RAYTHEON CO/
Form 10-Q
October 26, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended October 1, 2017

o 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 ý No ¨

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

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

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

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 ý

Number of shares of common stock outstanding as of October 23, 2017 was 289,087,000.

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Cautionary Note Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of federal securities laws, including information regarding our financial outlook, future plans, objectives, business prospects, trends and anticipated financial performance, including with respect to: our liquidity and capital resources; our capital expenditures; our bookings and backlog; our expected tax payments; our pension 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; our reclassifications of gains on cash flow hedges; 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, 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.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RAYTHEON COMPANY
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In millions, except per share amounts)	Oct 1, 2017	Dec 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$2,311	$3,303
Short-term investments	—	100
Receivables, net	1,393	1,163
Contract assets	5,892	5,041
Inventories	693	608
Prepaid expenses and other current assets	489	670
Total current assets	10,778	10,885
Property, plant and equipment, net	2,248	2,166
Goodwill	14,878	14,788
Other assets, net	2,374	2,399
Total assets	$30,278	$30,238
Liabilities, Redeemable Noncontrolling Interest and Equity		
Current liabilities		
Commercial paper	$300	$—
Contract liabilities	2,519	2,646
Accounts payable	1,347	1,520
Accrued employee compensation	1,165	1,234
Other current liabilities	1,161	1,139
Total current liabilities	6,492	6,539
Accrued retiree benefits and other long-term liabilities	7,791	7,758
Long-term debt	4,749	5,335
Commitments and contingencies (Note 10)		
Redeemable noncontrolling interest (Note 8)	389	449
Equity		
Raytheon Company stockholders' equity		
Common stock, par value, $0.01 per share, 1,450 shares authorized, 289 and 293 shares outstanding at October 1, 2017 and December 31, 2016, respectively	3	3
Additional paid-in capital	—	—
Accumulated other comprehensive loss	(7,075)	(7,411)
Retained earnings	17,929	17,565
Total Raytheon Company stockholders' equity	10,857	10,157
Noncontrolling interests in subsidiaries	—	—
Total equity	10,857	10,157
Total liabilities, redeemable noncontrolling interest and equity	$30,278	$30,238

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

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RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	Oct 1, 2017	Oct 2, 2016	Oct 1, 2017	Oct 2, 2016
Net sales				
Products	$5,305	$5,061	$15,656	$14,990
Services	979	953	2,909	2,855
Total net sales	6,284	6,014	18,565	17,845
Operating expenses				
Cost of sales—products	3,872	3,705	11,531	10,948
Cost of sales—services	818	769	2,374	2,329
General and administrative expenses	736	710	2,212	2,153
Total operating expenses	5,426	5,184	16,117	15,430
Operating income	858	830	2,448	2,415
Non-operating (income) expense, net				
Interest expense	48	58	157	174
Interest income	(4)	(4)	(14)	(12)
Other (income) expense, net	(2)	(4)	26	(7)
Total non-operating (income) expense, net	42	50	169	155
Income from continuing operations before taxes	816	780	2,279	2,260
Federal and foreign income taxes	248	239	667	601
Income from continuing operations	568	541	1,612	1,659
Income (loss) from discontinued operations, net of tax	(1)	1	2	1
Net income	567	542	1,614	1,660
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	(5)	(2)	(17)	(29)
Net income attributable to Raytheon Company	$572	$544	$1,631	$1,689
Basic earnings per share attributable to Raytheon Company common stockholders:				
Income from continuing operations	$1.97	$1.84	$5.59	$5.68
Income (loss) from discontinued operations, net of tax	—	—	0.01	—
Net income	1.97	1.84	5.60	5.68
Diluted earnings per share attributable to Raytheon Company common stockholders:				
Income from continuing operations	$1.97	$1.84	$5.59	$5.67
Income (loss) from discontinued operations, net of tax	—	—	0.01	—
Net income	1.97	1.84	5.60	5.68
Amounts attributable to Raytheon Company common stockholders:				
Income from continuing operations	$573	$543	$1,629	$1,688
Income (loss) from discontinued operations, net of tax	(1)	1	2	1
Net income	$572	$544	$1,631	$1,689
Dividends declared per share	$0.7975	$0.7325	$2.3925	$2.1975

