDCC") of the Company's Board, or any subcommittee of the MDCC to which the MDCC may from time to time delegate its authority and responsibility under the Plan; provided, however, that the "Committee" in regard to exercising any authority and responsibility to grant Awards under the Plan to Participants who are Directors and to make or take, as the case may be, all required or appropriate determinations and actions in respect of such grants shall mean the Governance and Nominating Committee of the Company's Board or another Board committee or the Board itself, if so determined by the Board.

4.9 ***Company*** means Raytheon Company, a Delaware corporation.

4.10 ***Company Officer*** means the Chairman of the Board, the Chief Executive Officer, the President, and any Executive Vice President, Senior Vice President or elected Vice President of the Company.

4.11 ***Director*** means a non-employee member of the Board or any board of directors (or similar governing body) of any Affiliate.

4.12 ***Disability*** means a Participant's total disability as evidenced by commencement and continuation for more than one year of benefits under the Company's Disability Plan. If the Participant is not eligible to participate in the Company's Disability Plan, "Disability" means meeting for more than one year the conditions for eligibility for benefits under the Company's Disability Plan as if the Participant were eligible to participate in the Disability Plan.

4.13 ***Effective Date*** has the meaning set forth in Section 3.

4.14 ***Exchange Act*** means the Securities Exchange Act of 1934, as amended.

4.15 ***Exercise Price*** means the price per share of Stock payable upon the exercise of an Option.

4.16 ***Fair Market Value*** means the value of a share of Stock of the Company on any date as the Committee shall in good faith determine.

4.17 ***Grant Date*** means the date on which the Committee formally acts to grant an Award to a Participant or such other date as the Committee shall so designate at the time of taking such formal action.

4.18 ***Immediate Family*** means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, and any person sharing the employee's household (other than a tenant or employee).

4.19 ***Incentive Stock Option*** or ***ISO*** means an Option grant that is intended to meet the requirements of Section 422 of the Code.

4.20 ***Involuntary Termination*** means, unless otherwise provided by the Committee, the Participant's Termination of Service which occurs by reason of:

(i) the Participant's involuntary dismissal or discharge by the Company (or successor thereto) or any Affiliate for reasons other than Cause; or

(ii) the Participant's voluntary resignation following (A) a material diminution in the Participant's duties or responsibilities, (B) a material change in the Participant's reporting requirements such that the Participant is required to report to a person whose duties, responsibilities and authority are materially less than those of the person to whom the Participant previously reported, (C) a material reduction in the Participant's level of base compensation with a reduction of more than fifteen percent (15%) or more to be deemed material or (D) a material adverse change in the geographic location of the Participant's principal place of employment with a relocation by more than fifty (50) miles or more to be deemed material, provided and only if (I) such change, reduction or relocation is effected without the Participant's consent and (II) each of the following conditions is satisfied: (i) the Participant shall have provided the Company with written notice of the event or condition constituting the reason for Involuntary Termination within thirty (30) days after the occurrence of that event or condition; (ii) the Company shall have failed to take appropriate remedial action to cure such event or condition within thirty (30) days after receipt of such notice; and (iii) the Participant's Involuntary Termination shall be effected upon the expiration of such thirty (30) day cure period.

4.21 ***Medical Leave of Absence*** means a leave of absence for medical reasons approved in accordance with Company policy.

4.22 ***Non-Statutory Stock Option*** or ***NSO*** means an Option grant that is not intended to be an Incentive Stock Option.

4.23 ***Option*** means an option to purchase shares of the Stock granted under the Plan.

4.24 ***Optionee*** means a person eligible to receive an Option, as provided in Section 8.1, to whom an Option shall have been granted under the Plan.

4.25 ***Option Period*** means such period (not to exceed ten (10) years) from the Grant Date to the date on which the Option expires as may be determined by the Committee and set forth in the Award Agreement.

4.26 ***Option Share*** means any share of Stock of the Company transferred to an Optionee upon exercise of an Option pursuant to this Plan.

4.27 ***Participant*** means a Director, officer, employee or consultant of the Company or its Affiliates who is granted an Award under the Plan.

4.28 ***Personal Leave of Absence*** means a leave of absence for personal reasons approved in accordance with Company policy.

4.29 ***Plan*** means this Raytheon 2010 Stock Plan.

4.30 ***Qualified Performance-Based Awards*** means Awards designated as intended to qualify, or otherwise qualifying, as "performance-based compensation" under Section 162(m) of the Code.

4.31 ***Related Corporation*** means a parent corporation or a subsidiary corporation, each as defined in Section 424 of the Code.

4.32 ***Restricted Stock Award*** means any Award of shares of restricted Stock granted pursuant to Article 11 of the Plan.

4.33 ***Retirement*** means, for purposes of this Plan unless otherwise provided by the Committee, the Termination of Service with the Company and its Affiliates, other than for Cause, at any time after attaining age fifty-five (55) and having completed at least ten (10) years of service, or Termination of Service under circumstances which the Committee deems equivalent to retirement.

4.34 ***SAR*** means a stock appreciation right, as awarded under Article 10.

4.35 ***Securities Act*** means the Securities Act of 1933, as amended.

4.36 ***Stock*** means the common stock, $0.01 par value, of the Company.

4.37 ***Stock Grant*** means shares of Stock, as awarded under Section 11.5.

4.38 ***Stock Unit*** means credits to a bookkeeping reserve account solely for accounting purposes, where the amount of the credit shall equal either one or more shares of Stock or the Fair Market Value of a share of Stock on the date of grant (unless otherwise provided by the Committee), and which shall be subsequently increased or decreased to reflect the Fair Market Value of a share of Stock. Stock Units do not require segregation of any of the Company's assets. Stock Units are awarded under Article 11.

4.39 ***Termination of Service*** means cessation of performance of services for the Company or an Affiliate by an employee or consultant and the departure from active status as a Director. Cessation of performance of services in one capacity, for example, as an employee, shall not constitute a Termination of Service if the Participant continues to perform services in another capacity, for example as a Director. In addition, for purposes of maintaining a Participant's continuous status as an employee and accrual of rights under any Award granted pursuant to the Plan, transfer of an employee among the Company and its Affiliates shall not be considered a Termination of Service with the Company provided that no more than 30 days elapse between termination from the Company and commencement of employment elsewhere in the Company or with an Affiliate.

4.40 ***Vesting Period*** means that period of time during which the shares of Stock (or a portion thereof) underlying an Award, or the Stock Units in which an Award is denominated, are subject to a risk of forfeiture.

ARTICLE V

5. **Stock Subject to the Plan**.

5.1 ***Maximum***. Subject to adjustment as provided in Article 13, the number of shares of Stock that may be issued pursuant to Awards under the Plan (including Incentive Stock Options) shall not exceed 7,500,000 shares of Stock, plus:

(a) the number of shares which were available for grant under the Company's 2001 Stock Plan and the Company's 1997 Nonemployee Directors Restricted Stock Plan (collectively, the "Prior Plans") as of the Effective Date;

(b) the number of shares which were the subject of awards outstanding under the Prior Plans as of the Effective Date ("Prior Plan Awards") and, after the Effective Date, are forfeited, terminated, or cancelled, or expire by their terms (without exercise in the case of an option or stock appreciation right); and

(c) the number of shares delivered to or withheld by the Company either in exercise of a Prior Plan Award which was an option or in satisfaction of tax withholding obligations with respect to Prior Plan Awards.

Shares issued under the Plan may be shares of Stock of original issue, shares of treasury stock or shares of Stock that have been reacquired by the Company.

5.2 ***Computation of Maximum***. For purposes of calculating the number of shares of Stock issued under the Plan:

(a) settlement of any Award shall count against the foregoing limitations only to the extent of the number of shares of Stock issued;

(b) if any Option or stock-settled Stock Appreciation Right expires, terminates, or is cancelled for any reason without having been exercised in full, or if any other Award is forfeited by the recipient or repurchased at less than its Fair Market Value (as a means of effecting a forfeiture), the shares of Stock not purchased by the Optionee or which are forfeited by the recipient or repurchased shall again be available for Awards to be granted under the Plan;

(c) if any Option is exercised by delivering previously owned shares of Stock in payment of the exercise price therefor, only the net number of shares, that is, the number of shares of Stock issued minus the number received by the Company in payment of the exercise price, shall be considered to have been issued pursuant to an Award granted under the Plan; and

(d) any shares of Stock either delivered to or withheld by the Company in satisfaction of tax withholding obligations of the Company or an Affiliate with respect to an Award shall again be available for issuance under the Plan.

5.3 ***Individual Limit***. Subject to adjustments as provided in Article 13, the maximum number of shares of Stock subject to Awards of any combination that may be granted during any one fiscal year of the Company to any one individual shall be limited to seven hundred thousand (700,000) shares. The foregoing per-individual limit shall not be adjusted to effect a restoration of shares of Stock with respect to which the related Award is terminated, surrendered or cancelled.

ARTICLE VI

6. **Proceeds**. The proceeds received by the Company from the sale of Stock pursuant to Awards granted under the Plan will be used for general corporate purposes.

ARTICLE VII

7. **Administration**.

7.1 ***General***. The Plan shall be administered by the Committee. The Committee's determinations under the Plan (including without limitation determinations of the persons to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and of the Award Agreements) need not be uniform and may be made by the Committee selectively among persons who receive, or are eligible to receive, Awards under the Plan, whether or not such persons are similarly situated.

7.2 ***Duties***. The Committee shall have full power and authority to administer and interpret the Plan and to adopt such rules, regulations, agreements, guidelines and instruments for the administration of the Plan and for the conduct of its business as the Committee deems necessary or advisable, all within the Committee's sole and absolute discretion. The Committee shall have full power and authority to take all other actions necessary to carry out the purpose and intent of the Plan, including without limitation the power to accelerate or otherwise change the time in which an Award may be exercised or becomes payable, and to waive, in whole or in part, any restriction or condition with respect to such Award, including, but not limited to, any restriction or condition with respect to vesting or exercisability of an Award following a Participant's Termination of Service or death.

Notwithstanding any other provision in the Plan to the contrary, but subject to Article 13 below, except with respect to Awards of Incentive Stock Options, the Committee may, at any time prior to the grant of the Award (or at any later time prior to the exercise, lapse of restrictions or expiration of an Award), permit a Participant to (i) defer receipt of the payment of cash or property or other delivery of Stock that would otherwise be due by virtue of the exercise, lapse of restrictions or expiration of an Award; or (ii) convert or exchange an Award for another Award under the Plan or under any other plan or arrangement. If any such actions are permitted, the Committee shall, in its sole discretion, establish rules and procedures to accomplish such actions.

7.3 ***Delegation of Authority to Grant Awards***. The Committee, in its discretion, may delegate to the Chief Executive Officer of the Company all or part of the Committee's authority and duties with respect to granting Awards (but in no event to any Director or person subject to the reporting requirements of Section 16 of the Exchange Act), provided such delegation is in writing and maintained in the Company's records. The Committee may revoke or amend the terms of such a delegation at any time, but such revocation shall not invalidate prior actions of the Chief Executive Officer of the Company that were consistent with the terms of the Plan.

7.4 ***Limited Liability***. To the maximum extent permitted by law, no member of the Committee shall be liable for any action taken or decision made in good faith relating to the Plan or any Award.

7.5 ***Effect of Committee's Decision***. All actions taken and decisions and determinations made by the Committee on all matters relating to the Plan pursuant to the powers vested in it hereunder shall be in the Committee's sole and absolute discretion and shall be conclusive and binding on all parties concerned, including the Company, its stockholders, any Participants in the Plan and any other employee of the Company, and their respective successors in interest.

ARTICLE VIII

8. **Eligibility and Participation**.

8.1 ***Eligibility***. Directors, officers, employees and consultants of the Company or its Affiliates who, in the opinion of the Committee, are responsible for the continued growth and development and future financial success of the business shall be eligible to participate in the Plan.

8.2 ***Participation***. An eligible individual shall become a Participant in this Plan when he or she is granted an Award hereunder, and shall no longer be a Participant when all Awards to the Participant have been completed, terminated or otherwise disposed of.

ARTICLE IX

9. **Stock Options**.

9.1 ***General***. Subject to the other applicable provisions of the Plan, the Committee may from time to time grant to eligible Participants Awards of ISOs or NSOs. The ISO or NSO Awards granted shall be subject to the following terms and conditions.

9.2 ***Time of Granting Options***. The granting of an Option shall take place at the time specified in writing by the Committee.

