RAYTHEON CO/
Form 10-K
February 14, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ýANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017 or

¨TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-13699

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

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

870 Winter Street, Waltham, Massachusetts 02451
(Address of Principal Executive Offices) (Zip Code)
(781) 522-3000
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
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 ý

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2017, was approximately $46.8 billion.

The number of shares of Common Stock outstanding as of February 12, 2018 was 288,506,000.

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

Portions of the Registrant's Definitive Proxy Statement for its 2018 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

Table of Contents

INDEX

Table of Contents

PART I

ITEM 1. BUSINESS

General
Raytheon Company, together with its subsidiaries, is a technology and innovation leader specializing in defense and other government markets throughout the world. The terms "we," "us," "our," "Raytheon" and the "Company" mean Raytheon Company and its subsidiaries, unless the context indicates another meaning. We develop technologically advanced and integrated products, services and solutions in our core markets: integrated air and missile defense; electronic warfare; command, control, communications, computers, cyber, intelligence, surveillance and reconnaissance; space systems; effects; and cyber. We serve both domestic and international customers primarily as a prime contractor or subcontractor on a broad portfolio of defense and related programs for government customers.

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

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

Business Segments
We operate in five business segments:
- Integrated Defense Systems;
- Intelligence, Information and Services;
- Missile Systems;
- Space and Airborne Systems; and
- Forcepoint.

The following is a description of each of our business segments. As part of the description, we include a discussion of some of the segment's notable initiatives and achievements in 2017, such as certain key contract awards, new product introductions and acquisitions. For a discussion of the financial performance of our business segments and other financial information, see "Segment Results" within Item 7 of this Form 10-K.

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

In 2017, IDS booked a number of awards to provide advanced Patriot® Air and Missile Defense (A&MD) systems for the U.S. Army and other international customers. IDS also received a contract to provide an early warning radar (EWR) to reinforce Qatar's missile defense architecture. The U.S. Navy awarded IDS options to produce the first three low-rate initial production Air and Missile Defense Radar (AMDR) units for the DDG-51 class of warships and selected IDS to provide the new Variable Depth Sonar for the Littoral Combat Ship class. IDS won a competitive award for the engineering and manufacturing development of the U.S. Air Force's next generation ground-based radar, the Three-Dimensional Expeditionary Long-Range Radar (3DELRR) system. IDS also received continued awards for missile defense radar sustainment for the Missile Defense Agency (MDA).

IDS has the following principal product lines:

Mission Systems and Sensors (MSS)—MSS provides integrated whole-life air and missile defense systems. MSS produces systems and solutions, including EWR, the Army Navy/Transportable Radar Surveillance-Model 2 (AN/TPY-2), 3DELRR, and other land-based surveillance and search radars, which provide threat detection, precision tracking, discrimination and classification of ballistic missile threats. In addition, MSS provides command, control, communications, computers, cyber and intelligence solutions through the development, delivery and support of complex integrated, networked, actionable combat

Table of Contents

command and control solutions for air and land combat commanders. MSS also provides tailored capabilities to deliver Air Defense Operations Centers (ADOC) for integrated command and control, fire direction and weapons systems and sensors to our global customers. Key MSS customers include the U.S. Army, U.S. Air Force, the MDA, and international customers.

Integrated Air and Missile Defense (IAMD)—IAMD provides combat-proven air and missile defense systems, including the Patriot A&MD system which is the cornerstone of the air and missile defense architecture for thirteen nations around the globe, including the U.S. and five NATO nations. The National Advanced Surface-to-Air Missile System (NASAMS™), also offered by IAMD, is a highly adaptable mid-range solution for any operational air defense requirement. It is deployed in the U.S. and five other countries. Key IAMD customers include the U.S. Army and international customers. Total sales from IAMD were approximately 10% of our consolidated revenues for 2017, 2016 and 2015.

Seapower Capability Systems (SCS)—SCS is a provider and integrator of maritime air and missile defense radar systems, naval combat management, and airborne anti-submarine and mine warfare systems, as well as sensors, maritime naval navigation systems, and torpedoes for U.S. and international navies. SCS is providing the first three low-rate initial production AMDR units, designated as AN/SPY-6, for the U.S. Navy's DDG 51 class of warships. SCS's contracts with the U.S. Navy also include Enterprise Air Surveillance Radar (EASR) for aircraft carriers and amphibious warfare ships, and, in the anti-submarine warfare arena, a new variable depth sonar solution for the littoral combat ship class. In addition, as a ship integrator for the U.S. Navy, SCS provides mission systems equipment and combat and missions system integration for the following ship classes: DDG 1000 destroyers; LPD 17 amphibious warfare ships; and CVN 78 aircraft carriers. Key SCS customers include the U.S. Navy and allied navies.

IDS also includes the Advanced Technology (AT) product line, which executes contract research and development programs primarily with the Office of Naval Research (ONR), the Strategic Capabilities Office (SCO) and the Defense Advanced Research Projects Agency (DARPA) in advanced materials, semiconductors such as Gallium Nitride (GaN) and next-generation systems such as Flexible Digital Array Radar (FlexDAR) and Communications and Interoperability for Integrated Fires (CIIF), to support Raytheon product lines. AT also pursues attractive adjacent growth markets such as undersea warfare and directed energy.

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

During 2017, IIS won a number of important classified and unclassified contracts, including the Development, Operations and Maintenance (DOMino) contract, which provides design, development and operations/maintenance services in support of the National Cybersecurity Protection System for the DHS. IIS also continued delivery of international and domestic integrated training and training support through the U.S. Army's Warfighter Field Operations Customer Support (Warfighter FOCUS) contract.

IIS has the following principal product lines:

Cybersecurity and Special Missions (CSM)—CSM provides integrated cybersecurity and advanced intelligence solutions to strengthen information systems and mission execution. CSM designs and implements customized cyber,

managed security services, and quick-reaction solutions, as well as high-consequence special mission support, for the U.S. Intelligence Community, the DoD, civilian federal agencies, international governments and commercial enterprises. Raytheon leverages and incorporates the cyber capabilities within CSM across the Company.

Global Training Solutions (GTS)—GTS provides training solutions, logistics and engineering support worldwide, principally under the Warfighter FOCUS contract with the U.S. Army, which will continue through October 2018 and may be extended for two six-month option periods. Future work will be segmented into multiple contracts and awarded through competitive bidding and therefore may be awarded to GTS, other contractors or a combination. If future awards are delayed or protested, however, we expect the U.S. Army to extend the existing GTS contract by the one or two six-month option periods. Under

Table of Contents

this contract, the GTS-led Warrior Training Alliance provides integrated operational training through comprehensive support for live, virtual and constructive training exercises and operations, maintenance for training and range systems, curriculum development and instruction, management oversight and administration for contractor activities, and supply support for government-owned property and material. GTS also provides training solutions through Raytheon Professional Services, provides commercial solutions, processes, tools and training experts to domestic and international commercial customers.

Navigation and Environmental Solutions (NES)—NES primarily supports programs for NASA, NOAA and the U.S. Air Force by implementing secure environmental and navigation ground solutions and data processing. NES capabilities include ground systems for command and control of space assets, large-scale data processing and exploitation, storage architectures, and high-performance data handling and processing systems. Key programs include the Joint Polar Satellite System (JPSS), which supports multiple civil, defense and international polar-orbiting environmental satellites, and the Global Positioning System Next Generation Operational Control System (GPS-OCX).

Global Intelligence Solutions (GIS)—GIS provides strategic ISR and advanced technology solutions and services through large-scale satellite command and control, mission planning, constellation management, data processing, mission analytics, and secure data sharing. GIS's highly automated information solutions manage the collection and integration of information across multiple domains. GIS serves members of the Intelligence Community, commercial customers and international markets.

Mission Support and Modernization (MSM)—MSM provides full life-cycle mission operations, engineering, sustainment and modernization services for site and platform missions across all domains, as well as multi-intelligence (multi-INT) ground systems and unmanned systems technology for the U.S. Armed Forces and civil agencies. MSM’s core services are applied in two broad areas: proven models to support global mission operations more efficiently; and innovative engineering practices that generate affordable modernization and sustainment of mission-critical systems, weapons or platforms. Programs include advanced ground solutions for tactical ISR missions, such as Global Hawk® and the U.S. Air Force's U-2 reconnaissance aircraft; services for the U.S. Air Force’s contractor field support; software and avionics solutions for the V-22 Osprey aircraft; border and critical infrastructure security solutions; integrated operations for the North American Aerospace Defense Command (NORAD) command center, for NASA's Neutral Buoyancy Lab and, through its RGNext joint venture, for U.S. Air Force space launch facilities; and upgrades of airborne and sea-based weapons systems and podded aircraft reconnaissance systems.

Transportation and Support Services (TSS)—TSS develops, delivers and supports domestic and international ATM. TSS is a key provider of ATM solutions including automation, surveillance, and navigation and landing solutions, as well as its Standard Terminal Automation Replacement System (STARS), to the FAA and the DoD. TSS also provides “all-electronic” highway tolling systems for customers such as the Massachusetts Department of Transportation (MassDOT) and a highway system in Canada, infrastructure protection with Perimeter Intrusion Detection technology, and product support services for other Raytheon businesses, including system deployment, installation and integration, logistics and training for military and civil customers in over 80 countries.