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

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RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In millions)	Three Months Ended		Nine Months Ended	
	Oct 1, 2017	Oct 2, 2016	Oct 1, 2017	Oct 2, 2016
Net income	$567	$542	$1,614	$1,660
Other comprehensive income (loss), before tax:				
Pension and other postretirement benefit plans, net:				
Net loss arising during period	(497)	(174)	(497)	(174)
Amortization of prior service cost included in net periodic cost	1	—	3	2
Amortization of net actuarial loss included in net income	327	267	890	758
Loss due to settlements	—	1	—	4
Pension and other postretirement benefit plans, net	(169)	94	396	590
Foreign exchange translation	27	(32)	71	(78)
Cash flow hedges	3	8	11	16
Unrealized gains on investments and other, net	—	13	—	15
Other comprehensive income (loss), before tax	(139)	83	478	543
Income tax benefit (expense) related to items of other comprehensive income (loss)	58	(40)	(142)	(223)
Other comprehensive income (loss), net of tax	(81)	43	336	320
Total comprehensive income	486	585	1,950	1,980
Less: Comprehensive income (loss) attributable to noncontrolling interests in subsidiaries	(5)	(2)	(17)	(29)
Comprehensive income attributable to Raytheon Company	$491	$587	$1,967	$2,009

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

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RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

Nine Months Ended October 1, 2017 and October 2, 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)				1,631	1,631		1,631
Other comprehensive income (loss), net of tax			336		336		336
Adjustment of redeemable noncontrolling interest to redemption value				90	90		90
Distributions and other activity related to noncontrolling interests					—		—
Dividends declared		2		(697)	(695)		(695)
Common stock plans activity		122			122		122
Share repurchases		(124)		(660)	(784)		(784)
Balance at October 1, 2017	$ 3	$ —	$ (7,075)	$ 17,929	$ 10,857	$ —	$ 10,857
Balance at December 31, 2015	$ 3	$ 398	$ (7,176)	$ 16,956	$ 10,181	$ 202	$ 10,383
Net income (loss)				1,689	1,689	(15)	1,674
Other comprehensive income (loss), net of tax			320		320		320
Adjustment of redeemable noncontrolling interest to redemption value				(23)	(23)		(23)
Distributions and other activity related to noncontrolling interests				(205)	(205)	(187)	(392)
Dividends declared		3		(653)	(650)		(650)
Common stock plans activity		130			130		130
Share repurchases		(531)		(365)	(896)		(896)
Balance at October 2, 2016	$ 3	$ —	$ (6,856)	$ 17,399	$ 10,546	$ —	$ 10,546

(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.

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RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)	Nine Months Ended Oct 1, 2017	Oct 2, 2016
Cash flows from operating activities		
Net income	$1,614	$1,660
(Income) loss from discontinued operations, net of tax	(2)	(1)
Income from continuing operations	1,612	1,659
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	401	377
Stock-based compensation	127	120
Gain on sale of equity method investment	—	(158)
Loss on repayment of long-term debt	39	—
Deferred income taxes	(137)	(84)
Changes in assets and liabilities		
Receivables, net	(226)	(64)
Contract assets and contract liabilities	(962)	(925)
Inventories	(83)	(37)
Prepaid expenses and other current assets	148	252
Income taxes receivable/payable	66	(78)
Accounts payable	(191)	52
Accrued employee compensation	(68)	(25)
Other current liabilities	35	(59)
Accrued retiree benefits	452	693
Other, net	(90)	(12)
Net cash provided by (used in) operating activities from continuing operations	1,123	1,711
Net cash provided by (used in) operating activities from discontinued operations	(1)	—
Net cash provided by (used in) operating activities	1,122	1,711
Cash flows from investing activities		
Additions to property, plant and equipment	(323)	(344)
Proceeds from sales of property, plant and equipment	31	25
Additions to capitalized internal use software	(49)	(47)
Purchases of short-term investments	(399)	(472)
Maturities of short-term investments	517	822
Payments for purchases of acquired companies, net of cash received	(93)	(57)
Other	(2)	(9)
Net cash provided by (used in) investing activities	(318)	(82)
Cash flows from financing activities		
Dividends paid	(679)	(635)
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	(700)	(801)
Repurchases of common stock to satisfy tax withholding obligations	(84)	(95)
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	(1,784)	(1,615)
Net increase (decrease) in cash, cash equivalents and restricted cash	(980)	14
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	$2,323	$2,342

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

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RAYTHEON COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Presentation
We prepared the accompanying unaudited consolidated financial statements of Raytheon Company and all wholly-owned, majority-owned or otherwise controlled subsidiaries on the same basis as our annual audited financial statements. We condensed or omitted certain information and footnote disclosures normally included in our annual audited financial statements, which we prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Our quarterly financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 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.