9.3 ***Grant of Option***. The grant of an Option shall be evidenced by an Award Agreement describing the number of shares of Stock subject to the Option, whether the Option is an ISO or NSO, the Exercise Price of the Option, the Vesting Period for the Option and such other terms and conditions that the Committee deems, in it sole discretion, to be appropriate, provided that such terms and conditions are not inconsistent with the Plan. The Grant Date shall be specified in the Award Agreement.

9.4 ***Price***. The Exercise Price of each Option shall be set forth in the Award Agreement and shall not be less than 100% of the Fair Market Value of the shares of Stock on the date the Option is granted.

9.5 ***Other Terms of Options***. The term during which each Option may be exercised shall be determined by the Committee; provided, however, that in no event shall an Option be exercisable more than ten (10) years from the date it is granted. Prior to the exercise of the Option and delivery of the share certificates represented thereby (or holding in a book entry position through the transfer agent), the Participant shall have none of the rights of a stockholder with respect to any shares represented by an outstanding Option. Furthermore, no Option shall include the right to receive dividends (or amounts equivalent to or in lieu of dividends) on any shares subject to such Option prior to its exercise.

9.6 ***Restrictions on Incentive Stock Options***. ISO Awards granted under the Plan shall comply in all respects with Code section 422 and, as such, shall meet the following additional requirements:

(a) *Grant Date*. An ISO must be granted within ten (10) years of the earlier of the Plan's adoption by the Board or approval by the Company's stockholders.

(b) *Exercise Price and Term*. The Exercise Price of an ISO shall not be less than 100% of the Fair Market Value of the shares on the date the Option is granted and the term of the Option shall not exceed ten (10) years. Notwithstanding the immediately preceding sentence, the Exercise Price of any ISO granted to a Participant who owns, within the meaning of Code section 422(b)(6), after application of the attribution rules in Code section 424(d), more than ten percent (10%) of the total combined voting power of all classes of shares of Stock of the Company shall be not less than 110% of the Fair Market Value of the Stock on the Grant Date and the term of such ISO shall not exceed five (5) years.

(c) *Maximum Grant*. The aggregate Fair Market Value (determined as of the Grant Date) of shares of Stock with respect to which all ISOs first become exercisable by any Participant in any calendar year under this or any other plan of the Company and its Related Corporations may not exceed $100,000 or such other amount as may be permitted from time to time under Code section 422. To the extent that such aggregate Fair Market Value shall exceed $100,000, or other applicable amount, such Options shall be treated as NSOs. In such case, the Company may designate the shares of Stock that are to be treated as stock acquired pursuant to the exercise of an ISO by issuing a separate certificate for such shares and identifying the certificate as ISO shares in the stock transfer records of the Company.

(d) *Participant*. ISOs shall only be issued to employees of the Company or a Related Corporation.

(e) *Tandem Options Prohibited*. An ISO may not be granted in tandem with a NSO in such a manner that the exercise of one affects a Participant's right to exercise the other.

(f) *Designation*. No option shall be an ISO unless so designated by the Committee at the time of grant or in the Award Agreement evidencing such Option.

9.7 ***Exercisability***.

(a) Except as otherwise provided in Section 9.9 or by the Committee, during the lifetime of the Participant, the Option shall be exercisable only by the Participant or, during the period the Participant is under a legal disability, by the Participant's guardian or legal representative.

(b) An Option may be exercised in whole at any time, or in part from time to time, within the Option Period to the extent the Option is exercisable on the date of exercise.

(c) Upon an Optionee's Termination of Service, any Options which were exercisable by the Optionee on the Termination of Service may be exercised only within three months of such Optionee's Termination of Service or, if earlier, upon the expiration date of the Option, subject to such exceptions as the Award Agreement may provide, including in respect of Termination of Service without Cause, Retirement, Medical Leave of Absence, Disability, or Personal Leave of Absence. Notwithstanding the foregoing, in all cases if an Optionee's Termination of Service is for Cause, such Optionee's Options shall terminate immediately and may no longer be exercised.

(d) Except as otherwise provided by the Committee, an Option may not be exercised after the Optionee's Termination of Service, if at all, for more shares than the Optionee was entitled to purchase thereunder at the time of the Optionee's Termination of Service (subject to adjustment as provided in Article 13).

9.8 ***Exercise of Option***. An Option may be exercised only by giving notice (including, without limitation, pursuant to written, electronic, telephonic or other instructions to a third party administering the Plan), specifying the number of shares as to which the Option is being exercised, accompanied by full payment for such shares in the form of a check or bank draft payable to the order of the Company or via net exercise or broker-assisted cashless exercise in accordance with such procedures as may be prescribed by the Company, or delivery of other shares of the Stock (whether actually delivered or through attestation) with a current Fair Market Value equal to the Exercise Price of the shares to be purchased, or in such other form or forms as the Committee may approve, including without limitation, to the extent permitted by law, a loan program. Receipt by the Company of such notice and payment shall constitute the exercise of the Option or part thereof. Such shares shall be fully paid and nonassessable. If such shares of Stock are not at that time effectively registered under the Securities Act, the Optionee shall include with such notice a letter, in form and substance satisfactory to the Company, confirming that such shares of Stock are being purchased for the Optionee's own account for investment and not with a view to distribution.

9.9 ***Transferability***. Except as otherwise provided herein or by the Committee, Options granted to individuals other than Company Officers shall not be transferable, otherwise than by will or the laws of descent and distribution, and may be exercised during the life of the holder thereof only by him or her. Non-Statutory Stock Options granted hereunder to a Company Officer may be transferred, other than for value, to a member of such Company Officer's Immediate Family or trusts or other entities established solely for the benefit of such Immediate Family members, so long as the transferee is a person entitled to rely on the Form S-8 filed by the Company with respect to the Plan. The holder of an Option or his or her legal representatives, legatees, distributees, or permitted transferees, as the case may be, shall have none of the rights of a stockholder with respect to any shares subject to such Option until such shares have been issued to him or her under this Plan.

ARTICLE X

10. **Stock Appreciation Rights**.

10.1 ***Award of SARs***. Subject to the other applicable provisions of the Plan, the Committee may at any time and from time to time grant SARs to Participants, either on a freestanding basis (without regard to or in addition to the grant of an Option) or on a tandem basis (related to the grant of an underlying Option), as it determines. SARs granted in tandem with or in addition to an Option may be granted either at the same time as the Option or at a later time; provided, however, that a tandem SAR shall not be granted with respect to any outstanding ISO Award without the consent of the Participant. SARs shall be evidenced by Award Agreements, stating the number of shares of Stock subject to the SAR and the terms and conditions of such SAR, in such form as the Committee may from time to time determine. The term during which each SAR may be exercised shall be determined by the Committee, provided, however, that no SAR may be exercised on or after the tenth (10th) anniversary of the SAR's Grant Date. The Participant shall have none of the rights of a stockholder with respect to any shares of Stock represented by a SAR. Furthermore, no SAR shall include the right to receive dividends (or amounts equivalent to or in lieu of dividends) on any shares subject to such SAR prior to its exercise.

10.2 ***Restrictions on Tandem SARs***. ISOs may not be surrendered in connection with the exercise of a tandem SAR unless the Fair Market Value of the shares of Stock subject to the ISO is greater than the Exercise Price for such ISO. SARs granted in tandem with Options shall be exercisable only to the same extent and subject to the same conditions as the related Options are exercisable. The Committee may, in its discretion, prescribe additional conditions to the exercise of any such tandem SAR.

10.3 ***Amount of Payment Upon Exercise of SARs***. A SAR shall entitle the Participant to receive, subject to the provisions of the Plan and the Award Agreement, a payment having an aggregate value equal to the product of (i) the excess of (A) the Fair Market Value on the exercise date of one share of Stock over (B) the base price per share specified in the Award Agreement (which shall be determined by the Committee but which shall not be less than 100% of the Fair Market Value of one share of Stock on the date of grant of the SAR), times (ii) the number of shares of Stock specified by the SAR, or portion thereof, which is exercised. In the case of exercise of a tandem SAR, such payment shall be made in exchange for the surrender of the unexercised related Option (or any portions thereof which the Participant from time to time determines to surrender for this purpose).

10.4 ***Form of Payment Upon Exercise of SARs***. Payment by the Company of the amount receivable upon any exercise of a SAR may be made by the delivery of Stock or cash, or any combination of shares of Stock and cash, as determined in the sole discretion of the Committee from time to time. If upon settlement of the exercise of a SAR a Participant is to receive a portion of such payment in shares of Stock, the number of shares shall be determined by dividing such portion by the Fair Market Value of a single share of Stock on the exercise date. No fractional share shall be used for such payment and the Committee shall determine whether cash shall be given in lieu of such fractional share or whether such fractional share shall be eliminated.

10.5 ***Transferability***. SARs may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided by the Committee.

ARTICLE XI

11. **Other Stock-Based Awards.**

11.1 ***Grants***. Subject to the other applicable provisions of the Plan, the Committee may at any time grant Restricted Stock Awards, Stock Units, or Stock Grants to Participants in such amounts and for such consideration, including only such minimum consideration as may be required by law, as it determines. Such Awards shall be granted pursuant to an Award Agreement.

11.2 ***General Terms and Conditions of Restricted Stock Awards and Stock Units***.

(a) Restricted Stock Awards and Stock Units shall be subject to such Vesting Periods and other restrictions and conditions as the Committee may provide. Such restrictions or conditions may be based on continuing employment or engagement (or other business relationship) and/or achievement of pre-established performance goals. The Award Agreement shall include the dates and/or the description of how pre-established performance goals shall be deemed to have been met and any other conditions upon which Restricted Stock Awards or Stock Units shall become vested. Notwithstanding the foregoing, the Committee may reduce or shorten the duration of any restriction applicable to any Restricted Stock Award or Stock Unit under the Plan.

(b) Except as otherwise provided herein or by the Committee,

(i) Restricted Stock Awards and Stock Units that vest based solely on continuing employment or engagement (or other business relationship) shall nevertheless vest, and the restrictions on such Restricted Stock Awards or Stock Units shall lapse (1) upon termination of the Participant's continuing employment or engagement (or other business relationship) on account of death (including during any Medical Leave of Absence or after Disability); (2) in accordance with the vesting schedule provided by the Committee in the event of (i) a Medical Leave of Absence of at least one year, or (ii) Disability; or (3) in accordance with the vesting schedule provided by the Committee in the event of a Personal Leave of Absence (but only during the period of such Leave, unless the Participant resumes his or her employment or engagement (or other business relationship) at the end of such Leave).

(ii) Restricted Stock Awards and Stock Units that vest based on achievement of pre-established performance goals shall nevertheless vest, and the restrictions on the Restricted Stock Awards or Stock Units shall lapse (1) upon the Participant's death, (2) upon the Participant's Retirement but subject to such conditions or covenants determined by the Committee, or (3) upon the termination of the Participant's continuing employment or engagement (or other business relationship) after having become disabled, but in either case only as to a pro rata portion of the number of shares of Stock the Participant would have received, if any, had the Participant remained employed until the end of the Vesting Period set forth in the applicable Award Agreement. In such event, payment for any Stock Units which then vest shall be made when payment would otherwise have been made following the end of the applicable Vesting Period. Such pro rata portion will be based on the number of full months in the Vesting Period during which the Participant was employed as compared to the total number of full months in the Vesting Period.

(iii) If during the Vesting Period specified in the Award Agreement the Participant has a Termination of Service for any reason other than as specified in sub-paragraphs (i) and (ii), above, then the Participant shall forfeit any of the shares of Stock (including, as applicable, shares of Stock in which Stock Units are denominated) as to which the applicable restrictions have not theretofore lapsed, and all rights of the Participant in and to such shares of Stock, including any pro rata portion of the shares with respect to a partial year of employment, shall be forfeited immediately after the Participant's Termination of Service.

(c) Notwithstanding the preceding provisions of this Section 11.2, with respect to a Restricted Stock Award granted to a Director of the Company, unless otherwise provided by the Committee, the vesting date for all shares of Stock underlying any such Restricted Stock Award shall be the date of the Annual Meeting of Stockholders of the Company in the calendar year immediately following the year of the Restricted Stock Award, and the restrictions on the shares underlying such Restricted Stock Award shall lapse upon the earlier of (i) the applicable vesting date or (ii) upon the Director ceasing to be a Director of the Company on account of death. Even if otherwise vesting prior to the next Annual Meeting of Stockholders, however, unless otherwise provided by the Committee, shares of Stock underlying any Restricted Stock Award to a Director shall not be transferable within six (6) months of the date of the grant of the Award.