IIS also includes the Cyber Operations, Development and Evaluation (CODE) Center, an advanced cyber range in which the Company demonstrates, tests and assesses new cyber products and services to determine how they can best integrate into a customer’s Cyber Security Operations Center (CSOC). IIS leverages CODE Center capabilities to drive both internal and external research and development with Governmental entities and commercial cyber protection companies.

Missile Systems (MS)—MS, headquartered in Tucson, Arizona, designs, develops, integrates and produces missile and combat systems for the armed forces of the U.S. and allied nations. Leveraging its capabilities in advanced airframes,

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

In 2017, MS continued to capture key contract awards from a broad global customer base, including awards for the Paveway™, Advanced Medium-Range Air-to-Air Missile (AMRAAM®), Standard Missile-3 (SM-3®), Standard Missile-2 (SM-2) programs, as well as key development program awards on the Army's Long Range Precision Fires (LRPF) program, the Air Force's Long Range Standoff (LRSO) program and the MDA's Redesigned Kill Vehicle (RKV) and Multiple Object Kill Vehicle (MKOV) programs. MS also completed successful flight tests on the SM-3, Standard Missile-6 (SM-6®), Small Diameter Bomb II (SDB II™), and Exoatmospheric Kill Vehicle (EKV) programs.

Table of Contents

MS has the following principal product lines:

Air Warfare Systems (AWS)—AWS products and services enable the U.S. Armed Forces and international customers to attack, suppress and destroy air-, sea- and ground-based targets. Products include the AMRAAM, a state-of-the-art, highly dependable and battle-proven air-to-air missile that also has a surface-to-air launch application; the Tomahawk cruise missile, an advanced surface- or submarine-launched cruise missile with loitering and network communication capability; SDB II, an air-to-ground glide weapon designed to engage moving targets in adverse weather and through battlefield conditions; the Joint Standoff Weapon (JSOW®), a family of air-to-ground weapons that employ an integrated GPS/inertial navigation system that guides the weapon to the target; the Paveway family of laser and GPS precision guided munitions; the AIM-9X Sidewinder™ short-range air-to-air missile; the Miniature Air Launched Decoy-Jammer (MALD®-J), a stand-in, high endurance electronic warfare decoy/jammer used to deceive and degrade air defenses; the High-Speed Anti-Radiation Missile (HARM®) and the HARM Targeting System; the Maverick® precision strike missile; and the Griffin®, a small lightweight missile that can be employed from aircraft, unmanned aerial vehicles, ships or ground-launched against light targets. Also, AWS partners with Kongsberg Defence Systems on the Naval Strike Missile (NSM) and the Joint Strike Missile (JSM), which are over-the-horizon anti-surface warfare and land attack weapons systems to be used on various aircraft platforms and ship classes. Total sales from AWS were approximately 10% of our consolidated revenues for 2017, 2016, and 2015.

Air and Missile Defense Systems (AMDS)—AMDS designs, develops, produces, and supports air defense and ballistic missile defense interceptor systems. AMDS's primary customers are the MDA, the U.S. Navy and various international customers. The AMDS portfolio includes the Standard Missile family of products, including SM-2, SM-3 and SM-6, with capabilities including sea- and land-based exoatmospheric defense against short- and intermediate-range ballistic missiles and tri-mission defense against air, surface and ballistic missile threats. AMDS’s contracts with the MDA include development of the RKV for ballistic missile defense in space. In addition, AMDS participates in a collaboration with Israel’s Rafael Advanced Defense Systems to produce the SkyHunter® system, based on the Iron Dome system and designed to help protect U.S. forces and their allies from short-range threats.

Naval and Area Mission Defense (NAMD)—NAMD offers a complete family of mission solutions for customers around the world. The product line provides highly effective, layered ship defense systems for the navies of more than 30 countries across multiple platforms to counter the threats of today and tomorrow. NAMD leverages its proven capabilities to provide forward operating base defenses for the U.S. Army, Air Force and Marine Corps. The product line designs, develops, integrates, manufactures and supports a variety of products that include the Phalanx® Close-In Weapon System (CIWS) (employed afloat and ashore), the Rolling Airframe Missile (RAM™) and Launcher System, the SeaRAM® system, SM-2, and the Evolved Seasparrow Missile (ESSM®) family of missiles protecting ships against air, subsurface and surface cruise/ballistic missile threats. NAMD continues to leverage its strategic international cooperative partnerships to evolve its existing products and technologies with a goal of addressing the full spectrum of threats.

Land Warfare Systems (LWS)—LWS provides precision missiles and munitions, advanced electro-optical/infrared (EO/IR) sensors, and integrated mission solutions in the land domain for the U.S. Army, Marine Corps, and the militaries of more than 40 allied nations. LWS capabilities are designed to provide warfighters the situational awareness and lethality they need to overmatch and defeat evolving complex threats. The LWS portfolio includes the Tube-launched, Optically-tracked, Wireless-guided (TOW®) weapon system, a long-range precision anti-armor/anti-fortification/anti-amphibious-landing weapon system, and Excalibur®, a GPS-guided artillery round providing indirect precision fire for ground forces. The 3rd Generation Forward Looking Infrared (FLIR), currently in development, leverages proven sensor technology to provide the warfighter with high-definition resolution and magnification of target images in darkness and in a range of adverse environmental conditions.

Advanced Missile Systems (AMS)—AMS focuses on the development and early introduction of next-generation, end-to-end system solutions that support the AWS, AMDS, NAMD, LWS and other Raytheon product lines. AMS is engaged in opportunities involving the transition from weapon development to warfighter fielding in the areas of next generation missile systems, hypersonic vehicles, unmanned aircraft systems, non-kinetic solutions, space applications and collaborative weapon technologies. AMS works closely with DARPA, SCO and the research lab community.

Space and Airborne Systems (SAS)—SAS, headquartered in McKinney, Texas, is a leader in the design, development and manufacture of integrated sensor and communication systems for advanced missions. These missions include intelligence, surveillance and reconnaissance; precision engagement; manned and unmanned aerial operations; and space. Leveraging state-

Table of Contents

of-the-art technologies, mission systems and domain knowledge, SAS designs, manufactures, supports and sustains civil and military electro-optical/infrared (EO/IR) sensors; airborne radars for surveillance and fire control applications; lasers; precision guidance systems; signals intelligence systems; processors; electronic warfare systems; communications; and space-qualified systems. Key customers are the U.S. Navy, Air Force, and Army, international allies and classified customers.

In 2017, the U.S. Air Force awarded SAS a contract to upgrade Active Electronically Scanned Array (AESA) radars onboard Air Force and Air National Guard F-15C fighters. SAS was also awarded classified contracts in space protection, electronic warfare, signals intelligence, and ISR. DigitalGlobe, Inc. selected SAS to develop imaging payloads for its WorldView Legion satellite constellation. In addition, SAS successfully completed the first-ever high energy laser (HEL) weapon system demonstration on a rotorcraft aboard an Apache helicopter. SAS also successfully demonstrated a vehicle-mounted HEL system designed to defeat unmanned aerial systems at ranges up to 1 kilometer.

SAS has the following principal product lines:

Intelligence, Surveillance and Reconnaissance Systems (ISRS)—ISRS designs, develops and manufactures an array of Multispectral EO/IR sensors, light-sensing focal plane arrays, advanced visible and infrared sensors, AESA radars and various integrated ISR systems solutions to provide customers with actionable information for strike, persistent surveillance and special mission platforms. These systems perform detection, identification, tracking, targeting, navigation, weather, and situational awareness tasks on a variety of airborne platforms, including maritime, littoral and overland patrol aircraft, unmanned aerial systems, and other tactical, attack and transport rotary- and fixed-wing aircraft. Key ISRS programs include the APY-10 radar on the U.S. Navy's P-8A Poseidon; the Multi-spectral Targeting Systems (MTS) on numerous unmanned and manned aircraft; the Enhanced Integrated Sensor Suite (EISS) for the Global Hawk platform; the Silent Knight Terrain Following/Terrain Avoiding radar for rotary-wing platforms; and an international classified program.

Secure Sensor Solutions (S^3)—S^3 designs, manufactures and develops cost-effective, high-performance integrated sensor solutions for tactical and strategic platforms, which deliver trusted, actionable information for mission assurance. S^3 provides integrated advanced fire control radars to customers, including the U.S. Navy, Marine Corps, and Air Force and international governments. S^3 produces AESA radars for the U.S. Air Force's F-15 and B-2 aircraft, the U.S. Navy's F/A-18E/F and EA-18G and radars for several international customers, including Australia, Canada, Japan and Saudi Arabia. S^3 also develops sophisticated anti-jam GPS solutions for many customers and provides a wide range of state-of-the-art product families and engineering services for the DoD's response to dynamic threat environments.