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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)	Oct 1, 2017	Dec 31, 2016
Cash and cash equivalents	$2,311	$3,303
Restricted cash	12	—
Cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	$2,323	$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.

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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 $900 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 October 1, 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" within Item 8 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 are required to obtain certain

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regulatory approvals. In these cases, we recognize revenue based on the likelihood of obtaining regulatory approvals 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.

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

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

(In millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	Oct 1, 2017	Oct 2, 2016	Oct 1, 2017	Oct 2, 2016
Operating income	$149	$114	$315	$269
Income from continuing operations attributable to Raytheon Company	97	74	205	187
Diluted EPS from continuing operations attributable to Raytheon Company	$0.33	$0.25	$0.70	$0.63

In addition, net revenue recognized from our performance obligations satisfied in previous periods was $184 million and $125 million in the third quarters of 2017 and 2016, respectively, and $398 million and $317 million in the first nine 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 October 1, 2017 and December 31, 2016, we had $33 million and $32 million of deferred commissions, respectively. We had $7 million and $3 million of amortization expense related to deferred commissions in the third quarters of 2017 and 2016, respectively, and $17 million and $8 million in the

first nine 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. If additional advances are

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received on those contracts in subsequent periods, we assume all revenue recognized in the reporting period first applies to the beginning contract liability as opposed to a portion applying to the new advances for the period.

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 October 1, 2017, the aggregate amount of the transaction price allocated to remaining performance obligations was $37 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		Nine Months Ended	
	Oct 1, 2017	Oct 2, 2016	Oct 1, 2017	Oct 2, 2016
Basic EPS attributable to Raytheon Company common stockholders:				
Distributed earnings	$0.79	$0.73	$2.39	$2.19
Undistributed earnings	1.18	1.11	3.20	3.49
Total	$1.97	$1.84	$5.59	$5.68
Diluted EPS attributable to Raytheon Company common stockholders:				
Distributed earnings	$0.80	$0.73	$2.39	$2.19
Undistributed earnings	1.17	1.11	3.20	3.48
Total	$1.97	$1.84	$5.59	$5.67

Basic and diluted EPS from discontinued operations attributable to Raytheon Company common stockholders and unvested stock-based payment awards was a loss of less than $0.01 and earnings of less than $0.01 in the third quarters of 2017 and 2016, respectively, and earnings of $0.01 and earnings of less than $0.01 in the first nine months of 2017 and 2016, respectively.

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Income attributable to participating securities was as follows:

(In millions)	Three Months Ended Oct 1, 2017	Three Months Ended Oct 2, 2016	Nine Months Ended Oct 1, 2017	Nine Months Ended Oct 2, 2016
Income from continuing operations attributable to participating securities	$ 6	$ 7	$ 20	$ 23
Income (loss) from discontinued operations, net of tax attributable to participating securities[(1)]	—	—	—	—
Net income attributable to participating securities	$ 6	$ 7	$ 20	$ 23

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

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

(In millions)	Three Months Ended Oct 1, 2017	Three Months Ended Oct 2, 2016	Nine Months Ended Oct 1, 2017	Nine Months Ended Oct 2, 2016
Shares for basic EPS[(1)]	290.7	295.2	291.6	297.2
Effect of dilutive securities	0.3	0.3	0.3	0.3
Shares for diluted EPS	291.0	295.5	291.9	297.5

(1) Includes 3.2 million and 3.7 million participating securities in the third quarters of 2017 and 2016, respectively, and 3.5 million and 4.1 million participating securities in the first nine months of 2017 and 2016, respectively.