(d) Unvested Restricted Stock Awards or Stock Units may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided in the Award Agreement.

11.3 ***Restricted Stock Awards***.

(a) Share certificates with respect to restricted shares of Stock shall be issued (or the shares shall be held in a book entry position through the transfer agent's direct registration service) at the time of grant of the Restricted Stock Award, subject to forfeiture if the applicable restrictions are not satisfied. If share certificates are issued at the time of grant of the Restricted Stock Award, the certificates shall bear an appropriate legend with respect to the restrictions applicable to such Restricted Stock Award (as described in Section 11.2) or, alternatively, the Participant may be required to deposit the certificates with the Company during the period of any restriction thereon and to execute a blank stock power or other instrument of transfer. If shares are in a book entry position with the transfer agent's direct registration service, the restrictions shall be appropriately noted.

(b) Except as otherwise provided by the Committee, during the Vesting Period applicable to a Restricted Stock Award, the Participant shall have all of the rights of a holder of Stock, including but not limited to the rights to receive dividends with respect to and to vote the shares subject to the Award, except that with respect to Restricted Stock Awards that vest based on achievement of pre-established performance goals, any dividends otherwise payable during the Vesting Period shall be paid only if, as, and to the extent the Restricted Stock Award vests. Upon lapse of restrictions on a Restricted Stock Award, the Committee may provide that, to the extent not already received, the Participant will be entitled to receive any amounts per share pursuant to any dividend or distribution paid by the Company on its Stock to stockholders of record after grant of the Restricted Stock Award and prior to the issuance of the share certificates (or holding in a book entry position through the transfer agent).

11.4 ***Stock Unit Awards***.

(a) Stock Units (including any dividend equivalents in respect of Stock Units) shall be settled in shares of Stock except that the Committee may instead elect at any time prior to settlement to settle such amounts in whole or in part in cash. Unless otherwise provided herein or by the Committee, Stock Units shall be paid in accordance with their terms, to the extent vested, (i) with respect to Stock Units that vest solely on continuing employment or engagement (or other business relationship), promptly but no later than thirty (30) days following vesting, and (ii) with respect to Stock Units that vest based on achievement of pre-established performance goals, promptly but no later than March 15 of the year following vesting.

(b) Stock Units shall be subject to such rules and regulations as the Committee may prescribe and/or such determinations, orders or decisions as the Committee may make.

(c) Except as otherwise provided by the Committee, the Participant shall have none of the rights of a stockholder with respect to any shares of Stock represented by a Stock Unit as a result of the grant of a Stock Unit to the Participant. Notwithstanding the foregoing, except as otherwise provided by the Committee:

(i) with respect to Stock Units that vest based solely on continuing employment or engagement (or other business relationship), the Participant shall have the right to receive amounts equal to any cash dividends paid during the Vesting Period, any such amounts to be paid to the Participant only if, as, and to the extent the Stock Units vest; and

(ii) with respect to Stock Units that vest based on achievement of pre-established performance goals, the Participant shall have the right to receive amounts equivalent to any cash dividends declared during the Vesting Period, as if such amounts were reinvested in additional shares of Stock on the date the relevant dividends are paid, any such amounts to be paid to the Participant only if, as, and to the extent the Stock Units vest.

There shall not be taken into account in determining the amount of any dividend equivalents any dividends on Stock for which an adjustment in the number of Stock Units is otherwise required or made under Article 13.

11.5 ***Stock Grants***. The Committee may award shares of Stock in recognition of significant prior or expected contributions to the success of the Company or its Affiliates, as an inducement to employment or in lieu of compensation otherwise already due or to be earned and in such other limited circumstances as the Committee may provide. Any such Stock Grants may be made without forfeiture conditions or restrictions of any kind.

ARTICLE XII

12. **Qualified Performance-Based Awards**.

12.1 ***Purpose***. The purpose of this Article 12 is to provide the Committee the ability to qualify Awards as "performance-based compensation" under Section 162(m) of the Code. If the Committee, in its discretion, decides to grant an Award as a Qualified Performance-Based Award, the provisions of this Article 12 will control over any contrary provision contained in the Plan. However, no Award shall be considered to have failed to qualify as a Qualified Performance-Based Award solely because the Award is not expressly designated as a Qualified Performance-Based Award, if the Award otherwise satisfies the provisions of this Article 12 and the requirements of Section 162(m) of the Code and the regulations promulgated thereunder applicable to "performance-based compensation."

12.2 ***Authority***. All grants of Awards intended to qualify as Qualified Performance-Based Awards and determination of terms applicable thereto shall be made by the Committee. If not all of the members of the Committee qualify as "outside directors" within the meaning of applicable regulations under Section 162(m) of the Code, however, all grants of Awards intended to qualify as Qualified Performance-Based Awards and the determination of terms applicable thereto (including the establishment of applicable Performance Goals) shall be made by a subcommittee of the Committee consisting of such of the members of the Committee as do so qualify. Any reference in this Article 12 to the Committee shall mean any such subcommittee if required under the preceding sentence, and any action by such a subcommittee shall be considered the action of the Committee for purposes of the Plan.

12.3 ***Discretion of Committee with Respect to Qualified Performance-Based Awards***. Any form of Award permitted under this Plan may be granted as a Qualified Performance-Based Award. Options and SARs may be granted as Qualified Performance-Based Awards in accordance with Article 9 and may become exercisable based on continued service only. Other Awards intended to qualify as Qualified Performance-Based Awards, such as Restricted Stock Awards and Stock Units, shall vest only on satisfaction of Performance Goals (except as otherwise provided in this Article 12). The Committee will have full discretion to select the length of any applicable Performance Period, the kind and/or level of the applicable Performance Goal, and whether the Performance Goal is to apply to the Company, an Affiliate, any division or business unit thereof, or to an individual. Any Performance Goal or Goals applicable to Qualified Performance-Based Awards shall be objective, shall be established in writing not later than ninety (90) days after the beginning of any applicable Performance Period (or at such other date as may be required or permitted for "performance-based compensation" under Section 162(m) of the Code) and shall otherwise meet the requirements of Section 162(m) of the Code, including the requirement that the outcome of the Performance Goal or Goals be substantially uncertain (as defined in the regulations under Section 162(m) of the Code) at the time established.

12.4 ***Payment of Qualified Performance-Based Awards***. A Participant will be eligible to receive payment under a Qualified Performance-Based Award which is subject to achievement of a Performance Goal or Goals only if the applicable Performance Goal or Goals are achieved within the applicable Performance Period, as determined by the Committee; provided that a Qualified Performance-Based Award may vest as a result of death, becoming disabled, or a Change in Control if otherwise provided in this Plan or an applicable Award Agreement even if the Award would not constitute "performance-based compensation" under Section 162(m) of the Code following the occurrence of such an event. The Committee will, in the manner and within the time prescribed by Section 162(m) of the Code in the case of Qualified Performance-Based Awards, objectively define the manner of calculating the Performance Goal or Goals it selects to use for such Performance Period for such Participant, including, but not limited to, on the basis of relevant accounting standards, with such modifications as the Committee shall prescribe.

12.5 ***Limitation on Adjustments for Certain Events***. No adjustment of any Qualified Performance-Based Award pursuant to Article 13 shall be made except on such basis, if any, as will not cause such Award to provide other than "performance-based compensation" within the meaning of Section 162(m) of the Code.

12.6 ***Definitions***. For purposes of this Article 12, the following definitions shall apply:

(a) *Performance Criteria* means the business criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period. The Performance Criteria used to establish Performance Goals are limited to: (i) free or operating cash flow (before or after dividends), (ii) earnings per share (including, without limitation, earnings before interest, taxes, depreciation and amortization), (iii) stock price, (iv) return on equity, (v) stockholder return or total stockholder return, (vi) return on capital (including, without limitation, return on total capital or return on invested capital), (vii) return on investment, (viii) return on assets or net assets, (ix) market capitalization, (x) debt leverage (debt to capital), (xi) net sales, (xii) backlog, (xiii) net income or net income attributable to Raytheon Company, (xiv) income from continuing operations (before or after tax), (xv) operating profit, net operating profit or economic profit, (xvi) gross margin, operating margin or profit margin, (xvii) return on operating revenue or return on operating assets, (xviii) operating ratio, (xix) market share improvement, (xx) bookings or (xxi) working capital turnover.

(b) *Performance Goals* means, for a Performance Period, the written goal or goals established by the Committee for the Performance Period based upon the Performance Criteria. The Performance Goals may be expressed in terms of overall Company performance or the performance of an Affiliate, a division, business unit, subsidiary, or an individual, either individually, alternatively or in any combination, and measured either quarterly, annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Committee.

(c) *Performance Period* means the one or more periods of time (including Vesting Periods), which may be of varying and overlapping durations, selected by the Committee, over which the attainment of one or more Performance Goals will be measured for purposes of determining a Participant's right to, and the payment of, a Qualified Performance-Based Award.

ARTICLE XIII

13. **Corporate Transactions**.

13.1 ***Adjustment of Number and Price of Shares***. Pro rata adjustment shall be made in the maximum number of shares of Stock subject to the Plan or that may be awarded to any individual in any year to give effect to any extraordinary dividends of cash or other property, stock dividends, stock splits, stock combinations, recapitalizations and other similar changes in the capital structure of the Company. Pro rata adjustments shall be made in the number, kind and price of shares of Stock covered by any outstanding Award hereunder to give effect to any stock dividends, stock splits, stock combinations, recapitalizations and similar changes in the capital structure of the Company, or a merger, dissolution or reorganization of the Company, after the date the Award is granted, so that the recipient of the Award is treated in a manner equivalent to that of holders of the underlying Stock.

13.2 ***Change in Control***.

(a) In connection with a Change in Control, the Committee may take one or more of the following actions with respect to any outstanding Award granted on or after May 24, 2017: (i) assumption of the Award by the successor corporation (or parent or subsidiary of the successor corporation (collectively, the "Successor Corporation")); (ii) cancellation and substitution of the Award with an Award granted by the Successor Corporation; (iii) continuation of the Award pursuant to the terms of the Change in Control transaction; (iv) accelerated vesting of the Award (in whole or in part); (v) termination of the Award; or (vi) cancellation of the Award in exchange for a cash payment for each vested share of Stock (and each unvested share of Stock if so determined by the Committee) subject to the Award in an amount equal to the excess of the Fair Market Value per share of Stock on the date of the Change in Control over the exercise price, base price or purchase price (if any) in effect for such share with such payment, at the discretion of the Committee, to be paid subject to the same vesting schedule applicable to the Award and any escrow, holdback, earn-out or similar provisions applicable to holders of Stock.

(b) In addition, with respect to Restricted Stock Awards and Stock Units that vest based on achievement of pre-established performance goals (including Performance Goals applicable to Qualified Performance-Based Awards), the Committee may determine that the performance goals shall be deemed to be satisfied at the target or any other level and/or based on a shortened performance period and the Award shall be converted to time-based Awards and thereafter be subject to vesting based on continued employment or employment (or other business relationships).

(c) With respect to Awards granted to Directors, unless otherwise determined or provided by the Committee, such Awards shall become fully vested upon the Director ceasing to be a Director of the Company after a Change in Control.

(d) With respect to Awards granted to any other Participant, unless otherwise determined or provided by the Committee, if in connection with a Change in Control Awards are assumed, continued, substituted or cancelled in exchange for cash payments subject to vesting and a Participant's service is terminated by reason of an Involuntary Termination within two (2) years following such Change in Control, then:

(i) Any Options and SARs held by the Participant as of the date of such termination, and which are not then exercisable and vested, shall become fully exercisable and vested.

(ii) The restrictions applicable to Restricted Stock Awards and Stock Units (including Awards converted to time-based awards pursuant to Section 13.2(b)), shall lapse with respect to 100% of the Restricted Stock Awards and Stock Units held by the Participant and still subject to such restrictions immediately prior to the termination.

(iii) Any cash payments (in exchange for cancellation of an Award) subject to vesting shall become fully vested (subject to any escrow, holdback, earn-out or similar provisions applicable to holders of Stock).

13.3 ***Substitution of Options***. In the event that, by reason of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Board shall authorize the issuance or assumption of a stock option or stock options in a transaction to which Code section 424(a) applies, then, notwithstanding any other provision of the Plan, the Committee may grant an Option upon such terms and conditions as it may deem appropriate for the purpose of assumption of the old option, or substitution of a new Option for the old option, in conformity with the provisions of Code section 424(a) and the rules and regulations thereunder, as they may be amended from time to time.