Electronic Warfare Systems (EWS)—EWS designs and manufactures cost-effective, high-performance electronic warfare systems and equipment for strategic and tactical aircraft, helicopters, surface ships and ground forces for the U.S. Air Force, Army, Navy, Special Operations Forces, and intelligence agencies and international governments. EWS products deliver a range of non-kinetic effects ranging from radar jamming to information operations. The EWS portfolio includes the Next Generation Jammer (NGJ) program, integrated electronic warfare suites, development of electronic warfare planning and management tools (EW PMT), the Multi-function Integrated Receiver/Exciter System (MFIRES) product family, advanced classified programs, and products which include towed decoys, radar warning receivers, radar and communications countermeasures and missile warning sensors.

Integrated Communications Systems (ICS)—ICS is a market leader in tactical airborne communications, software-defined radio technology, advanced tactical networking, cryptology and real-time sensor networking. The ARC-231 radio is deployed on U.S. and International rotary wing platforms and fixed wing aircraft. The Vinson/ANDVT Cryptology Modernization (VACM) family of products provides secure communications for the U.S. and international customers. ICS is the only producer of Advanced Extremely High Frequency (AEHF) satellite terminals for all U.S. military branches, providing protected, highly secure satellite communications terminals for the

U.S. military, including the Navy Multiband Terminal (NMT) and the Air Force Family of Advanced Beyond Line of Sight Terminal (FAB-T) and related ground terminals.

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

Table of Contents

Advanced Concepts Technology (ACT), an innovation incubator, is also part of SAS. ACT conducts internal research and development and contract research and development for customers, including the U.S. Air Force Research Laboratory (AFRL) and the DARPA, and produces cutting-edge products and capabilities, including advanced HEL weapons systems, next-generation all-weather millimeter wave targeting radars, improved capabilities in mission system architecture, electro-optical
(EO) and radio frequency (RF) technologies, advanced speech recognition with natural language understanding, plus systems exploiting acoustic phenomenology.

Forcepoint—Forcepoint, headquartered in Austin, Texas, develops cybersecurity products serving commercial and government organizations worldwide. Forcepoint is a joint venture of Raytheon and Vista Equity Partners created in May 2015 that brought together the capabilities of the legacy Raytheon Cyber Products (RCP) and Websense, Inc. (Websense) businesses. Forcepoint delivers a portfolio of human-centric cybersecurity capabilities, including data loss prevention; user and entity behavior analytics (UEBA) and cloud access security broker (CASB) capabilities; insider threat solutions; next-generation firewall (NGFW) technology; cloud and on premise web and email security; and cross domain transfer products. Forcepoint's customers deploy its software products on standard servers, mobile endpoints or other information technology hardware, including Forcepoint optimized appliances, as a software-as-a-service (otherwise referred to as a cloud-based or cloud service) offering, or in a hybrid hardware/cloud configuration. Forcepoint’s customers include large enterprises, small- and medium-sized businesses and both domestic and international government agencies.

In 2017, Forcepoint acquired RedOwl Analytics Inc. (RedOwl), a security analytics business, and the Skyfence® CASB business.

Effective January 1, 2018, Forcepoint has reorganized into the following two principal product lines: (1) Global Governments and Critical Infrastructure and (2) Commercial Security. This structure aligns to Forcepoint’s core target markets.

Global Governments and Critical Infrastructure—In addition to providing the full suite of Forcepoint products to government customers, Global Governments and Critical Infrastructure provides a suite of cross domain and insider threat technologies designed to enable defense, intelligence and civilian agencies to securely and efficiently access and transfer data, including streaming video, across multiple domains. Forcepoint expects to begin providing these technologies to critical infrastructure customers in 2018. Global Governments and Critical Infrastructure products are deployed primarily in high assurance environments.

Commercial Security—Commercial security consists of the User and Data Security solution area and the Cloud Access and Network Security solution area. User and Data Security provides data loss prevention; UEBA; and insider threat security products. Forcepoint’s data loss prevention suite of products extend data security control solutions to enterprise cloud applications, end user software applications and sensitive data and intellectual property on laptops, both on- and off-network. Forcepoint’s UEBA products analyze large amounts of data to assess risk. Forcepoint’s insider threat suite of products spans analytics, insider threat, advanced threat protection and related security features. Cloud Access and Network Security solutions provide a range of appliances that consolidate multiple security capabilities and deliver real-time security functionality, including content security and firewall capabilities. The content security solutions integrate Forcepoint's web, email, filtering, and NGFW technologies into a single security architecture that may be deployed in the cloud, on premise (e.g. a proxy server or firewall) and in a hybrid environment. In addition, Forcepoint’s CASB product provides visibility, access and control as users interact with data in cloud applications. The firewall products consist of the Forcepoint NGFW and the Forcepoint Sidewinder proxy firewall products. The Forcepoint NGFW product provides software and hardware solutions that focus on high-availability, centralized management and policy deployment across large networks and protection from advanced evasion techniques. The Forcepoint Sidewinder product provides proxy-based firewall software and hardware

solutions, designed to allow for clear visibility and control of command filtering, protocol enforcement and application access.

In addition to the principal product lines, Forcepoint provides consulting services of certified engineers who assess, plan, design, analyze and optimize security solutions for its customers' business environments.

Table of Contents

Sales to the U.S. Government

(In millions, except percentages)	2017		2016		2015	
Sales to the U.S. government[1]	$16,860		$16,083		$15,788	
Sales to the U.S. government as a percentage of Total Net Sales[1]	67	%	67	%	68	%
Foreign military sales through the U.S. government	$3,311		$2,899		$2,812	
Foreign military sales through the U.S. government as a percentage of Total Net Sales	13	%	12	%	12	%

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

Our principal U.S. government customer is the DoD; other U.S. government customers include other U.S. Intelligence Community agencies, NASA and the FAA.

U.S. Government Contracts and Regulation

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

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

U.S. government contracts include both cost reimbursement and fixed-price contracts. Cost reimbursement contracts, subject to a contractual cost-ceiling amount in certain cases, provide for the reimbursement of allowable costs plus the payment of a fee. These contracts fall into three basic types: (1) cost-plus fixed fee contracts which provide for the payment of a fixed fee irrespective of the final cost of performance; (2) cost-plus incentive fee contracts which provide for increases or decreases in the target incentive fee, within specified limits, based upon actual cost results compared to contractual cost targets; and (3) cost-plus award fee contracts which provide for the payment of an award fee determined at the discretion of the customer based upon the performance of the contractor against pre-established criteria. Under cost reimbursement contracts, the contractor is reimbursed periodically for allowable costs and is paid a portion of the fee based on contract progress. Some costs incidental to performing contracts have been made partially or wholly unallowable for reimbursement by statute, the FAR or other regulation. Examples of such costs include charitable contributions, certain merger and acquisition costs, lobbying costs, interest expense and certain

litigation defense costs. We also classify time-and-materials (T&M) contracts as cost reimbursement contracts as they are typically used to cover certain contract costs plus a set amount of fee.

Fixed-price contracts are predominantly either firm fixed-price (FFP) contracts or fixed-price incentive (FPI) contracts. Under FFP contracts, the contractor agrees to perform a specific scope of work for a fixed price and as a result, benefits from cost savings and carries the burden of cost overruns. Under FPI contracts, the contractor shares with the U.S. government savings accrued from contracts performed for less than target costs and costs incurred in excess of targets up to a negotiated ceiling price (which is higher than the target cost) and carries the entire burden of costs exceeding the negotiated ceiling price. Accordingly, under such contracts, the contractor's profit may also be adjusted up or down depending upon whether specified

Table of Contents

cost objectives are met. Under FFP and FPI type contracts, the contractor usually receives either performance-based payments (PBPs) equaling up to 90% of the contract price or monthly progress payments from the U.S. government generally in amounts equaling 80% of costs incurred under U.S. government contracts. The remaining amount, including profits or incentive fees, is billed upon delivery and acceptance of end items under the contract. The DoD has expressed a preference to utilize FPI as opposed to FFP contracts. In the event we experience a greater proportion of FPI contracts and/or progress payments for our fixed-price DoD contracts in the future than historically, it could have an adverse effect on our operating margins, cash flow and liquidity. For a discussion of certain risks associated with fixed-price and cost reimbursement contracts and risks associated with changes in U.S. government procurement rules, regulations and business practices, see “Item 1A. Risk Factors” of this Form 10-K.

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

U.S. government programs generally are implemented by the award of individual contracts and subcontracts. Congress generally appropriates funds on a fiscal year basis even though a program may extend across several fiscal years. Consequently, programs are often only partially funded initially and additional funds are committed only as Congress makes further appropriations. The contracts and subcontracts under a program generally are subject to termination for convenience or adjustment if appropriations for such programs are not available or change. The U.S. government is required to equitably adjust a contract price for additions or reductions in scope or other changes ordered by it. For a discussion of the risks associated with program funding and appropriations, see “Item 1A. Risk Factors” and “Overview” within Item 7 of this Form 10-K. In addition, because we are engaged in supplying technologically-advanced, cutting-edge defense-related products and services to the U.S. government, we are subject to certain business risks, some of which are specific to our industry. These risks include: (1) the cost and ability to obtain and retain trained, skilled and qualified employees; (2) the uncertainty and instability of prices for raw materials and supplies; (3) the problems associated with advanced designs, which may result in unforeseen technological difficulties and cost overruns; (4) the intense competition and the constant necessity for improvement in facility utilization and personnel training; and (5) the impact of potential security and cyber threats. Our sales to the U.S. government may be affected by changes in procurement policies, budget considerations, changing priorities for national defense, political developments abroad and other factors. See “Item 1A. Risk Factors” and “Overview” within Item 7 of this Form 10-K for a more detailed discussion of these and other related risks.