Note 5: Inventories

Inventories consisted of the following:

(In millions)	Oct 1, 2017	Dec 31, 2016
Materials and purchased parts	$ 70	$ 66
Work in process	608	532
Finished goods	15	10
Total	$ 693	$ 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 $200 million and $189 million in inventories as work in process at October 1, 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)	Oct 1, 2017	Dec 31, 2016	$ Change	% Change
Contract assets	$5,892	$5,041	$ 851	17 %
Contract liabilities—current	(2,519)	(2,646)	127	(5)%
Contract liabilities—noncurrent	(117)	(128)	11	(9)%
Net contract assets (liabilities)	$3,256	$2,267	$ 989	44 %

The $989 million increase in our net contract assets (liabilities) from December 31, 2016 to October 1, 2017 was due to an $851 million increase in our contract assets, primarily due to timing of payments on certain international programs.

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In the third quarter and first nine months of 2017, we recognized revenue of $247 million and $1,199 million, respectively, related to our contract liabilities at January 1, 2017. In the third quarter and first nine months of 2016, we recognized revenue of $294 million and $1,252 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 third quarters and first nine 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 August 2017, our Forcepoint business acquired RedOwl Analytics Inc. (RedOwl), a security analytics business, for $54 million in cash, net of cash received, and exclusive of retention payments. RedOwl 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. In connection with this acquisition, we have preliminarily recorded $50 million of goodwill, primarily related to expected synergies from combining operations and the value of the existing workforce, none of which is expected to be deductible for tax purposes, and $6 million of intangible assets, primarily related to technology and customer relationships, with a weighted-average life of five years. We expect to complete the purchase price allocation process in the fourth quarter of 2017 when we receive final valuation results and complete our review.

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 was 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.

Pro forma financial information and revenue from the date of acquisition has not been provided for these acquisitions as they are not material either individually or in the aggregate.

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	—	—	—	—	85	85
Effect of foreign exchange rates and other	3	1	—	—	1	5
Balance at October 1, 2017	$ 1,705	$ 2,967	$ 4,154	$ 4,106	$ 1,946	$ 14,878

(1) At October 1, 2017, Forcepoint's fair value is estimated to exceed its net book value by approximately $630 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

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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 $389 million at October 1, 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 $315 million at October 1, 2017. Vista Equity Partners' adjusted equity interest in the Forcepoint joint venture is 19.5% as of October 1, 2017. Adjustments to the redemption value over the period from the date of acquisition to the redemption date are immediately recorded to retained earnings.

A rollforward of redeemable noncontrolling interest was as follows:

	Nine Months Ended	
(In millions)	Oct 1, 2017	Oct 2, 2016
Beginning balance	$449	$355
Net income (loss)	(17)	(14)
Other comprehensive income (loss), net of tax[1]	—	—
Contribution from noncontrolling interest	8	11
Adjustment of noncontrolling interest to redemption value	(51)	14
Ending balance	$389	$366

(1) Other comprehensive income (loss), net of tax, was income of less than $1 million for the first nine months of 2017 and a loss of less than $1 million in the first nine 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 $15 million and $2 million, respectively, at October 1, 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 October 1, 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 $1,031 million and $1,277 million at October 1, 2017 and December 31, 2016, respectively. The net notional exposure of these

contracts was approximately $139 million and $342 million at October 1, 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 October 1, 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 October 1, 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 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 October 1, 2017, we had no short-term investments. At

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December 31, 2016, we had short-term investments of $100 million, consisting of highly rated bank certificates of deposit with a minimum long-term debt rating of A or A2 and a minimum short-term debt rating of A-1 and P-1. The amortized cost of these securities closely approximated their fair value at December 31, 2016. There were no securities deemed to have other than temporary declines in value in the third quarter of 2017. In the third quarter and first nine months of 2017, we recorded unrealized losses on short-term investments of less than $1 million, net of tax, in accumulated other comprehensive loss (AOCL). In the third quarter and first nine 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 third quarters and first nine 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)	Oct 1, 2017	Dec 31, 2016
Carrying value of long-term debt	$4,749	$5,335
Fair value of long-term debt	5,293	5,848

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

In first nine months of 2017, we received net proceeds of $300 million from the issuance of short-term commercial paper. The commercial paper notes outstanding have original maturities of not more than 90 days from the date of issuance. At October 1, 2017, short-term commercial paper borrowings outstanding were $300 million, which had a weighted-average interest rate and original maturity period of 1.282% and 24 days, respectively. At December 31, 2016, there were no commercial paper borrowings outstanding.

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 in the first nine months of 2017.