13.4 ***Fractional Shares***. No adjustment or substitution provided for in this Article shall require the Company to issue or to sell a fractional share under any Award Agreement and the total adjustment or substitution with respect to each Award Agreement shall be limited accordingly.

ARTICLE XIV

14. **<u>Reservation of Stock</u>**. The Company shall at all times during the term of the Plan, and thereafter to the extent of any outstanding Awards, reserve and keep available such number of shares of the Stock as will be sufficient to satisfy the requirements of this Plan (or such Awards) and shall pay all fees and expenses necessarily incurred by the Company in connection therewith.

ARTICLE XV

15. **<u>Amendment and Termination</u>.**

15.1 ***<u>Amendment</u>***. The Committee may amend the Plan at any time and from time to time, provided that (i) no amendment shall deprive any person of any rights granted under the Plan before the effective date of such amendment without such person's consent, and (ii) without approval of the Company's stockholders, no amendment may (A) increase the number of shares of Stock which may be issued under the Plan, (B) change the description of persons eligible for awards, or (C) effect any other change for which stockholder approval is required by law or the rules of any relevant stock exchanges. Further, except in connection with a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, or exchange of shares), the terms of outstanding Options or SARs may not be amended to reduce their exercise or base price, nor may outstanding Options or SARs be cancelled in exchange for cash, Options or SARs with an exercise price that is less than the exercise price of the original Options or SARs, or other Awards, without stockholder approval.

Notwithstanding the foregoing, the Committee may amend the Plan and/or any Award granted under the Plan at any time and from time to time, without the consent of affected Participants and their beneficiaries, to the extent necessary to cause the Plan or Award to comply with applicable law, stock exchange rules or accounting rules.

15.2 ***<u>Termination</u>***. The Committee reserves the right to terminate the Plan in whole or in part at any time, without the consent of any person granted any rights under the Plan.

15.3 ***<u>Rescission and Revocation of Awards</u>***. A Participant may request in writing that the Committee rescind or revoke an Award and such request shall specify the reasons that rescission or revocation is sought. The Committee, in its absolute discretion, may grant, deny or otherwise rule on the request.

ARTICLE XVI

16. **<u>Other Conditions</u>**.

16.1 ***<u>Compliance with Governmental Regulations</u>***. Notwithstanding any provision of the Plan or the terms of any Award Agreement entered into pursuant to the Plan, the Company shall not be required to issue any shares hereunder prior to registration of the shares subject to the Plan under the Securities Act or the Exchange Act, if such registration shall be necessary, or before compliance by the Company or any Participant with any other provisions of either of those acts or of regulations or rulings of the Securities and Exchange Commission thereunder, or before compliance with other federal and state laws and regulations and rulings thereunder, including the rules of any applicable securities exchange or quotation system. The Company shall use its best efforts to effect such registrations and to comply with such laws, regulations and rulings forthwith upon advice by its counsel that any such registration or compliance is necessary.

16.2 ***<u>Company Charter and By-Laws; Other Company Policies</u>***. This Plan and all Awards granted hereunder are subject to the charter and By-Laws of the Company, as they may be amended from time to time, and all other Company policies duly adopted by the Board, the Committee or any other committee of the Board and as in effect from time to time regarding the acquisition, ownership or sale of Stock by employees and other service providers, including, without limitation, policies intended to limit the potential for insider trading and to avoid or recover compensation payable or paid on the basis of inaccurate financial results or statements, employee conduct, and other similar events.

16.3 ***No Trust or Fund Created***. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other person. To the extent that any Participant or other person acquires a right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company.

16.4 ***No Guarantee of Employment***. Participation in this Plan shall not be construed to confer upon any Participant the legal right to be retained in the employ of the Company or give any person any right to any payment whatsoever, except to the extent of the benefits provided for hereunder. Each Participant shall remain subject to discharge to the same extent as if this Plan had never been adopted. Nothing in this Plan shall prevent, interfere with or limit in any way the right of the Company to terminate a Participant's employment at any time, whether or not such termination would result in: (i) the failure of any Award to vest; (ii) the forfeiture of any unvested or vested portion of any Award under the Plan; and/or (iii) any other adverse effect on the Participant's interests under the Plan.

16.5 ***No Limit on Other Compensation Arrangements***. Nothing contained in the Plan shall prevent the Company or its Affiliates from adopting or continuing in effect other compensation arrangements (whether such arrangements be generally applicable or applicable only in specific cases) as the Committee in its discretion determines desirable, including, without limitation, the granting of stock options, stock awards, stock appreciation rights or phantom stock units otherwise than under the Plan.

16.6 ***Governing Law***. The provisions of this Plan shall be governed by, construed and administered in accordance with applicable federal law; provided, however, that to the extent not in conflict with federal law, this Plan shall be governed by, construed and administered under the laws of the State of Delaware, other than its laws respecting choice of law.

16.7 ***Withholding***. No later than the date as of which an amount first becomes includable in the gross income of the Participant for federal income tax purposes with respect to any Award under the Plan, the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Committee, withholding obligations must be settled in shares of Stock that are part of the Award that gives rise to the withholding requirement; provided, that not more than the legally required minimum withholding shall be settled with shares of Stock. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Participant. The Committee may establish such procedures as it deems appropriate, including making irrevocable elections, for the settlement of withholding obligations with shares of Stock.

16.8 ***No Guarantee of Tax Consequences***. No person connected with the Plan in any capacity, including, but not limited to, the Company and any Affiliate and their respective directors, officers, agents and employees, makes any representation, commitment or guarantee that any tax treatment, including, but not limited to, federal, state and local income, estate and gift tax treatment, will be applicable with respect to amounts deferred under the Plan, or paid to or for the benefit of a Participant under the Plan, or that such tax treatment will apply to or be available to a Participant on account of participation in the Plan.

16.9 ***Notices***. Any communication or notice required or permitted to be given under the Plan shall be in such form as the Committee may determine from time to time, and if required in writing, shall be mailed by registered or certified mail or delivered in hand, if to the Company, to 870 Winter Street, Waltham, Massachusetts 02451, Attention: Senior Vice President, Human Resources (or such other address or addressee as the Committee may provide) and, if to the Participant, to such address as the Participant shall last have furnished to the Company.

RAYTHEON 2010 STOCK PLAN

RESTRICTED STOCK AWARD AGREEMENT

This Restricted Stock Award Agreement, dated as of (the "Award Date") is between Raytheon Company (the "Company"), and , an employee of the Company or one of its Affiliates ("you").

1. Award of Shares
The Company hereby awards you the number of restricted shares of common stock of the Company, par value $.01 per share, set forth below (the "Shares"), subject to the terms and conditions of the Raytheon 2010 Stock Plan (the "Plan") and the vesting and other provisions of this Agreement.

<u>**Total Restricted Shares (the "Award"):**</u>	<u>**Vesting Date/# Shares**</u>
Vesting Schedule	

2. Status of Shares During and Upon Vesting
The Shares shall be registered in your name as of the Award Date until such time as the Shares (or other evidence of ownership of the Shares) are delivered to you or forfeited to the Company in accordance with the terms hereof (the "Restriction Period"). During the Restriction Period, unless otherwise forfeited, you shall be entitled to vote the Shares and to receive dividends paid on the Shares, but such Shares may not be sold, transferred, pledged, exchanged, hypothecated or disposed of by you, nor be made subject to execution, attachment or similar process. Subject to Sections 3 and 4 below, if you are continuously employed by the Company or an Affiliate from the Award Date until the Vesting Date noted above, the Shares associated with that Vesting Date shall vest and the restrictions on those Shares shall lapse. With respect to any Shares that vest, the Company shall deliver to you evidence of ownership of the net number of such Shares reduced by the number of Shares necessary to satisfy tax withholding obligations as described in Section 5 C below.

3. Effect of Termination of Employment
If during the Restriction Period you cease to be an employee of the Company or an Affiliate for any reason other than as set forth in Section 4 below, you shall cease to be entitled to any Shares as to which the applicable restrictions have not previously lapsed. All rights in and to such Shares, including any prorated portion of the Shares with respect to a partial year of employment, shall be forfeited immediately after you cease to be an employee of the Company or an Affiliate.

4. Effect of Death, Medical Leave of Absence, Disability or Change in Control
Notwithstanding anything above to the contrary, the Shares shall vest and restrictions on the Shares shall lapse as follows:

a) immediately upon your death;

b) in accordance with the Vesting Schedule in the event of (i) a Medical Leave of Absence of at least one year or (ii) Disability; or

c) immediately upon your termination of employment by reason of an Involuntary Termination within two (2) years following a Change in Control, if in connection with such Change in Control this Award was assumed, continued, substituted or cancelled in exchange for cash payments subject to vesting (in which case such cash payments shall become fully vested, subject to any escrow, holdback, earn-out or similar provisions applicable to holders of Stock).

5. Other Provisions

A. <u>No Guaranty of Future Awards.</u> This Award does not guarantee you the right to or expectation of future Awards under the Plan or any future plan adopted by the Company.

B. <u>No Rights to Continued Employment</u>. This Award shall not be deemed to create a contract or other promise of continued employment with the Company or an Affiliate and shall not in any way prohibit or restrict the ability of the Company or an Affiliate to terminate your employment at any time for any reason.

C. <u>Taxes</u>. In addition to amounts in respect of taxes which the Company shall be required by law to deduct or withhold from any dividend payments on the Shares, the Company may withhold from any Shares vesting hereunder a number of Shares whose market value is sufficient in amount for the Company to satisfy any applicable United States federal, state or other tax withholding requirement under the laws of the jurisdictions in which you reside or that otherwise may be applicable to you. You shall not be entitled to any Shares or dividends on any Shares until all such tax obligations have been satisfied in full.

D. Clawback. If you are an elected officer, in addition to any other remedies available to the Company (but subject to applicable law), if the Board determines that it is appropriate, the Company may recover (in whole or in part) any payment made pursuant to this Award where: (1) the payment was predicated upon achieving certain financial results that were subsequently the subject of a restatement of Company financial statements filed with the Securities and Exchange Commission; (2) the Board determines that you engaged in knowing or intentional fraudulent or illegal conduct that caused or substantially caused the need for the restatement; and (3) a lower payment would have been made to you pursuant to the Award based upon the restated financial results. In any such instance, the Company shall, to the extent practicable, seek to recover from you the amount by which the payment pursuant to the Award for the relevant period exceeded the lower payment that would have been made based on the restated financial results. The Company's right of recovery applies to both the vested and unvested portion of the Award.

E. Plan. All terms and conditions of the Plan are incorporated herein by reference and constitute an integral part hereof. Any capitalized terms used but not defined herein shall have the meanings ascribed to them in the Plan.

F. Notices. Notices required or permitted hereunder shall be in writing and shall be delivered personally or by mail, postage prepaid, and, if to the Company, addressed to Raytheon Company, 870 Winter Street, Waltham, Massachusetts 02451, Attention: Vice President, Human Resources and Global Security, and, if to you, to your name and address as shown on the Company's payroll records.

G. Entire Agreement; Successors and Assigns. The Plan and this Award Agreement constitute the entire agreement governing the terms of the Award to you. The Award Agreement shall inure to the benefit of the Company's successors and assigns and may be assigned by the Company without your consent.

H. Governing Law. This Award Agreement shall be governed by the law of the Commonwealth of Massachusetts, without regard to its provisions governing conflicts of law.

Your acceptance of this Award constitutes your agreement to the terms of this Restricted Stock Award Agreement.

RAYTHEON COMPANY

____

Name:
Title:

Exhibit 10.4

RAYTHEON 2010 STOCK PLAN

RESTRICTED STOCK UNIT AWARD AGREEMENT

This Restricted Stock Unit Award Agreement, dated as of (the "Award Date") is between Raytheon Company (the "Company"), and , an employee of the Company or one of its Affiliates ("you").

1. Award of Units
The Company hereby awards you the number of restricted stock units ("Units") set forth below, with respect to its common stock, par value $0.01 per share (the "Stock"), subject to the terms and conditions of the Raytheon 2010 Stock Plan (the "Plan") and the vesting and other provisions of this Agreement. Subject to the provisions hereof, each Unit represents the right to receive one share of Stock (a "Share") plus additional cash payments in lieu of dividends as described in Section 5 below.