We are also involved in U.S. government programs that are classified by the U.S. government and cannot be specifically described in this Form 10-K. The operating results of these classified programs are included in the applicable business segment's and our consolidated results of operations. The business risks and considerations associated with these and our international classified programs generally do not differ materially from those of our other U.S. government and international programs and products.

International Sales

(In millions, except percentages)	2017	2016	2015
Total international sales[(1)]	$8,085	$7,616	$7,197
Total international sales as a Percentage of Total Net Sales[(1)]	32 %	32 %	31 %

(1)

Includes foreign military sales through the U.S. government of $3,311 million, $2,899 million and $2,812 million in 2017, 2016 and 2015, respectively.

Our international sales are conducted through Raytheon Company and certain U.S. and international subsidiaries. For example, Raytheon Systems Limited (RSL), a U.K. subsidiary, provides a wide range of products and services, most notably with our MS, SAS and IIS business segments, to commercial, defense and other government customers in the U.K. and globally. Raytheon Australia delivers integrated solutions to the Australian Defence Force, most notably with our IDS and IIS business segments. Generally, we internally fund our international subsidiary working capital requirements in the applicable countries. In connection with certain international sales, we utilize the services of sales representatives who are paid commissions in

Table of Contents

return for services rendered, and international consultants and advisors who are typically paid a fixed retainer fee. Our Forcepoint joint venture also sells certain products and services, both domestically and internationally, primarily through a network of distributors and value-added resellers.

Sales and income from international operations and investments are subject to U.S. government laws, regulations and policies, including the International Traffic in Arms Regulations (ITAR), the Export Administration Regulations (EAR) and the Foreign Corrupt Practices Act (FCPA) and other anti-corruption laws and the export laws and regulations described below. They are also subject to foreign government laws, regulations and procurement policies and practices, which may differ from U.S. government regulation, including export-import control, technology transfer, investments, exchange controls, repatriation of earnings and requirements to expend a portion of program funds in-country through manufacturing agreements or other financial support obligations, also known as offset obligations or in-country industrial participation (ICIP) agreements. In addition, embargoes, international hostilities and changes in currency and commodity values can also impact our international sales. Exchange restrictions imposed by various countries could restrict the transfer of funds between countries, us and our subsidiaries. We have acted to protect ourselves against various risks through insurance, foreign exchange contracts, contract provisions, government guarantees and/or payment terms. Our international sales in functional currencies other than the U.S. dollar were approximately $1.3 billion in 2017, 2016 and 2015, the majority of which were in British pounds and Australian dollars with the remainder primarily in euros and Canadian dollars. See total net sales and property, plant and equipment by geographical area set forth in “Note 17: Business Segment Reporting” within Item 8 of this Form 10 K.

Depending on the type of international sale, Raytheon must either seek various approvals from the U.S. government under the foreign military sales process or may require an export authorization and the issuance of a license by either the U.S. Department of State under the Arms Export Control Act of 1976 and its implementing regulations under the ITAR, the U.S. Department of Commerce under the Export Administration Act of 1979 and its implementing regulations under the EAR, as kept in force by the International Emergency Economic Powers Act of 1977 (IEEPA), and/or the U.S. Department of the Treasury under IEEPA or the Trading with the Enemy Act of 1917. Such licenses and authorizations may be denied or delayed for reasons of U.S. national security or foreign policy. In the case of certain exports of defense equipment and services, the Department of State must notify Congress at least 15-30 days (depending on the identity of the importing country that will utilize the equipment and services) prior to authorizing such exports. During that time, Congress may take action to block or delay a proposed export by joint resolution which is subject to Presidential veto. Additional information regarding the risks associated with our international business is contained in “Item 1A. Risk Factors” of this Form 10-K.

Classified Sales

Classified sales include U.S. government sales on programs designated as classified by the U.S. government, as well as international sales on programs for which the customer, end user or end product is prohibited from being publicly disclosed. Total classified sales were 17% in 2017 and 2016, and 16% in 2015.

Table of Contents

Backlog

(In millions, except percentages) at December 31	2017	2016	% of Total Backlog 2017		2016	
Total U.S. government backlog[1]	$22,258	$21,144	58	%	58	%
Total non-U.S. government domestic backlog	740	602	2	%	2	%
Total domestic backlog	22,998	21,746	60	%	59	%
Total foreign military sales backlog	6,760	5,939	18	%	16	%
Total direct foreign government backlog	7,577	8,254	20	%	22	%
Total non-government foreign backlog	875	770	2	%	2	%
Total international backlog	15,212	14,963	40	%	41	%
Total backlog	$38,210	$36,709	100	%	100	%

(1) Excludes foreign military sales backlog through the U.S. government which is included in total international backlog.

Approximately half of the December 31, 2017 year-end backlog is not expected to be filled during the following twelve months. These amounts include both funded backlog (unfilled orders for which funding is authorized, appropriated and contractually obligated by the customer) and unfunded backlog (firm orders for which funding has not been appropriated or obligated to us). For additional information related to backlog figures, see “Segment Results” within Item 7 of this Form 10-K.

Research and Development

We conduct extensive research and development activities to continually enhance our existing products and services and develop new products and services to meet our customers’ changing needs and requirements, and address new market opportunities. During 2017, we expended $734 million on research and development efforts compared to $755 million and $706 million in 2016 and 2015, respectively. These expenditures principally have been for product development for the U.S. government. We also conduct funded research and development activities under U.S. government contracts which are included in total net sales. For additional information related to our research and development activities, see “Note 1: Summary of Significant Accounting Policies” within Item 8 of this Form 10-K.

Raw Materials, Suppliers and Seasonality

We are dependent upon the availability of materials and major components and the performance of our suppliers and subcontractors. Some products require relatively scarce raw materials. We generally have not experienced significant difficulties in procuring the necessary raw materials, components and other supplies for our products.

In addition, we must comply with specific procurement requirements which may, in effect, limit the suppliers and subcontractors we may utilize. In some instances, for a variety of reasons, we are dependent on sole-source suppliers. We enter into long-term or volume purchase agreements with certain suppliers and take other actions to ensure the availability of needed materials, components and subsystems. We are also dependent on suppliers to provide genuine original equipment manufacturer parts and have a robust set of standardized policies to detect counterfeit material, especially electronic components, throughout our supply chain.

In recent years, our revenues in the second half of the year have generally exceeded revenues in the first half. Some of the factors that can affect revenue recognition between accounting periods include the timing of new program awards (including international contract awards and approvals), the availability of U.S. government funding, product deliveries (which are dependent on availability of materials) and customer acceptance. We expect this trend to continue in 2018. Additional information regarding the risks associated with our raw materials, suppliers, and seasonality is contained in “Item 1A. Risk Factors” of this Form 10-K.

Competition

We directly participate in most major areas of development in the defense and government electronics, space, information technology and technical services and support markets. Technical superiority, reputation, price, past performance, delivery schedules, and reliability are among the principal competitive factors considered by customers in these markets. We also compete in the commercial cybersecurity market, which is characterized by rapid changes in technology, products, customer

Table of Contents

specifications and industry standards. We compete worldwide with a number of U.S. and international companies in these markets, some of which may have more extensive or more specialized engineering, manufacturing and marketing capabilities than we do in some areas. We frequently partner on various programs with our major suppliers, some of whom are, from time to time, competitors on other programs. In addition, U.S. defense spending levels in the future are difficult to predict. Changes in U.S. defense spending may potentially limit certain future market opportunities. See “Item 1A. Risk Factors” and “Overview” within Item 7 of this Form 10-K for a more detailed discussion of these and other related risks.

Intellectual Property

We own an intellectual property portfolio that includes many U.S. and foreign patents, as well as unpatented trade secrets and know-how, data, software, trademarks and copyrights, all of which contribute to the preservation of our competitive position in the market. In certain instances, we have augmented our technology base by licensing the proprietary intellectual property of others. We also license our intellectual property to others, including our customers, in certain instances. The U.S. government has licenses to certain of our intellectual property, including certain patents, developed in the performance of U.S. government contracts, and has the right to use and authorize others to use such intellectual property, including the inventions covered by such patents for U.S. government purposes. While our intellectual property rights in the aggregate are important to our operations, we do not believe that any particular trade secret, patent, trademark, copyright, license or other intellectual property right is of such importance that its loss or termination would have a material effect on our business. Additional information regarding the risks associated with our intellectual property is contained in “Item 1A. Risk Factors” of this Form 10-K.

Employment

As of December 31, 2017, we had approximately 64,000 employees.