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)	Oct 1, 2017	Dec 31, 2016
Total remediation costs—undiscounted	$205	$219
Weighted-average discount rate	5.2 %	5.2 %
Total remediation costs—discounted	$141	$147
Recoverable portion	92	92

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

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

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Financing Arrangements and Other—We issue guarantees, and banks and surety companies issue, on our behalf, letters of credit and surety bonds to meet various bid, performance, warranty, retention and advance payment obligations for us or our affiliates. These instruments expire on various dates through 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)	Oct 1, 2017	Dec 31, 2016
Guarantees	$ 215	$ 190
Letters of credit	2,646	2,345
Surety bonds	166	127

Included in guarantees and letters of credit described above were $215 million and $47 million, respectively, at October 1, 2017, and $180 million and $44 million, respectively, at December 31, 2016, related to our joint venture in Thales-Raytheon Systems Air and Missile Defense Command and Control S.A.S. (TRS AMDC2). We provide these guarantees and letters of credit to TRS AMDC2 and other affiliates to assist these entities in obtaining financing on more favorable terms, making bids on contracts and performing their contractual obligations. While we expect these entities to satisfy their loans and meet their project performance and other contractual obligations, their failure to do so may result in a future obligation to us. We periodically evaluate the risk of TRS AMDC2 and other affiliates failing to meet their obligations described above. At October 1, 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 October 1, 2017. We had an estimated liability of $2 million and $3 million at October 1, 2017 and December 31, 2016, respectively, 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 October 1, 2017, the aggregate amount of our offset agreements, both agreed to and anticipated to be agreed to, had an outstanding notional value of approximately $8.9 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

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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:

(In millions)	Nine Months Ended Oct 1, 2017	Oct 2, 2016
Beginning balance	292.8	299.0
Stock plans activity	1.1	1.6
Share repurchases	(4.9)	(7.0)
Ending balance	289.0	293.6

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 October 1, 2017, we had approximately $0.9 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:

(In millions)	Nine Months Ended Oct 1, 2017		Oct 2, 2016	
	$	Shares	$	Shares
Shares repurchased under our share repurchase programs	$700	4.4	$801	6.2
Shares repurchased to satisfy tax withholding obligations	84	0.5	95	0.8
Total share repurchases	$784	4.9	$896	7.0

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 $2.3925 per share during the first nine months of 2017, compared to dividends of $2.1975 per share during the first nine months of 2016. Dividends are subject to quarterly approval by our Board of Directors.

Stock-based Compensation Plans

RSAs and RSUs—During the first nine months of 2017, we granted 1.0 million combined RSAs and RSUs with a weighted-average grant-date fair value of $152.86, 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 nine 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 $152.31. 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

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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 $3 million and $4 million in the third quarter and first nine months of 2017, respectively. At October 1, 2017, there were 138 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	396	71	11	—	478
Tax (expense) or benefit	(138)	—	(4)	—	(142)
Net of tax amount	258	71	7	—	336
Balance at October 1, 2017	$(6,976)	$ (104)	$ 7	$ (2)	$(7,075)
Balance at December 31, 2015	$(7,088)	$ (60)	$ (16)	$ (12)	$(7,176)
Before tax amount	590	(78)	16	15	543
Tax (expense) or benefit	(211)	—	(7)	(5)	(223)
Net of tax amount	379	(78)	9	10	320
Balance at October 2, 2016	$(6,709)	$ (138)	$ (7)	$ (2)	$(6,856)

(1) Pension and PRB plans, net, is shown net of tax benefits of $3,743 million and $3,881 million at October 1, 2017 and December 31, 2016, respectively.

(2) Cash flow hedges are shown net of tax expense of $3 million and tax benefit of $1 million at October 1, 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 October 1, 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 $890 million and $758 million before tax in the first nine 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 $7 million of after tax net unrealized gains on our cash flow hedges at October 1, 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)	Oct 1, 2017	Dec 31, 2016
Marketable securities held in trust	$ 603	$ 550

Included in marketable securities held in trust in the table above was $386 million and $354 million at October 1, 2017 and December 31, 2016, respectively, related to the nonqualified defined contribution plans. The liabilities related to the nonqualified defined contribution plans were $397 million and $360 million at October 1, 2017 and December 31, 2016, respectively.

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

(In millions)	Three Months Ended		Nine Months Ended	
	Oct 1, 2017	Oct 2, 2016	Oct 1, 2017	Oct 2, 2016
Service cost	$122	$116	$355	$362
Interest cost	281	274	815	819