Total Number of Restricted Units (the "Award"):	
Vesting Schedule: (Each period from the Award Date until the Vesting Date is a "Restriction Period".)	**Vesting Date/# Units**

2. Vesting of Units
Subject to Sections 3 and 4 below, if you are continuously employed by the Company or an Affiliate from the Award Date until the Vesting Date noted above, the Units associated with that Vesting Date shall vest and the restrictions on those Units shall lapse. With respect to any Units that vest, the Company shall promptly deliver to you evidence of ownership of the net number of Shares equal to the number of vested Units reduced by the number of Shares necessary to satisfy tax withholding obligations as described in Section 6 E below.

3. Effect of Termination of Employment
If during the Restriction Period you cease to be an employee of the Company or an Affiliate for any reason, other than as set forth in Section 4 below, then you shall cease to be entitled to any Units or delivery of any Shares in which Units are settled as to which the applicable restrictions have not previously lapsed. All rights in and to such Units and related Shares, including any prorated portion of Units or related Shares with respect to a partial year of employment, as well as cash in lieu of dividends as described in Section 5 below, shall be forfeited immediately after you cease to be an employee of the Company or an Affiliate.

4. Effect of Death, Medical Leave of Absence, Disability or Change in Control
Notwithstanding anything above to the contrary, the Units shall vest and restrictions on the Units shall lapse as follows:

a) immediately upon your death;

b) in accordance with the Vesting Schedule in the event of (i) a Medical Leave of Absence of at least one year or (ii) Disability; or

c) immediately upon your termination of employment by reason of an Involuntary Termination within two (2) years following a Change in Control, if in connection with such Change in Control this Award was assumed, continued, substituted or cancelled in exchange for cash payments subject to vesting (in which case such cash payments shall become fully vested, subject to any escrow, holdback, earn-out or similar provisions applicable to holders of Stock).

5. Payment of Dividend Equivalents
Upon the vesting and lapsing of restrictions on Units, you shall be entitled to receive a cash payment in lieu of dividends on the number of Shares those Units represent, if and to the extent that the Board has approved a dividend for all Company shareholders during the Restriction Period applicable to such Units. The dividend equivalent amount shall be a cash payment based upon the number of Units vesting hereunder multiplied by each quarterly per share dividend approved by the Board during the Restriction Period applicable to such Units (or portion of the Restriction Period preceding the Company's delivery to you of the Shares). You will not be entitled to any cash payment in lieu of dividends relating to Units covered by this Award which are forfeited prior to vesting.

6. Other Provisions

A. No Guaranty of Future Awards. This Award does not guarantee you the right to or expectation of future Awards under the Plan or any future plan adopted by the Company.

B. No Rights as Shareholder**.** You shall not be considered a shareholder of the Company with respect to the Units until Shares are issued to you in payment of the Units. Therefore, you have no right to vote the Units or to receive dividends with respect to such Units except as provided in Section 5 above.

C. No Rights to Continued Employment. This Award shall not be deemed to create a contract or other promise of continued employment with the Company or an Affiliate and shall not in any way prohibit or restrict the ability of the Company or an Affiliate to terminate your employment at any time for any reason.

D. Restrictions on Transfer of Units. Until the vesting of, and lapse of the restrictions applicable to, any Units and the delivery of Shares in payment therefor, Units may not be sold, transferred, pledged, exchanged, hypothecated or disposed of by you and shall not be subject to execution, attachment or similar process.

E. Taxes. Taxes may be assessed and/or withheld as required by law at applicable United States federal, state and/or other tax rates (under the laws of the jurisdictions in which you reside or that may otherwise be applicable to you) with respect to Units, issuance of Shares and cash in lieu of dividends.

F. Clawback. If you are an elected officer, in addition to any other remedies available to the Company (but subject to applicable law), if the Board determines that it is appropriate, the Company may recover (in whole or in part) any payment made pursuant to this Award where: (1) the payment was predicated upon achieving certain financial results that were subsequently the subject of a restatement of Company financial statements filed with the Securities and Exchange Commission; (2) the Board determines that you engaged in knowing or intentional fraudulent or illegal conduct that caused or substantially caused the need for the restatement; and (3) a lower payment would have been made to you pursuant to the Award based upon the restated financial results. In any such instance, the Company will, to the extent practicable, seek to recover from you the amount by which the payment pursuant to the Award for the relevant period exceeded the lower payment that would have been made based on the restated financial results. The Company's right of recovery applies to both the vested and unvested portion of the Award.

G. Employer's National Insurance Contributions – UK Recipients Only. The Company has granted this Award on the terms that vesting is, if you are a resident of the United Kingdom, conditional upon the Recipient agreeing to pay for any Class 1 National Insurance contributions arising in respect of the Units awarded hereunder by entering this Agreement or (if the Company so determines) by completing and delivering to the Company prior to vesting a joint election in respect of the same in a form approved by HM Revenue and Customs.

H. Plan. All terms and conditions of the Plan are incorporated herein by reference and constitute an integral part hereof. Any capitalized terms used but not defined herein shall have the meanings ascribed to them in the Plan.

I. Notices. Notices required or permitted hereunder shall be in writing and shall be delivered personally or by mail, postage prepaid, addressed to Raytheon Company, 870 Winter Street, Waltham, Massachusetts 02451, Attention: Vice President, Human Resources and Global Security, and, if to you, to your address as shown on the Company's payroll records.

J. Entire Agreement; Successors and Assigns. The Plan and this Award Agreement constitute the entire agreement governing the terms of the Award to you. The Award Agreement shall inure to the benefit of the Company's successors and assigns and may be assigned by the Company without your consent.

K. Governing Law. This Award Agreement shall be governed by the law of the Commonwealth of Massachusetts, without regard to its provisions governing conflicts of law.

Your acceptance of this Award constitutes your agreement to the terms of this Restricted Stock Unit Award Agreement.

RAYTHEON COMPANY

____
Name:
Title:

RAYTHEON 2010 STOCK PLAN

Performance Stock Unit Award Agreement with respect to The - Long-Term Performance Plan

This Performance Stock Unit Award Agreement, dated as of (the “Award Date”) is between Raytheon Company (the "Company"), and , an employee of the Company or one of its Affiliates ("you").

1. Award of Units
The Company hereby grants to you an award of stock units with respect to its common stock, par value $0.01 per share (the “Stock”), pursuant to the Raytheon 2010 Stock Plan (as amended from time to time, the “Plan”), subject to the terms and conditions set forth in this Agreement.

Total Target Number of Shares of Stock	
Performance Cycle	Calendar years through

2. Conditions to Award
Pursuant to this Award, you will be entitled to a payment based on your Total Target Number of Shares of Stock set forth above and the Company’s performance during the Performance Cycle with respect to (i) the Company’s average “Return on Invested Capital” (weighted at fifty percent (50%) of the Total Target Number of Shares of Stock); (ii) the Company’s “Cumulative Free Cash Flow from Continuing Operations” (weighted at twenty-five percent (25%) of the Total Target Number of Shares of Stock); and (iii) the Total Shareholder Return of the Company (compounded annually), relative to that of its Peers (weighted at twenty-five percent (25%) of the Total Target Number of Shares of Stock) (each a “metric” and collectively the “metrics”). The actual amount of such payment will be determined by multiplying the Total Target Number of Shares of Stock by the applicable Target Share Award Multiplier from the tables in this Section 2. The Target Share Award Multiplier for each metric will be determined based on the level of the Company’s performance during the Performance Cycle relative to that metric as set forth in the applicable table. The precise extent to which the Company will have satisfied the metrics, and any shares of Stock will have been earned, will be determined by the Management Development and Compensation Committee of the Company’s Board (the “Committee”) as soon as practicable following the close of the Performance Cycle and, to the extent reasonably practicable, will be calculated without regard to any change in applicable accounting standards or tax statutes after the grant of this Award.

	Metric	Target Share Award Multiplier
Maximum		
Target		
Threshold		

3. Effect of Termination of Employment, Etc.
You must remain an employee until the end of the Performance Cycle in order to be entitled to any payment pursuant to this Award, except as provided in Section 4 below and except as follows. Subject to Section 4, if your employment with the Company ends during the Performance Cycle on account of your Retirement, as that term is defined in the Plan, or because you become disabled or die, then after the end of the Performance Cycle, you (or in the event of your death, your estate) will be entitled to a pro rata portion of the number of shares of Stock you would have received, if any, had you remained employed until the end of the Performance Cycle. The pro rata portion will be based on the number of full months in the Performance Cycle during which you were employed as compared to the total number of months in the Performance Cycle.

4. Effect of Change in Control
If a Change in Control, as defined in the Plan, should occur during the Performance Cycle, then the number of shares of Stock you will be entitled to receive will be determined as of the effective date of the Change in Control and such shares (or other consideration payable in connection with the assumption, continuation or substitution of the Award) shall become payable as set forth below.

A. <u>Award Assumed, Continued or Substituted</u>. If this Award is assumed, continued or substituted in connection with the Change in Control, then (i) if you remain an employee through the completion of the Performance Cycle, you will be paid the shares issuable under this Award (as determined pursuant to Section 4 D) or other consideration payable in connection with such assumption, continuation or substitution promptly following the end of the Performance Cycle but no later than thirty (30) days after the end of the Performance Cycles; and (ii) in the event of your Involuntary Termination within twenty-four (24) months following the Change in Control, the shares issuable under this Award (as determined pursuant to Section 4 D) or other consideration payable in connection with such assumption, continuation or substitution shall be issued immediately upon such Involuntary Termination or as soon as practicable thereafter, but in no event more than thirty (30) days after such Involuntary Termination. If your employment terminates prior to the completion of the Performance Cycle for any reason other than an Involuntary Termination or as otherwise provided in Section 4 C, the Award shall be immediately cancelled upon such termination and you shall thereupon cease to have any right or entitlement to receive any shares or other consideration under the Award.

B. Award not Assumed, Continued or Substituted. If this Award is not assumed, continued or substituted in connection with the Change in Control, then the shares issuable under this Award (as determined pursuant to Section 4 D) shall be issued on the effective date of the Change in Control (or as soon as administratively practicable thereafter, but no later than thirty (30) days following the effective date of the Change in Control) provided that the Award is not deemed to constitute nonqualified deferred compensation under Code Section 409A.

C. Retirement, Death or Disability. If the Change in Control occurs after your employment with the Company ends on account of your Retirement or because you become disabled or die, then you (or in the event of your death, your estate) will be entitled to a pro rata portion of the number of shares of Stock as determined pursuant to Section 4 D and such shares shall be issued to you on the effective date of the Change in Control or as soon as administratively practicable thereafter, but no later than thirty (30) days following the effective date of the Change in Control. If your employment with the Company ends on account of your Retirement or because you become disabled or die after the Change in Control occurs, then you (or in the event of your death, your estate) will be entitled to a pro rata portion of the number of shares of Stock as determined pursuant to Section 4 D or other consideration payable in connection with an assumption, continuation or substitution of the Award and such shares or other consideration shall be issued upon termination of your employment. In each case, the pro rata portion will be based on the number of full months in the Performance Cycle during which you were employed as compared to the total number of months in the Performance Cycle.

D. Number of Shares of Stock. In the event the Change in Control occurs and you remain an employee through the effective date of the Change in Control, you will be entitled to receive .

5. Payment

A. Settlement of Award. Except as otherwise provided in Sections 3 and 4 above, the actual number of shares (or amount of cash in lieu of shares) that you receive at the end of the Performance Cycle will be determined based upon the degree to which each metric is attained. You will be entitled to receive 100% of your Total Target Number of Shares of Stock if Target performance is achieved in all three metrics. If performance falls below the Threshold for a metric, no shares of Stock or cash will be awarded for that metric. When performance for a metric is at or above Threshold performance, shares of Stock or cash will be paid out based upon the performance level indicated in Section 2 above, up to a maximum of two times the Target performance level. When performance for a metric falls between two performance levels, payout will be based upon the lower Target Share Award Multiplier. Accordingly, depending upon the level of attainment of each metric, the maximum number of shares of Stock that could be issued in settlement of your Award is two times your Total Target Number of Shares of Stock. The total actual number of shares that you receive under this Award, including shares attributable to dividend equivalent amounts, will be rounded up to the nearest whole share.

B. Timing. Promptly following determination of the number of shares of Stock you have earned under this Award but no later than March 15 after the end of the Performance Cycle, such number, if any, will be paid to you together with a dividend equivalent amount of shares calculated in accordance with Section 5 C below.