Environmental Regulation

Our operations are subject to and affected by a variety of international, federal, state and local environmental protection laws and regulations. We have provided for the estimated cost to complete remediation—or, in the case of multi-party sites, our reasonably expected share thereof—where we have determined that it is probable that we will incur such costs in the future in connection with (1) facilities that are now, or were previously, owned or operated by us, (2) sites where we have been named a Potentially Responsible Party (PRP) by the U.S. Environmental Protection Agency (EPA) or similarly designated by other environmental agencies, or (3) sites where we have been named in a cost recovery or contribution claim by a non-governmental third party. It is difficult to estimate the timing and ultimate amount of environmental cleanup costs to be incurred in the future due to the uncertainties regarding the extent of the required cleanup, the discovery and application of innovative remediation technologies, and the status and interpretation of laws and regulations.

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

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

Most of the U.S. laws governing environmental matters include criminal provisions. A criminal violation of certain U.S. environmental statutes such as the Clean Air Act and Clean Water Act could result in suspension, debarment or disqualification

Table of Contents

by the EPA. Facilities in violation of these statutes cannot be used to perform any U.S. government contract work until the violation has been corrected and the EPA approves the reinstatement of the facility.

Additional information regarding the effect of compliance with environmental protection requirements and the resolution of environmental claims against us and our operations, including expected remediation costs, is contained in “Item 1A. Risk Factors,” “Commitments and Contingencies” within Item 7 and “Note 11: Commitments and Contingencies” within Item 8 of this Form 10-K.

Available Information

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

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

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

ITEM 1A. RISK FACTORS

This Form 10-K and the information we are incorporating by reference contain forward-looking statements within the meaning of federal securities laws, including information regarding our financial outlook, future plans, objectives, business prospects, products and services, trends and anticipated financial performance including with respect to our revenue, liquidity and capital resources; our bookings and backlog; international sales; cybersecurity sales; our pension and other postretirement benefit (PRB) expense and funding; our expectations regarding customer contracts; our capital expenditures; the impact of new accounting pronouncements; our expected tax payments and tax rate; our unrecognized tax benefits; the effect of the Tax Cuts and Jobs Act of 2017 (2017 Act), including on our deferred tax balances and one-time transition tax on foreign earnings; the impact of acquisitions, investments and other business arrangements; the impact and outcome of audits and legal and administrative proceedings, claims, investigations, commitments and contingencies; and the impact of changes in fair value of our reporting units; the impact of changes in foreign currency rates and interest rates; as well as information regarding domestic and international defense spending, budgets and business practices. You can identify these statements by the fact that they include words such as “will,” “believe,” “anticipate,” “expect,” “estimate,” “intend,” “plan,” or variations of these words, or similar expressions. T forward-looking statements are not statements of historical facts and represent only our current expectations regarding such matters. These statements inherently involve a wide range of known and unknown uncertainties. Our actual actions and results could differ materially from what is expressed or implied by these statements. Specific factors that

could cause such a difference include, but are not limited to, those set forth below and other important factors disclosed previously and from time to time in our other filings with the Securities and Exchange Commission (SEC). Given these factors, as well as other variables that may affect our operating results, you should not rely on forward-looking statements, assume that past financial performance will be a reliable indicator of future performance, or use historical trends to anticipate results or trends in future periods. We expressly disclaim any obligation or intention to provide updates to the forward-looking statements and the estimates and assumptions associated with them, except as required by law.

Table of Contents

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

In 2017, U.S. government sales, excluding foreign military sales, accounted for approximately 67% of our total net sales. Our U.S. government revenues largely result from contracts awarded under various U.S. government programs, primarily defense-related programs with the U.S. Department of Defense (DoD), and a broad range of programs with the U.S. Intelligence Community and other departments and agencies. Our programs are subject to U.S. government policies, budget decisions and appropriation processes which are driven by numerous factors including: (1) geopolitical events; (2) macroeconomic conditions; and (3) the ability of the U.S. government to enact relevant legislation, such as appropriations bills.

In recent years, U.S. government appropriations have been affected by larger U.S. government budgetary issues and related legislation. In 2011, Congress enacted the Budget Control Act of 2011 (BCA), which established specific limits on annual appropriations for fiscal years (FY) 2012–2021. The BCA has been amended a number of times leading to fluctuations and unpredictability in annual DoD funding levels. For example, the DoD budget fell by 7% in FY 2013, remained essentially flat for FY 2014 and 2015, and increased by 5% and 3% for FY 2016 and FY 2017, respectively, in each case compared to the prior year. While DoD funding for FY 2018 and FY 2019 is expected to increase, the DoD is currently operating under a Continuing Resolution (CR) for FY 2018, which limits FY 2018 funding levels to FY 2017. Future spending levels are difficult to predict. They are subject to a wide range of outcomes and depend on Congressional action. In addition, in recent years the U.S. government has been unable to complete its budget process before the end of its fiscal year, resulting in both governmental shut-downs and CRs providing only enough funds for U.S. government agencies to continue operating.

U.S. government defense spending levels are difficult to predict beyond the near-term due to numerous factors, including the external threat environment, future governmental priorities and the state of governmental finances. Significant changes in U.S. government defense spending or changes in U.S. government priorities, policies and requirements could have a material adverse effect on our results of operations, financial condition and liquidity.

Our financial results largely are dependent on our ability to perform on our U.S. government contracts, which are subject to uncertain levels of funding and timing, as well as termination. Our financial results could also be affected by performance delays, cost overruns, product failures or definitization delays in connection with these contracts.

Our financial results largely are dependent on our performance under our U.S. government contracts. Although we have thousands of U.S. government contracts, the termination of one or more of our contracts, or the occurrence of performance delays, cost overruns, product failures, or contract definitization delays could negatively impact our results of operations, financial condition and liquidity. Further, we can give no assurance that we would be awarded new U.S. government contracts to offset the revenues lost as a result of the termination of any of our contracts.

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

The funding of U.S. government programs is subject to congressional appropriations, which are made on a fiscal year basis even for multi-year programs. Consequently, programs are often only partially funded initially and may not

continue to be funded in future years. In addition, regular appropriation bills may be delayed, which may result in delays to revenue, the collection of receivables and our contract performance due to lack of authorized funds to procure related products and services. Under certain circumstances, we may use our own funds to meet our customer's desired delivery dates or other requirements but we may not be reimbursed. Further, if appropriations for one of our programs become unavailable, reduced or delayed, the U.S. government may terminate our contract or subcontract under that program.

Our U.S. government contracts typically involve the development, application and manufacture of advanced defense and technology systems and products aimed at achieving challenging goals. New technologies may be untested or unproven. In

Table of Contents

some instances, product requirements or specifications may be modified. As a result, we may experience technological and other performance difficulties, which may result in delays, setbacks, cost overruns or product failures. Additionally, in order to win certain U.S. government contracts, we may be required to invest in development prior to award as our customers demand more mature and proven solutions. These additional investment amounts may not be recovered if we are not chosen for new contract awards.

Our U.S. government contracts are typically either fixed-priced contracts or cost reimbursable contracts. Fixed-price contracts represent approximately 63% of our backlog, and are predominantly either firm fixed-price (FFP) contracts or fixed-price incentive (FPI) contracts. Under FFP contracts, we receive a fixed price irrespective of the actual costs we incur and we therefore carry the burden of any cost overruns. Under FPI contracts, we share with the U.S. government savings for cost underruns less than target costs and expenses for cost overruns exceeding target costs up to a negotiated cost ceiling. We carry the entire burden of cost overruns exceeding the cost ceiling amount under FPI contracts. Under cost reimbursable contracts, we are reimbursed for allowable costs and paid a fixed or performance-based fee, but we are generally not reimbursed for unauthorized costs exceeding a cost ceiling amount or costs not allowable under the contract or applicable regulations. Due to the nature of our work under many of our U.S. government contracts, we may experience unforeseen technological difficulties and cost overruns. If we are unable to control costs or if our initial cost estimates are incorrect, our profitability could be negatively affected, particularly under fixed-price development contracts. We may also experience cost underruns which would reduce contract value and related expected revenues, and we may be unable to expand the contract scope or secure additional work to offset the resulting lost revenues. Some of our U.S. government contracts have provisions relating to cost controls and audit rights and if we fail to meet the terms specified in those contracts it could have a negative impact on our results of operations, financial condition and liquidity. Our contracts also require us to comply with extensive and evolving procurement rules and regulations, which are discussed in more detail below.

From time to time, we may begin performance under an undefinitized contract award with a not-to-exceed price prior to completing contract negotiations in order to support U.S. government priorities. Uncertainties in final contract price, specifications and terms, or loss of negotiating leverage associated with particularly long delays in contract definitization, may negatively affect our profitability.

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

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

To continue achievement of our growth strategy, we must successfully develop new offerings and technologies or adapt existing offerings and technologies for our current and future markets including new international, civil, and commercial markets. Accordingly, our future performance depends on a number of factors, including our ability in current, emerging and future growth markets to:

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

We believe that in order to remain competitive in the future, we will need to continue to invest significant financial resources to develop new, and adapt existing, offerings and technologies. We fund this investment through customer funded and internal research and development, acquisitions and joint ventures or other teaming arrangements. We believe this investment is needed to meet demands and expand in our domestic and international markets, including emerging opportunities within the DoD market and the commercial cybersecurity market in which our Forcepoint joint venture competes. Our investments to develop new offerings and technologies, or adapt existing offerings and technologies, could divert our attention and resources from

Table of Contents

other projects. In addition, we cannot be sure that these investments will ultimately lead to the timely development of new offerings and technologies or identification of and expansion into new or growth markets.

Due to the design complexity of our products, we may experience future delays in completing the development and introduction of new products. Any delays could result in increased costs of development or deflect resources from other projects. Further, our competitors may develop competing technologies which gain market acceptance in advance of our products. In addition, there can be no assurance that: (1) the market for our offerings will develop or continue to expand; (2) we will be successful in newly identified markets as we currently anticipate; or (3) the acquisitions, joint ventures or other teaming arrangements we may enter into in pursuit of developing new offerings and technologies will be successful. The failure of our technology to gain market acceptance could significantly reduce our revenues and harm our business.

Our existing technology and offerings may become obsolete due to new competitive technology or offerings. If we fail in our new product development efforts or our products or services fail to achieve market acceptance faster than our competitors, our ability to procure new contracts could be negatively impacted, which would negatively impact our results of operations, financial condition and liquidity.

Competition within our markets may reduce our revenues and market share and limit our future market opportunities.

We operate in highly competitive markets and our competitors may have more extensive or more specialized engineering, manufacturing and marketing capabilities than we do. We anticipate companies continuing to enhance their competitive position against us in our core markets as a result of continued domestic and cross-border defense industry consolidation and the expansion of competitors' capabilities throughout the supply chain through vertical integration. We are also facing heightened competition in our domestic and international markets from foreign and multinational firms. In addition, as discussed in more detail above, U.S. defense spending and U.S. government procurement strategies may limit our future market opportunities. For example, the DoD continues to award contracts through competitive bidding and relying on competitive contract award types and bid protests from unsuccessful bidders on new program awards are becoming more frequent. Generally, a bid protest will delay the start of contract activities, delay earnings, and could result in the award decision being overturned and require a re-bid of the contract. Additionally, some customers, including the DoD, are increasingly turning to commercial contractors, rather than traditional defense contractors, for information technology and other support work. If we are unable to continue to compete successfully against our current or future competitors in our core markets, we may experience declines in revenues and market share which could negatively impact our results of operations, financial condition and liquidity.

In addition, our Forcepoint cybersecurity joint venture faces significant competition due to rapid changes in technology, products, customer specifications and industry standards. It also has a wide range of market competitors, some that are significantly larger with broader product and service offerings or have best-of-breed products and/or maintain stronger customer relationships. In order to compete effectively, Forcepoint must successfully execute on its growth strategy, including the development of new products and services. If Forcepoint is unable to compete successfully, it may divert financial and management resources that would otherwise benefit our other operations.

As a U.S. government contractor, we are subject to extensive procurement rules and regulations. Changes in rules, regulations and business practices could negatively affect current programs and potential awards. Our business could be negatively affected if we fail to comply with any procurement rules and regulations.

As a U.S. government contractor, we must comply with specific procurement regulations and other requirements including: (1) export-import control; (2) security; (3) contract pricing and cost; (4) contract termination and adjustment; and (5) audit and product integrity requirements. These requirements impact our performance and compliance costs. In addition, the U.S. government has and may continue to implement initiatives focused on

efficiencies, affordability and cost growth and other changes to its procurement practices which may negatively affect our results of operations, financial condition and liquidity. This could also affect whether we pursue certain opportunities and the terms under which we are able to pursue them.

For example, in recent years the DoD has increasingly included contractual payment and cost reimbursement terms such as incentive-based contracts that require contractors to share cost overruns and underruns with the U.S. government.

Table of Contents

In addition, failure to comply with procurement regulations and requirements could result in: (1) reductions in contract value; (2) contract modifications or termination; (3) cash withholds on contract payments; (4) forfeiture of profits; and (5) the assessment of civil and criminal penalties and fines. Any of these could negatively impact our results of operations, financial condition and liquidity. Our failure to comply with these regulations and requirements could also lead to suspension or debarment, for cause, from U.S. government contracting or subcontracting for a period of time. Among the causes for debarment are violations of various statutes, including those related to: (1) procurement integrity; (2) export control; (3) U.S. government security regulations; (4) employment practices; (5) protection of the environment; (6) accuracy of records and the recording of costs; and (7) foreign corruption. Penalties or sanctions resulting from any failure to comply with applicable requirements could have a negative impact on our results of operations, financial condition and liquidity. This could also have a negative impact on our reputation, lead to contract terminations and reduce our ability to procure other U.S. government contracts in the future.

Issues with component availability, subcontractor performance or key supplier performance may affect our ability to manufacture and deliver our products and services.

We depend on our suppliers delivering materials, and on our subcontractors assembling major components and subsystems for our products in a timely and satisfactory manner and in full compliance with applicable terms and conditions. Some products require relatively scarce raw materials. We also are subject to specific procurement requirements that limit the types of materials we use which may limit the suppliers and subcontractors we may utilize. These procurement requirements include restrictions on the use of certain chemicals in the European Union (EU) and requirements for genuine original equipment manufacturer parts. As we continue to seek further cost efficiencies throughout our business, we may centralize procurements in order to attain better pricing through strategic sourcing, which may increase our dependency on certain suppliers. In some instances, we are dependent on sole-source suppliers. If certain component materials are not available or if any of these suppliers or subcontractors otherwise fails to meet our needs or becomes insolvent, we may not have readily available alternatives or alternatives at prices that meet the demands of our customers. We enter into long-term or volume purchase agreements with certain suppliers and take other actions, such as accelerating supplier payments commensurate with value delivered, to ensure financial viability of our suppliers and the availability of needed materials, components and subsystems. However, we cannot be sure that such items will be available at all or in the needed quantities. In addition, some of our suppliers or subcontractors may be susceptible to changes in global economic conditions that could impair their ability to meet their obligations to us. If we experience a material supplier or subcontractor problem, it could negatively impact our ability to satisfactorily and timely complete our customer obligations. This could result in reduced sales, termination of contracts and damage to our reputation and relationships with our customers. We could also incur additional costs in addressing this type of problem. Any of these events could have a negative impact on our results of operations, financial condition and liquidity. In addition, we must conduct diligence and provide disclosure regarding the use of certain minerals, known as conflict minerals, which may impact our procurement practices and increase our costs.

Our international business is subject to geopolitical and economic factors, regulatory requirements and other risks.

Our international business exposes us to geopolitical and economic factors, regulatory requirements, increasing competition and other risks associated with doing business in foreign countries. These risks differ from and potentially may be greater than those associated with our domestic business. In 2017, our sales to customers outside the U.S. (including foreign military sales through the U.S. government) accounted for 32% of our total net sales. Our exposure to such risks may increase if our international business continues to grow as we anticipate.

Our international business is sensitive to changes in the priorities and budgets of international customers, which may be driven by: (1) changes in threat environments; (2) geopolitical uncertainties; (3) volatility in worldwide economic conditions; and (4) various regional and local economic and political factors, including volatility in energy prices, changes in U.S. foreign policy, and other risks and uncertainties. Our international sales are subject to U.S. laws,

regulations and policies, including the International Traffic in Arms Regulations (ITAR), the Export Administration Regulations (EAR), the Foreign Corrupt Practices Act (FCPA), and other anti-corruption and export laws and regulations. We maintain policies and controls to comply with such laws and regulations and exercise oversight of such compliance. However, any failure by us or others working on our behalf to comply with these laws and regulations could result in criminal, civil or administrative penalties including fines, suspension or debarment from government contracts or suspension of our ability to export our products. In addition, due to the nature of our products, we must obtain licenses and authorizations from various U.S. government agencies before selling our products outside of the U.S. The receipt of such approvals may be affected or delayed by geopolitical and other factors.

Table of Contents

Moreover, some of our international contracts may be subject to termination for failure to receive such approvals in a timely manner. If we are not successful in timely obtaining or maintaining the necessary licenses or authorizations, certain sales may be reversed, prevented or delayed. Any significant impairment of our ability to sell products outside of the U.S. could negatively impact our results of operations, financial condition and liquidity.

Our international sales are also subject to local government laws, regulations, and procurement policies and practices which may differ from U.S. government regulations. These include regulations relating to export-import control, technology transfer, investments, exchange controls and repatriation of earnings. Further, our international sales contracts may be subject to non-U.S. contract laws and regulations and include contractual terms that differ from those of similar contracts in the U.S. or terms that may be interpreted differently by foreign courts. The occurrence of delays, cost overruns and product failures, or technological or other difficulties could affect our ability to perform on our international contracts and negatively affect our profitability. In addition, these contracts may be subject to termination for default based on performance or failure to obtain U.S. government export approvals. These contracts may also be subject to termination at the customer's convenience, and may be subject to funding risks. In connection with our international business, we also operate subsidiaries domiciled in non-U.S. locations that are subject to local government laws and regulations which may differ from U.S. government regulations. In addition, the timing of orders, customer negotiations, governmental approvals and notifications from our international customers can be less predictable than from our domestic customers. This may lead to variations in international bookings and sales each year. We must also manage a certain degree of exposure to the risk of currency fluctuations.