C. Dividend Equivalents. For each dividend declared by the Company's Board of Directors (the "Board") during the period beginning on the date of grant of this Award and ending at the end of the Performance Cycle, whether in cash or stock, if any (a "LTPP Dividend"), a dividend equivalent amount will be calculated assuming that the shares of Stock to which you ultimately become entitled under this Award (including shares attributable to dividend equivalent amounts from prior LTPP Dividends, if any) were entitled to such LTPP Dividend and that the dividend equivalent amount had been reinvested in additional shares of Stock as of the payment date of such LTPP Dividend. You will not be entitled to any dividend equivalent amount on shares of Stock covered by this Award which are not ultimately earned.

D. Form of Payment. The Committee in its discretion may settle Awards, including any dividend equivalent amounts, in shares of Stock or cash, or a combination thereof. Cash payments, if any, shall be calculated based upon the fair market value of a share of Stock on the date on which the Committee determines the extent to which the Company has satisfied the metrics and the number of shares of Stock to be issued in settlement of the Award.

E. Taxes. Taxes may be assessed and/or withheld as required by law at applicable United States federal, state and/or other tax rates (under the laws of the jurisdictions in which you reside or that may otherwise be applicable to you) with respect to units, issuance of Shares and/or cash. Notwithstanding anything in this Agreement to the contrary, any payment described in this Agreement shall be reduced by a number of shares, or cash amount to the extent settlement is made in cash, necessary to satisfy tax withholding obligations.

6. Post-Employment Conduct

Except where prohibited by law, by accepting this Award, you agree to the Post-Employment Conduct restrictions contained in Exhibit A to this Award Agreement.

7. Other Provisions

A. Future Adjustments. In the event of any merger, acquisition, disposition or other corporate event affecting the Company or any peer company during the Performance Cycle, the Committee may make such adjustments to the peer group of companies, the total return calculations of the affected companies, and the metrics set forth in Section 2 as it may determine would most nearly carry out the original purposes and intent of this Award.

B. No Guaranty of Future Awards. This Award in no way guarantees you the right to or expectation that you may receive similar awards with respect to any other similar performance cycle or period which the Committee may, in its discretion, establish and as to which the Committee may elect to grant awards under the Plan.

C. No Rights as Shareholder. You will not be considered a shareholder of the Company with respect to the shares of Stock covered by this Award or any dividend equivalent amount of shares unless and until shares of Stock are issued to you in settlement of this Award.

D. No Rights to Continued Employment. This Award shall not be deemed to create a contract or other promise of continued employment with the Company or an Affiliate and shall not in any way prohibit or restrict the ability of the Company or an Affiliate to terminate your employment at any time for any reason.

E. Compliance with Section 409A of the Internal Revenue Code. Notwithstanding anything in this Agreement to the contrary, to the extent that this Agreement constitutes a nonqualified deferred compensation plan to which Internal Revenue Code Section 409A applies, the administration of this Award (including time and manner of payments under it) shall comply with Code Section 409A. Any shares or other amounts payable under this Agreement on a termination of your employment may only be paid on a separation from service (as such term is defined under Code Section 409A and regulations thereunder). No shares or other amounts which become issuable or distributable under this Agreement upon your separation from service shall actually be issued or distributed to you prior to the earlier of (i) the first (1st) day of the seventh (7th) month following the date of such Separation from Service or (ii) the date of your death, if you are is deemed at the time of such Separation from Service to be a specified employee under Section 1.409A-1(i) of the Treasury Regulations issued under Code Section 409A, as determined by the Committee, and such delayed commencement is otherwise required in order to avoid a prohibited distribution under Code Section 409A(a)(2). The deferred shares or other distributable amount shall be issued or distributed in a lump sum on the first (1st) day of the seventh (7th) month following the date of your Separation from Service or, if earlier, the first day of the month immediately following the date the Company receives proof of your death.

F. Clawback. If you are an elected officer, in addition to any other remedies available to the Company (but subject to applicable law), if the Board determines that it is appropriate, the Company may recover (in whole or in part) any payment made pursuant to this Award where: (1) the payment was predicated upon achieving certain financial results that were subsequently the subject of a restatement of Company financial statements filed with the Securities and Exchange Commission; (2) the Board determines that you engaged in knowing or intentional fraudulent or illegal conduct that caused or substantially caused the need for the restatement; and (3) a lower payment would have been made to you pursuant to the Award based upon the restated financial results.

G. Plan. All terms and conditions of the Plan are incorporated herein by reference and constitute an integral part hereof. Any capitalized terms used but not defined herein shall have the meanings ascribed to them in the Plan.

H. Notices. Notices required or permitted hereunder shall be in writing and shall be delivered personally or by mail, postage prepaid, addressed to Raytheon Company, 870 Winter Street, Waltham, Massachusetts 02451, Attention: Vice President, Human Resources and Global Security, and to you at your address as shown on the Company's payroll records.

Your acceptance of this Award constitutes your agreement to the terms of this Performance Stock Unit Award Agreement with respect to the – Long-Term Performance Plan.

RAYTHEON COMPANY

____

Name:
Title:

Exhibit A

Post-Employment Conduct

The Post Employment Conduct Restrictions (the "Restrictions") attached as Exhibit A to the Performance Stock Unit Award Agreement (the "Award Agreement") with an Award Date of are agreed to in consideration of, among other things, the grant of restricted stock units to ("you"), under the Award Agreement pursuant to the Raytheon 2010 Stock Plan (the "Plan"). Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Award Agreement or the Plan. The following terms as used herein shall mean:

Authorized Company Representative means

;

Restricted Activity means any activity (A) in which you contribute your knowledge, directly or indirectly, in whole or in part, as an employee, consultant, agent or director or any other similar capacity that, in any such case, involves or relates to products, services or solutions of a Restricted Business that, directly or indirectly, compete with those of the Company; or (B) that may require or involve disclosure of trade secrets, proprietary or confidential information; and

Restricted Business means any business enterprise that operates in one or more of the same markets as the Company including, but not limited to, the following companies:

.

By accepting the Award, you agree as follows:

1. Consideration and Acknowledgement. You acknowledge and agree that the benefits and compensation opportunities being made available to you under the Award Agreement are in addition to the benefits and compensation opportunities that otherwise are or would be available to you in connection with your employment by the Company or an Affiliate and that the payment to you of the pro rata portion of the shares of Stock after the end of the Performance Cycle under Section 3 of the Award Agreement (the "Payment") is expressly made contingent upon your agreements with the Company set forth in these Restrictions. You acknowledge that the scope and duration of the Restrictions are necessary to be effective and are fair and reasonable in light of the value of the benefits and compensation opportunities being made available to you under the Award Agreement. You further acknowledge and agree that as a result of the positions you hold with the Company and the access to and extensive knowledge of the Company's confidential or proprietary information, employees, suppliers and customers, the Restrictions are reasonably required for the protection of the Company's legitimate business interests. In addition, nothing herein is intended to limit or restrict your ability to exercise any legally protected whistleblower rights (including pursuant to Rule 21F under the Securities Exchange Act of 1934).

2. Restrictions.

(a) Covenant Not To Compete – Without the prior written consent of an Authorized Company Representative, you agree that during the period between the termination of your employment with the Company on account of your Retirement and the end of the Performance Cycle (the "Restriction Period") you will not engage in any Restricted Activity for any: (i) Restricted Business; (ii) entity directly or indirectly controlling, controlled by, or under common control with a Restricted Business; and (iii) successor to all or part of the business of any Restricted Business as a result of a merger, reorganization, consolidation, spin-off, split-up, acquisition, divestiture, or similar transaction.

(b) Non-Solicit – Without the prior written consent of an Authorized Company Representative, you agree that during the Restriction Period following cessation of employment you will not (i) interfere with any contractual relationship between the Company or an Affiliate and any customer of, supplier or distributor to, or manufacturer for the Company or an Affiliate to the detriment of the Company or an Affiliate or (ii) induce or attempt to induce any person who is an employee of the Company or an Affiliate to perform work or services for any entity other than the Company or an Affiliate.

(c) Protection of Confidential and Proprietary Information – You agree to keep all confidential and proprietary information of the Company and its Affiliates, including joint venture partners, strictly confidential except to the extent disclosure is required by law or court order, and except to the extent that such confidential and proprietary information has become public through no fault of your own.

(d) Cooperation in Litigation and Investigations – Following the date on which you cease to be an employee of the Company or an Affiliate, you agree, to the extent reasonably requested, to cooperate with the Company in any pending or future litigation (including alternative dispute resolution proceedings) or investigations in which the Company or Affiliates is a party or is required or requested to provide testimony and regarding which, as a result of your employment with the Company or an Affiliate, you reasonably could be expected to have knowledge or information relevant to the litigation or investigation. Notwithstanding any other provision of these Restrictions, nothing in these Restrictions shall affect your obligation to cooperate with any governmental inquiry or investigation or to give truthful testimony in court.

3. Annual Validation of Compliance. You acknowledge and agree that you shall confirm in writing to the Company, annually between January 1 and January 31, your compliance with the restrictions set forth in Section 2 hereof. **Failure to provide such annual written confirmation may result in the forfeiture of the Payment.**

4. Result of Breach of Section 2 or Section 3. In the event that you breach any of the covenants or agreements in Section 2 or Section 3 hereof, all of your remaining rights, title or interest in the Payment, the Award and any dividend equivalents with respect thereto, shall cease.

5. Invalidity; Unenforceability. It is the desire and intent of the parties that the provisions of these Restrictions shall be enforced to the fullest extent permissible. Accordingly, if any particular provision of these Restrictions is adjudicated to be invalid or unenforceable, the Award Agreement shall be deemed amended to delete the portion adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of this provision in the particular jurisdiction in which such adjudication is made.

These Restrictions are effective as of the acceptance by you of the Award of Units under this Award Agreement.

Exhibit 10.6

RAYTHEON 2010 STOCK PLAN

RESTRICTED STOCK UNIT AWARD AGREEMENT

This Restricted Stock Unit Award Agreement, dated as of (the "Award Date") is between Raytheon Company (the "Company"), and , an employee of the Company or one of its Affiliates ("you").

1. Award of Units

The Company hereby awards you the number of restricted stock units ("Units") set forth below, with respect to its common stock, par value $0.01 per share (the "Stock"), subject to the terms and conditions of the Raytheon 2010 Stock Plan (the "Plan") and the vesting and other provisions of this Agreement. Subject to the provisions hereof, each Unit represents the right to receive one share of Stock (a "Share") plus additional cash payments in lieu of dividends as described in Section 6 below.

Total Number of Restricted Units (the "Award"):	**Vesting Date/# Units**
Vesting Schedule: (Each period from the Award Date until the Vesting Date is a "Restriction Period".)	

2. Acceptance of Award

This Award is not effective or enforceable until you properly acknowledge your acceptance of the Award by completing the electronic acceptance as instructed below no later than . If you do not properly acknowledge your acceptance of this Award Agreement on or before , this Award will be forfeited.

Acceptance of this Award Agreement must be made only by you personally or by a person acting pursuant to a power of attorney in the event of your inability to acknowledge your acceptance due to your disability or deployment in the Armed Forces (and not by your estate, your spouse or any other person). If you desire to accept this Award, you must acknowledge your acceptance and receipt of this Award Agreement electronically by going to and following the instructions for acceptance on the website.

Assuming prompt and proper acknowledgement of your acceptance of this Award Agreement as described above, this Award will be effective as of the Award Date. Acceptance of this Award Agreement constitutes your consent to any action taken under the Plan consistent with its terms with respect to this Award and your agreement to be bound by the restrictions contained in Exhibit A attached hereto ("Post-Employment Conduct").

3. Vesting of Units on Continued Service

Subject to Sections 4, 5, and 8E below, if you are continuously employed by the Company or an Affiliate from the Award Date until the Vesting Date noted above, the Units associated with that Vesting Date shall vest and the restrictions on those Units shall lapse.

4. Effect of Termination of Employment

Notwithstanding anything herein to the contrary, if (i) on the Award Date you have attained at least the age of sixty (60) and have completed at least ten (10) years of service and (ii) you cease to be an employee of the Company or an Affiliate for any reason, other than for Cause, after the Award Date but prior to the end of the Restriction Period, you will continue to vest in your Units and receive dividend equivalents (as provided in Section 6 below) per the Vesting Schedule, as if you remained employed by the Company or an Affiliate until the end of the Restriction Period.

5. Effect of Death, Medical Leave of Absence, Disability or Change in Control.

Notwithstanding anything above to the contrary, the Units shall vest and restrictions on the Units shall lapse as follows:

a) immediately upon your death;

b) in accordance with the Vesting Schedule in the event of (i) a Medical Leave of Absence of at least one year or (ii) Disability; or

c) immediately upon your termination of employment by reason of an Involuntary Termination within two (2) years following a Change in Control, if in connection with such Change in Control this Award was assumed, continued, substituted or cancelled in exchange for cash payments subject to vesting (in which case such cash payments shall become fully vested, subject to any escrow, holdback, earn-out or similar provisions applicable to holders of Stock).

6. Payment; Dividend Equivalents
The Company shall deliver to you evidence of ownership of the net number of Shares equal to the number of vested Units reduced by the number of Shares previously accelerated to pay taxes, if any, and the number of Shares necessary to satisfy tax withholding obligations, both as described in Section 8E below, as soon as practicable after the Vesting Date applicable to the Units or after the vesting of the Units pursuant to Section 5 above, if earlier. During any Restriction Period, unless otherwise forfeited, you shall be entitled to receive a cash payment in lieu of dividends on the number of Shares the Units covered by this Award represent, when, if and to the extent that the Board has approved a dividend for all Company common shareholders during any Restriction Period.

7. Post-Employment Conduct
Except where prohibited by law, by accepting this Award, you agree to the Post-Employment Conduct restrictions contained in Exhibit A to this Award Agreement.

8. Other Provisions

A. No Guaranty of Future Awards. This Award does not guarantee you the right to or expectation of future Awards under the Plan or any future plan adopted by the Company.

B. No Rights as Shareholder**.** You shall not be considered a shareholder of the Company with respect to the Units until Shares are issued to you in payment of the Units. Therefore, you have no right to vote the Units or to receive dividends with respect to such Units except as provided in Section 6 above.

C. No Rights to Continued Employment; Recipient Obligations. This Award shall not be deemed to create a contract or other promise of continued employment with the Company or an Affiliate and shall not in any way prohibit or restrict the ability of the Company or an Affiliate to terminate your employment at any time for any reason. This Award Agreement provides for certain obligations on your part following the cessation of your employment with the Company or an Affiliate and shall not, by implication or otherwise, affect in any way your obligations to the Company or an Affiliate during the term of your employment by the Company or an Affiliate, whether pursuant to written agreements between the Company and you, the provisions of applicable Company policies that may be adopted from time to time or applicable law or regulation.

D. Restrictions on Transfer of Units. Until the vesting of, and lapse of the restrictions applicable to, any Units and the delivery of Shares in payment therefor, Units may not be sold, transferred, pledged, exchanged, hypothecated or disposed of by you and shall not be subject to execution, attachment or similar process.

E. Taxes. Taxes may be assessed and/or withheld as required by law at applicable United States federal, state and/or other tax rates (under the laws of the jurisdictions in which you reside or that may otherwise be applicable to you) with respect to Units, issuance of Shares and cash in lieu of dividends. The Company will accelerate the vesting and payment of Units to pay your Federal Insurance Contributions Act (FICA) tax on Units, the income tax withholding that results from payment of your FICA tax, and your additional FICA tax and income tax withholding attributable to the pyramiding of FICA tax and income tax withholding due to the foregoing payments.

F. Clawback. If you are an elected officer, in addition to any other remedies available to the Company (but subject to applicable law), if the Board determines that it is appropriate, the Company may recover (in whole or in part) any payment made pursuant to this Award where: (1) the payment was predicated upon achieving certain financial results that were subsequently the subject of a restatement of Company financial statements filed with the Securities and Exchange Commission; (2) the Board determines that you engaged in knowing or intentional fraudulent or illegal conduct that caused or substantially caused the need for the restatement; and (3) a lower payment would have been made to you pursuant to the Award based upon the restated financial results. In any such instance, the Company will, to the extent practicable, seek to recover from you the amount by which the payment pursuant to the Award for the relevant period exceeded the lower payment that would have been made based on the restated financial results. The Company's right of recovery applies to both the vested and unvested portion of the Award.

G. Compliance with Section 409A of the Code. Notwithstanding anything in this Agreement to the contrary, to the extent that this Agreement constitutes a nonqualified deferred compensation plan to which Code Section 409A applies, the administration of this Award (including time and manner of payments under it) shall comply with Section 409A.

H. Plan. All terms and conditions of the Plan are incorporated herein by reference and constitute an integral part hereof. Any capitalized terms used but not defined herein shall have the meanings ascribed to them in the Plan.

I. Notices. Notices required or permitted hereunder shall be in writing and shall be delivered personally or by mail, postage prepaid, addressed to Raytheon Company, 870 Winter Street, Waltham, Massachusetts 02451, Attention: Vice President, Human Resources and Global Security, and, if to you, to your address as shown on the Company's payroll records.

J. Entire Agreement; Successors and Assigns. The Plan and this Award Agreement constitute the entire agreement governing the terms of the Award to you. The Award Agreement shall inure to the benefit of the Company's successors and assigns and may be assigned by the Company without your consent.

K. Governing Law. This Award Agreement shall be governed by the law of the Commonwealth of Massachusetts, without regard to its provisions governing conflicts of law.

Your acceptance of this Award constitutes your agreement to the terms of this Restricted Stock Unit Award Agreement.

RAYTHEON COMPANY

____
Name:
Title:

Exhibit A

Post-Employment Conduct

The Post Employment Conduct Restrictions (the "Restrictions") attached as Exhibit A to the Restricted Stock Unit Award Agreement (the "Award Agreement") with an Award Date of are agreed to in consideration of, among other things, the grant of restricted stock units to ("you"), under the Award Agreement pursuant to the Raytheon 2010 Stock Plan (the "Plan"). Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Award Agreement or the Plan. The following terms as used herein shall mean:

Authorized Company Representative means

;

Restricted Activity means any activity (A) in which you contribute your knowledge, directly or indirectly, in whole or in part, as an employee, consultant, agent or director or any other similar capacity that, in any such case, involves or relates to products, services or solutions of a Restricted Business that, directly or indirectly, compete with those of the Company; or (B) that may require or involve disclosure of trade secrets, proprietary or confidential information; and

Restricted Business means any business enterprise that operates in one or more of the same markets as the Company including, but not limited to, the following companies:

.

By accepting the Award, you agree as follows:

1. Consideration and Acknowledgement. You acknowledge and agree that the benefits and compensation opportunities being made available to you under the Award Agreement are in addition to the benefits and compensation opportunities that otherwise are or would be available to you in connection with your employment by the Company or an Affiliate and that the continued vesting of the Award under Sections 4 and 5 of the Award Agreement is expressly made contingent upon your agreements with the Company set forth in these Restrictions. You acknowledge that the scope and duration of the Restrictions are necessary to be effective and are fair and reasonable in light of the value of the benefits and compensation opportunities being made available to you under the Award Agreement. You further acknowledge and agree that as a result of the positions you hold with the Company and the access to and extensive knowledge of the Company's confidential or proprietary information, employees, suppliers and customers, the Restrictions are reasonably required for the protection of the Company's legitimate business interests. In addition, nothing herein is intended to limit or restrict your ability to exercise any legally protected whistleblower rights (including pursuant to Rule 21F under the Securities Exchange Act of 1934).

2. Restrictions.

(a) Covenant Not To Compete – Without the prior written consent of an Authorized Company Representative, you agree that during any Restriction Period following cessation of employment you will not engage in any Restricted Activity for any: (i) Restricted Business; (ii) entity directly or indirectly controlling, controlled by, or under common control with a Restricted Business; and (iii) successor to all or part of the business of any Restricted Business as a result of a merger, reorganization, consolidation, spin-off, split-up, acquisition, divestiture, or similar transaction.

(b) Non-Solicit – Without the prior written consent of an Authorized Company Representative, you agree that during any Restriction Period following cessation of employment you will not (i) interfere with any contractual relationship between the Company or an Affiliate and any customer of, supplier or distributor to, or manufacturer for the Company or an Affiliate to the detriment of the Company or an Affiliate or (ii) induce or attempt to induce any person who is an employee of the Company or an Affiliate to perform work or services for any entity other than the Company or an Affiliate.

(c) Protection of Confidential and Proprietary Information – You agree to keep all confidential and proprietary information of the Company and its Affiliates, including joint venture partners, strictly confidential except to the extent disclosure is required by law or court order, and except to the extent that such confidential and proprietary information has become public through no fault of your own.

(d) Cooperation in Litigation and Investigations – Following the date on which you cease to be an employee of the Company or an Affiliate, you agree, to the extent reasonably requested, to cooperate with the Company in any pending or future litigation (including alternative dispute resolution proceedings) or investigations in which the Company or Affiliates is a party or is required or requested to provide testimony and regarding which, as a result of your employment with the Company or an Affiliate, you reasonably could be expected to have knowledge or information relevant to the litigation or investigation. Notwithstanding any other provision of these Restrictions, nothing in these Restrictions shall affect your obligation to cooperate with any governmental inquiry or investigation or to give truthful testimony in court.

3. Annual Validation of Compliance. You acknowledge and agree that you shall confirm in writing to the Company, annually between January 1 and January 31, your compliance with the restrictions set forth in Section 2 hereof. **Failure to provide such annual written confirmation may result in the forfeiture of any unvested Units.**

4. Result of Breach of Section 2 or Section 3. In the event that you breach any of the covenants or agreements in Section 2 or Section 3 hereof, to the extent your Units have not fully vested, all of your remaining rights, title or interest in the Award and any dividend equivalents with respect thereto, shall cease.

5. Invalidity; Unenforceability. It is the desire and intent of the parties that the provisions of these Restrictions shall be enforced to the fullest extent permissible. Accordingly, if any particular provision of these Restrictions is adjudicated to be invalid or unenforceable, the Award Agreement shall be deemed amended to delete the portion adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of this provision in the particular jurisdiction in which such adjudication is made.

These Restrictions are effective as of the acceptance by you of the Award of Units under this Award Agreement and is not contingent on the vesting of your Units.

RAYTHEON 2010 STOCK PLAN

RESTRICTED STOCK UNIT AWARD AGREEMENT
(Non U.S. Persons)

This Restricted Stock Unit Award Agreement, dated as of (the "Award Date") is between Raytheon Company (the "Company"), and , an employee of the Company or one of its Affiliates ("you").

1. Award of Units
The Company hereby awards you the number of restricted stock units ("Units") set forth below, with respect to its common stock, par value $0.01 per share (the "Stock"), subject to the terms and conditions of the Raytheon 2010 Stock Plan (the "Plan") and the vesting and other provisions of this Agreement. Subject to the provisions hereof, each Unit represents the right to receive one share of Stock (a "Share") plus additional cash payments in lieu of dividends as described in Section 5 below.

Total Number of Restricted Units (the "Award"):	
Vesting Schedule: (Each period from the Award Date until the Vesting Date is a "Restriction Period".)	**Vesting Date/# Units**

2. Acceptance of Award

This Award is not effective or enforceable until you properly acknowledge your acceptance of the Award by completing the electronic acceptance as instructed below no later than . If you do not properly acknowledge your acceptance of this Award Agreement on or before , this Award will be forfeited.

Acceptance of this Award Agreement must be made only by you personally or by a person acting pursuant to a power of attorney in the event of your inability to acknowledge your acceptance due to your disability or deployment in the Armed Forces (and not by your estate, your spouse or any other person). If you desire to accept this Award, you must acknowledge your acceptance and receipt of this Award Agreement electronically by going to and following the instructions for acceptance on the website.

Assuming prompt and proper acknowledgement of your acceptance of this Award Agreement as described above, this Award will be effective as of the Award Date. Acceptance of this Award Agreement constitutes your consent to any action taken under the Plan consistent with its terms with respect to this Award and your agreement to be bound by the restrictions contained in Exhibit A attached hereto ("Post-Employment Conduct").

3. Vesting of Units on Continued Service
Subject to Sections 4, 5, and 8F below, if you are continuously employed by the Company or an Affiliate from the Award Date until the Vesting Date noted above, the Units associated with that Vesting Date shall vest and the restrictions on those Units shall lapse.

4. Effect of Termination of Employment
Notwithstanding anything herein to the contrary, if (i) on the Award Date you have attained at least the age of sixty (60) and have completed at least ten (10) years of service and (ii) you cease to be an employee of the Company or an Affiliate for any reason, other than for Cause, after the Award Date but prior to the end of the Restriction Period, you will continue to vest in your Units and dividend equivalents (as provided in Section 6 below) per the Vesting Schedule, as if you remained employed by the Company or an Affiliate until the end of the Restriction Period.