Our international business faces substantial competition from both U.S. companies and foreign companies. In some instances, foreign companies may be owned by foreign governments or may receive loans, marketing subsidies and other assistance from their governments that may not be available to U.S. companies. In addition, foreign companies may be subject to fewer restrictions on technology transfer than U.S. companies.

Our international contracts may include industrial cooperation agreements requiring specific local purchases, manufacturing agreements, technology transfer agreements or financial support obligations, sometimes in the form of either offset obligations or in-country industrial participation (ICIP) agreements. Approvals of offset or ICIP thresholds and requirements may be subjective and time-consuming and may delay contract awards. Offset requirements may, in certain countries, include the creation of a joint venture with a local company which may control the venture. This could result in liability for violations of law for actions taken by these entities, including laws related to anti-corruption, import and export, or local laws which may differ from U.S. laws and requirements. In addition, the ability to recover investments that we make may be dependent upon the success of ventures that we do not control. Such offset obligations are generally multi-year arrangements and may provide for penalties in the event we fail to perform in accordance with the offset requirements. In addition, certain customers' demands are increasing for greater offset or ICIP commitment levels, higher-value content, including the transfer of technologies and capabilities, and local production and economic development. We also are exposed to risks associated with using third-party foreign representatives and consultants for international sales, and teaming with international subcontractors, partners and suppliers in connection with international programs. As a result of the above factors, we could experience financial penalties and award and funding delays on international programs, our profitability on these programs could be negatively affected, and we could incur losses on these programs which could negatively impact our results of operations, financial condition and liquidity.

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

Due to the specialized nature of our business, our future performance is highly dependent upon the continued services of our key technical personnel and executive officers, the development of additional management personnel and the hiring of new qualified technical, manufacturing, marketing, sales and management personnel for our operations.

Competition for personnel is intense and we may not be successful in attracting or retaining qualified personnel. In addition, certain personnel may be required to receive various security clearances and substantial training in order to work on certain programs or perform certain tasks. Necessary security clearances may be delayed, which may impact our ability to perform on our U.S. government contracts. Further, a significant percentage of our current workforce is nearing or eligible for retirement. To the extent that we lose experienced personnel, it is critical that we develop other employees, hire new qualified personnel and successfully manage the transfer of critical knowledge. Loss of key employees, failure to attract new qualified employees or adequately train them, delays in receiving required security clearances, or delays in hiring key personnel could seriously harm our business.

Table of Contents

Our business could be negatively impacted by cyber attacks and other security breaches and other disruptions.

As part of our business we face certain security threats including: (1) threats to our information technology infrastructure; (2) attempts to gain access to our proprietary, sensitive or classified information; (3) threats to physical security, including our facilities and personnel; and (4) threats from terrorism or similar acts. We also face the potential for business disruptions associated with natural disasters. Cybersecurity threats in particular are persistent, evolve quickly and include, but are not limited to, computer viruses, attempts to access information, denial of service attacks and other electronic security breaches. Our information technology networks and related systems are critical to the operation of our business and essential to our ability to successfully perform day-to-day operations. We have in the past and will in the future continue to be the subject of cybersecurity threats. In addition, our customers, suppliers, subcontractors and other third parties with whom we do business generally face similar security threats and in some cases we must rely on the safeguards put in place by these parties to protect against security threats. We believe we have implemented appropriate measures and controls and have invested in significant resources to appropriately identify and monitor these threats and mitigate potential risks, including risks involving our customers and suppliers. However, there can be no assurance that any such actions will be sufficient to prevent cybersecurity breaches, disruptions to mission critical systems, the unauthorized release of sensitive information or corruption of data, or harm to facilities or personnel.

As a provider of products and services to government and commercial customers, including through Forcepoint, our products and services may be the targets of cyber attacks that attempt to sabotage or otherwise disable them. Our cybersecurity and other products and services ultimately may not be able to effectively detect, prevent, or protect against or otherwise mitigate customer losses from all cyber attacks. In addition, some products and services that we provide to customers, particularly those related to public security, may raise potential liabilities related to privacy and intellectual property.

The impact of these security threats and other disruptions is difficult to predict. Further, our insurance coverage may not be adequate to cover all related costs and we may not otherwise be fully indemnified for them. These threats and other events could disrupt our operations, or the operations of our customers, suppliers, subcontractors and other third parties. They could require significant management attention and resources and could result in the loss of business, regulatory actions and potential liability. They could also negatively impact our reputation among our customers and the public. Any one of these outcomes could have a negative impact on our financial condition, results of operations and liquidity.

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

We are subject to audits and investigations by U.S. government agencies including the Defense Contract Audit Agency (DCAA), the Defense Contract Management Agency (DCMA), the Inspectors General of the DoD and other departments and agencies, the Government Accountability Office, the Department of Justice (DOJ) and Congressional Committees, in large part because we are a government contractor. 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. The DCAA and DCMA also review the adequacy of and our compliance with our internal control systems and policies, including our accounting, purchasing, property, estimating, earned value management and material management accounting systems. Our final allowable incurred costs for each year are subject to audit and have from time to time resulted in disputes between us and the U.S. government. In some cases, the DOJ has convened grand juries to investigate possible irregularities in our costs. Any costs found to be improperly allocated to a specific contract will not be reimbursed or must be refunded if already reimbursed. An adverse outcome of any audit or investigation could result in civil and criminal penalties and fines which could negatively impact our results of operations, financial condition and liquidity. In addition, if allegations of impropriety were made against us, we could suffer serious reputational harm which could negatively affect our financial position, results of operations and

liquidity.

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

Accounting for long-term contracts requires estimates and judgments related to our progress toward completion. Significant judgments include potential risks associated with the ability and cost to achieve program schedule, including customer-directed delays or reductions in scheduled deliveries, and technical and other specific contract requirements. Due to the size and long-term nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. Management must make assumptions and estimates regarding contract revenue and cost (including estimates of award fees and penalties), including with respect to: (1) labor productivity and availability; (2) the complexity of the work

Table of Contents

to be performed; (3) the availability of materials; (4) the length of time to complete the performance obligation; (5) execution by our subcontractors; (6) the availability and timing of funding from our customer; and (7) overhead cost rates, among other variables. Because of the significance of management's judgments and estimation processes described above, it is likely that materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect our future results of operations and financial condition.

For a detailed discussion of how our financial statements can be affected by contract accounting policies, see "Critical Accounting Estimates" within Item 7 of this Form 10-K.

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

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

For a detailed discussion of how our financial statements can be affected by pension and PRB plan accounting policies, see "Critical Accounting Estimates" within Item 7 of this Form 10-K.

If we fail to manage our acquisitions, investments, divestitures, joint ventures and other transactions successfully, these activities could adversely affect our future financial results.

In pursuing our business strategies, we continually review, evaluate and consider potential investments, acquisitions, divestitures, joint ventures and other teaming and collaborative arrangements. We undertake to identify opportunities that will complement our existing products and services or customer base, as well as expand our offerings and market reach into new areas that naturally extend from our core capabilities. In evaluating such transactions, we are required to make difficult judgments regarding the value of business opportunities, technologies and other assets, and the risks and cost of potential liabilities. Further, these transactions involve certain other risks and uncertainties including: (1) the risks involved with entering new markets; (2) the difficulty in integrating newly-acquired businesses and managing or monitoring other collaborative business arrangements; (3) challenges and failures in achieving strategic objectives and other expected benefits which may result in certain liabilities to us for guarantees and other commitments; (4) unidentified issues not discovered in Raytheon's due diligence; (5) the diversion of our attention and resources from our operations and other initiatives; (6) the potential impairment of acquired assets; (7) the performance of underlying products, capabilities or technologies; and (8) the potential loss of key employees and customers of acquired businesses. In addition, future transactions may impact our deployment of capital, including dividends, stock repurchases, pension contributions, and investments.

Additionally, the joint venture agreement for our Forcepoint cybersecurity joint venture company, of which Raytheon owns 80.5% and Vista Equity Partners owns 19.5%, provides Vista Equity Partners with certain rights to exit the joint venture, including the right to require Raytheon to purchase all of Vista Equity Partners' interest in Forcepoint and the

right to require Forcepoint to pursue an initial public offering, as well as certain other protective rights with respect to the management of Forcepoint's business. In addition to the other risks described above, the exercise of any such rights by Vista Equity Partners could adversely affect our results of operations, financial condition and liquidity, or the management of our business as a whole.

For a more detailed discussion regarding Forcepoint, see "Forcepoint" beginning on page 6 within Item 1 of this Form 10-K.

Table of Contents

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

At December 31, 2017, we had goodwill and other intangible assets of approximately $15.6 billion which represented 51% of our total assets. Our goodwill is subject to an impairment test annually and is also tested whenever events and circumstances indicate that goodwill may be impaired. In the event of an impairment any excess goodwill must be written off in the period of determination. Intangible assets (other than goodwill) are generally amortized over the useful life of such assets. In addition, from time to time, we may acquire or make an investment in a business which will require us to record goodwill and intangible assets based on the purchase price and the value of the acquired assets. We may subsequently experience unforeseen events that could adversely affect the value of our goodwill or intangible assets and trigger an impairment evaluation. Future determinations of significant impairments of goodwill or intangible assets as a result of an impairment test or any accelerated amortization of other intangible assets could have a negative impact on our results of operations and financial condition.