5. Effect of Death, Medical Leave of Absence, Disability or Change in Control.
Notwithstanding anything above to the contrary, the Units shall vest and restrictions on the Units shall lapse as follows:

a) immediately upon your death;

b) in accordance with the Vesting Schedule in the event of (i) a Medical Leave of Absence of at least one year or (ii) Disability; or

c) immediately upon your termination of employment by reason of an Involuntary Termination within two (2) years following a Change in Control, if in connection with such Change in Control this Award was assumed, continued, substituted or cancelled in exchange for cash payments subject to vesting (in which case such cash payments shall become fully vested, subject to any escrow, holdback, earn-out or similar provisions applicable to holders of Stock).

6. Payment of Dividend Equivalents

The Company shall deliver to you evidence of ownership of the net number of Shares equal to the number of vested Units reduced by the number of Shares previously accelerated to pay taxes, if any, and the number of Shares necessary to satisfy tax withholding obligations, both as described in Section 8F below as soon as practicable after the Vesting Date applicable to the Units or after the vesting of the Units pursuant to Section 5 above, if earlier. At any time delivery of Shares in respect of Units is required under the preceding sentences, you also shall be entitled to receive a cash payment in lieu of dividends on the number of Shares those Units represent, if and to the extent that the Board has approved a dividend for all Company shareholders during the Restriction Period applicable to such Units. The dividend equivalent amount shall be a cash payment based upon the number of Units vesting hereunder multiplied by each quarterly per share dividend approved by the Board during the Restriction Period applicable to such Units (or portion of the Restriction Period preceding the Company's delivery to you of the Shares). You will not be entitled to any cash payment in lieu of dividends relating to Units covered by this Award which are forfeited prior to vesting.

7. Post-Employment Conduct

Except where prohibited by law, by accepting this Award, you agree to the Post-Employment Conduct restrictions contained in Exhibit A to this Award Agreement.

8. Other Provisions

A. Employer's National Insurance Contributions - UK Recipients Only. The Company has granted this Award on the terms that vesting is, if you are a resident of the United Kingdom, conditional upon the Recipient agreeing to pay for any secondary Class 1 National Insurance contributions arising in respect of the Units awarded hereunder, by executing this Agreement or (if the Company so determines) by completing and delivering to the Company prior to vesting a joint election in respect of the same in a form approved by HM Revenue & Customs.

B. No Guaranty of Future Awards. This Award does not guarantee you the right to or expectation of future Awards under the Plan or any future plan adopted by the Company.

C. No Rights as Shareholder**.** You shall not be considered a shareholder of the Company with respect to the Units until Shares are issued to you in payment of the Units. Therefore, you have no right to vote the Units or to receive dividends with respect to such Units except as provided in Section 6 above.

D. No Rights to Continued Employment; Recipient Obligations. This Award shall not be deemed to create a contract or other promise of continued employment with the Company or an Affiliate and shall not in any way prohibit or restrict the ability of the Company or an Affiliate to terminate your employment at any time for any reason. This Award Agreement provides for certain obligations on your part following the cessation of your employment with the Company or an Affiliate and shall not, by implication or otherwise, affect in any way your obligations to the Company or an Affiliate during the term of your employment by the Company or an Affiliate, whether pursuant to written agreements between the Company and you, the provisions of applicable Company policies that may be adopted from time to time or applicable law or regulation.

E. Restrictions on Transfer of Units. Until the vesting of, and lapse of the restrictions applicable to, any Units and the delivery of Shares in payment therefor, Units may not be sold, transferred, pledged, exchanged, hypothecated or disposed of by you and shall not be subject to execution, attachment or similar process.

F. Taxes. Taxes may be assessed and/or withheld as required by law at applicable United States federal, state and/or other tax rates (under the laws of the jurisdictions in which you reside or that may otherwise be applicable to you) with respect to Units, issuance of Shares and cash in lieu of dividends. The Company will accelerate the vesting and payment of Units to pay your Federal Insurance Contributions Act (FICA) tax on Units, the income tax withholding that results from payment of your FICA tax, and your additional FICA tax and income tax withholding attributable to the pyramiding of FICA tax and income tax withholding due to the foregoing payments.

G. Clawback. If you are an elected officer, in addition to any other remedies available to the Company (but subject to applicable law), if the Board determines that it is appropriate, the Company may recover (in whole or in part) any payment made pursuant to this Award where: (1) the payment was predicated upon achieving certain financial results that were subsequently the subject of a restatement of Company financial statements filed with the Securities and Exchange Commission; (2) the Board determines that you engaged in knowing or intentional fraudulent or illegal conduct that caused or substantially caused the need for the restatement; and (3) a lower payment would have been made to you pursuant to the Award based upon the restated financial results. In any such instance, the Company will, to the extent practicable, seek to recover from you the amount by which the payment pursuant to the Award for the relevant period exceeded the lower payment that would have been made based on the restated financial results. The Company's right of recovery applies to both the vested and unvested portion of the Award.

H. Compliance with Section 409A of the Code. Notwithstanding anything in this Agreement to the contrary, to the extent that this Agreement constitutes a nonqualified deferred compensation plan to which Code Section 409A applies, the administration of this Award (including time and manner of payments under it) shall comply with Section 409A.

I. Plan. All terms and conditions of the Plan are incorporated herein by reference and constitute an integral part hereof. Any capitalized terms used but not defined herein shall have the meanings ascribed to them in the Plan.

J. Notices. Notices required or permitted hereunder shall be in writing and shall be delivered personally or by mail, postage prepaid, addressed to Raytheon Company, 870 Winter Street, Waltham, Massachusetts 02451, Attention: Vice President, Human Resources and Global Security, and, if to you, to your address as shown on the Company's payroll records.

K. Entire Agreement; Successors and Assigns. The Plan and this Award Agreement constitute the entire agreement governing the terms of the Award to you. The Award Agreement shall inure to the benefit of the Company's successors and assigns and may be assigned by the Company without your consent.

L. Governing Law. This Award Agreement shall be governed by the law of the Commonwealth of Massachusetts, without regard to its provisions governing conflicts of law.

Your acceptance of this Award constitutes your agreement to the terms of this Restricted Stock Unit Award Agreement.

RAYTHEON COMPANY

____
Name:
Title:

Exhibit A

Post-Employment Conduct

The Post Employment Conduct Restrictions (the "Restrictions") attached as Exhibit A to the Restricted Stock Unit Award Agreement (the "Award Agreement") with an Award Date of are agreed to in consideration of, among other things, the grant of restricted stock units to ("you"), under the Award Agreement pursuant to the Raytheon 2010 Stock Plan (the "Plan"). Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Award Agreement or the Plan. The following terms as used herein shall mean:

Authorized Company Representative means

;

Restricted Activity means any activity (A) in which you contribute your knowledge, directly or indirectly, in whole or in part, as an employee, consultant, agent or director or any other similar capacity that, in any such case, involves or relates to products, services or solutions of a Restricted Business that, directly or indirectly, compete with those of the Company; or (B) that may require or involve disclosure of trade secrets, proprietary or confidential information; and

Restricted Business means any business enterprise that operates in one or more of the same markets as the Company including, but not limited to, the following companies:

.

By accepting the Award, you agree as follows:

1. Consideration and Acknowledgement. You acknowledge and agree that the benefits and compensation opportunities being made available to you under the Award Agreement are in addition to the benefits and compensation opportunities that otherwise are or would be available to you in connection with your employment by the Company or an Affiliate and that the continued vesting of the Award under Sections 4 and 5 of the Award Agreement is expressly made contingent upon your agreements with the Company set forth in these Restrictions. You acknowledge that the scope and duration of the Restrictions are necessary to be effective and are fair and reasonable in light of the value of the benefits and compensation opportunities being made available to you under the Award Agreement. You further acknowledge and agree that as a result of the positions you hold with the Company and the access to and extensive knowledge of the Company's confidential or proprietary information, employees, suppliers and customers, the Restrictions are reasonably required for the protection of the Company's legitimate business interests. In addition, nothing herein is intended to limit or restrict your ability to exercise any legally protected whistleblower rights (including pursuant to Rule 21F under the Securities Exchange Act of 1934).

2. Restrictions.

(a) Covenant Not To Compete - Without the prior written consent of an Authorized Company Representative, you agree that during any Restriction Period following cessation of employment you will not engage in any Restricted Activity for any: (i) Restricted Business; (ii) entity directly or indirectly controlling, controlled by, or under common control with a Restricted Business; and (iii) successor to all or part of the business of any Restricted Business as a result of a merger, reorganization, consolidation, spin-off, split-up, acquisition, divestiture, or similar transaction.

(b) Non-Solicit - Without the prior written consent of an Authorized Company Representative, you agree that during any Restriction Period following cessation of employment you will not (i) interfere with any contractual relationship between the Company or an Affiliate and any customer of, supplier or distributor to, or manufacturer for the Company or an Affiliate to the detriment of the Company or an Affiliate or (ii) induce or attempt to induce any person who is an employee of the Company or an Affiliate to perform work or services for any entity other than the Company or an Affiliate.

(c) Protection of Confidential and Proprietary Information - You agree to keep all confidential and proprietary information of the Company and its Affiliates, including joint venture partners, strictly confidential except to the extent disclosure is required by law or court order, and except to the extent that such confidential and proprietary information has become public through no fault of your own.

(d) Cooperation in Litigation and Investigations - Following the date on which you cease to be an employee of the Company or an Affiliate, you agree, to the extent reasonably requested, to cooperate with the Company in any pending or future litigation (including alternative dispute resolution proceedings) or investigations in which the Company or Affiliates is a party or is required or requested to provide testimony and regarding which, as a result of your employment with the Company or an Affiliate, you reasonably could be expected to have knowledge or information relevant to the litigation or investigation. Notwithstanding any other provision of these Restrictions, nothing in these Restrictions shall affect your obligation to cooperate with any governmental inquiry or investigation or to give truthful testimony in court.

3. Annual Validation of Compliance. You acknowledge and agree that you shall confirm in writing to the Company, annually between January 1 and January 31, your compliance with the restrictions set forth in Section 2 hereof. **Failure to provide such annual written confirmation may result in the forfeiture of any unvested Units.**

4. Result of Breach of Section 2 or Section 3. In the event that you breach any of the covenants or agreements in Section 2 or Section 3 hereof, to the extent your Units have not fully vested, all of your remaining rights, title or interest in the Award and any accrued dividend equivalents with respect thereto, shall cease.

5. Invalidity; Unenforceability. It is the desire and intent of the parties that the provisions of these Restrictions shall be enforced to the fullest extent permissible. Accordingly, if any particular provision of these Restrictions is adjudicated to be invalid or unenforceable, the Award Agreement shall be deemed amended to delete the portion adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of this provision in the particular jurisdiction in which such adjudication is made.

These Restrictions are effective as of the acceptance by you of the Award of Units under this Award Agreement and is not contingent on the vesting of your Units.

Exhibit 15

Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Commissioners:

We are aware that our report dated July 27, 2017 on our review of interim financial information of Raytheon Company and its subsidiaries (the "Company") for the three-month and six-month periods ended July 2, 2017 and July 3, 2016 and included in the Company's Quarterly Report on Form 10-Q for the quarter ended July 2, 2017 is incorporated by reference in its Registration Statements on Form S-3 (File Nos. 333-211878; 333-71974; 333-58474; 333-82529; and 333-44321) and Form S-8 (File Nos. 333-124690; 333-56117; 333-52536; 333-64168; 333-45629; and 333-168415).

Very truly yours,

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Boston, Massachusetts
July 27, 2017

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas A. Kennedy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Raytheon Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 27, 2017

/s/ Thomas A. Kennedy

Thomas A. Kennedy
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Anthony F. O'Brien, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Raytheon Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 27, 2017

/s/ Anthony F. O'Brien

Anthony F. O'Brien
Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Raytheon Company (the "Company") on Form 10-Q for the period ended July 2, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas A. Kennedy, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas A. Kennedy

Thomas A. Kennedy
Chairman and Chief Executive Officer

July 27, 2017

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Raytheon Company (the “Company”) on Form 10-Q for the period ended July 2, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Anthony F. O'Brien, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Anthony F. O'Brien

Anthony F. O'Brien
Vice President and Chief Financial Officer

July 27, 2017

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.