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

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

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

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

We own many U.S. and foreign patents and patent applications, and have rights in unpatented know-how, data, software, trademarks and copyrights. The U.S. government has licenses under certain of our patents and certain other intellectual property that are developed or used in performance of government contracts. The U.S. government may use or authorize others (including our competitors) to use such patents and intellectual property for government and other purposes. The U.S. government may challenge the sufficiency of intellectual property rights we have granted in U.S. government contracts and attempt to obtain greater rights. There can be no assurance that any of our patents and other intellectual property will not be challenged, invalidated, misappropriated or circumvented by third parties and litigation can be costly, even if successful, and can direct our attention from other areas of our business. All of the above could diminish the value of our intellectual property, affecting our ability to procure future business or maximize the use of our intellectual property to increase our revenue.

In some instances, we have augmented our technology base by licensing the proprietary intellectual property of others. In the future, we may not be able to obtain necessary licenses on commercially reasonable terms. We enter into confidentiality and intellectual property assignment agreements with our employees and enter into non-disclosure agreements with our suppliers and appropriate customers so as to limit access to and prevent disclosure of our trade secrets and other proprietary information. These measures may not suffice to deter misappropriation or third-party development of similar technologies. Intellectual property obtained from third parties is also subject to challenge, invalidation, misappropriation or circumvention by third parties. Moreover, the laws concerning intellectual property vary among nations and the protection provided to our intellectual property by the laws and courts of foreign nations

may differ from those of the U.S. If we are unable to adequately protect our intellectual property rights or continue to access licensed technologies, it could have a negative impact on our results of operations, financial condition and liquidity.

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

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

Table of Contents

We are also subject to laws and regulations that: (1) impose requirements for the proper management, treatment, storage and disposal of hazardous substances and wastes; (2) restrict air and water emissions from our operations (including U.S. government-owned facilities we manage); and (3) require maintenance of a safe workplace. These laws and regulations can lead to substantial fines and criminal sanctions for violations, and may require the installation of costly equipment or operational changes to limit pollution emissions, decrease the likelihood of accidental hazardous substance releases and/or reduce the risks of injury to people in our workplaces.

Most of the U.S. laws governing environmental matters include criminal provisions. A criminal violation of certain U.S. environmental statutes such as the Clean Air Act and Clean Water Act could result in suspension, debarment or disqualification by the U.S. Environmental Protection Agency (EPA). If we were to be convicted of a criminal violation of certain U.S. federal environmental statutes, the facility or facilities involved in the violation could not be used to perform any U.S. government contract work until the violation has been corrected and the EPA approves the reinstatement of the facility.

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

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

A significant portion of our business relates to designing, developing and manufacturing advanced defense and technology systems and products. New technologies may be untested or unproven. In addition, we may incur significant liabilities that are unique to our products and services. In some, but not all, circumstances, we may be entitled to indemnification from our customers through contractual provisions, and we may obtain limitations of liability and additional defenses for various reasons including the qualification of our products and services by the Department of Homeland Security (DHS) under the SAFETY Act provisions of the Homeland Security Act of 2002. The amount of the insurance coverage we maintain or indemnification to which we may be contractually or otherwise entitled may not be adequate to cover all claims or liabilities. Accordingly, we may be forced to bear substantial costs resulting from risks and uncertainties of our business which would negatively impact our results of operations, financial condition and liquidity.

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

We are subject to income taxes in the U.S. and many foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are transactions and calculations where the ultimate tax determination is uncertain. Further, changes in domestic or foreign income tax laws and regulations, or their interpretation, could result in higher or lower income tax rates assessed or changes in the taxability of certain sales or the deductibility of certain expenses, thereby affecting our income tax expense and profitability. We recorded preliminary estimates of the impact of the 2017 Act enacted on December 22, 2017 in accordance with Staff Accounting Bulletin No. 118 (SAB 118). These estimates are subject to further analysis and review which may result in material adjustments in 2018. In addition, we are regularly under audit by tax authorities. The final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. Additionally, changes in the geographic mix of our sales could impact our tax liabilities and affect our income tax expense and profitability.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

As of December 31, 2017 we owned, leased and/or utilized (through operating agreements) approximately 26 million square feet of floor space for manufacturing, engineering, research, administration, sales and warehousing, 92% of which was located in the U.S. Of such total, 44% was owned (or held under a long-term ground lease with ownership of the improvements), 50%

Table of Contents

was leased, and 6% was government owned. In addition to the 26 million square feet of floor space described above, 205,974 square feet of space was leased or subleased by us to unrelated third parties.

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

As of December 31, 2017, our business segments had major operations at the following locations:

Integrated Defense Systems—Huntsville, AL; Fullerton, CA; San Diego, CA; Andover, MA; Billerica, MA; Marlboro, MA; Tewksbury, MA; Woburn, MA; Maple Lawn, MD; Portsmouth, RI; Keyport, WA; and Kiel, Germany.
Intelligence, Information and Services—Fullerton, CA; Aurora, CO; Colorado Springs, CO; Indialantic, FL; Orlando, FL; Indianapolis, IN; Louisville, KY; Billerica, MA; Burlington, MA; Marlboro, MA; Annapolis Junction, MD; Riverdale, MD; Troy, MI; Omaha, NE; Lawton, OK; State College, PA; El Paso, TX; Richardson, TX; Chantilly, VA; Chesapeake, VA; Dulles, VA; Herndon, VA; Springfield, VA; and Calgary, Canada.
Missile Systems—Huntsville, AL; East Camden, AR; Tucson, AZ; Louisville, KY; Albuquerque, NM; Farmington, NM; Dallas, TX; Richardson, TX; Midland, Canada; Glenrothes, Scotland; and Harlow, United Kingdom.
Space and Airborne Systems—El Segundo, CA; Goleta, CA; Sunnyvale, CA; Largo, FL; Fort Wayne, IN; Cambridge, MA; Marlboro, MA; Forest, MS; Dallas, TX; and McKinney, TX.
Forcepoint—Los Gatos, CA; San Diego, CA; Minneapolis, MN; Austin, TX; Salt Lake City, UT; Herndon, VA; Sydney, Australia; Beijing, China; Reading, England; Helsinki, Finland; Chennai, India; Dublin, Ireland; Ra'anana, Israel; and Krakow, Poland.
Corporate—Billerica, MA; Waltham, MA; Greenville, TX; Richardson, TX; Plano, TX; Arlington, VA; and Dulles, VA.

A summary of the space owned, leased and/or utilized by us as of December 31, 2017, by business segment is as follows:

(In square feet)	Leased	Owned[1]	Government owned[2]	Total[3]
Integrated Defense Systems	1,329,279	3,761,148	129,968	5,220,395
Intelligence, Information and Services	4,535,268	496,668	207,935	5,239,871
Missile Systems	2,758,986	2,585,915	1,222,146	6,567,047
Space and Airborne Systems	3,344,822	4,187,060	63	7,531,945
Forcepoint	503,598	—	—	503,598
Corporate[4]	650,195	329,210	4,238	983,643
Total square feet	13,122,148	11,360,001	1,564,350	26,046,499

(1) Ownership may include either fee ownership of land and improvements or a long-term ground lease with ownership of improvements.
(2) "Government owned" means space owned by the U.S. or a foreign government utilized by us pursuant to an operating agreement with the U.S. or a foreign government.
(3) Includes 16,301 square feet of vacant space, but excludes 205,974 square feet of space leased or subleased to unrelated third parties.
(4) Includes business development and Raytheon International, Inc.

ITEM 3. LEGAL PROCEEDINGS

We primarily engage in providing products and services under contracts with the U.S. government and, to a lesser degree, under direct foreign sales contracts, some of which the U.S. government funds. As a U.S. government contractor, we are subject to many levels of audit and investigation by the U.S. government relating to our contract performance and compliance with applicable rules and regulations. Agencies that oversee contract performance

include: the Defense Contract Audit Agency (DCAA); the Defense Contract Management Agency (DCMA); the Inspectors General of the U.S. Department of Defense (DoD) and other departments and agencies; the Government Accountability Office (GAO); the Department of Justice (DOJ); and Congressional Committees. Other areas of our business operations may also be subject to audit and investigation by these and/or other agencies. From time to time, agencies investigate or conduct audits to determine whether our operations are being conducted in accordance with applicable requirements. Such investigations and audits may be initiated due to a number of reasons, including as a result of a whistleblower complaint. Such investigations and audits could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, the suspension of government export licenses or the suspension or debarment from future U.S. government contracting. U.S. government investigations often take

Table of Contents

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-K, we do not expect these audits, investigations or disputes to have a material effect on our financial position, results of operations or liquidity, either individually or in the aggregate.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Frank R. Jimenez
Mr. Jimenez has served as Vice President and General Counsel since January 2015 and Corporate Secretary since April 2015. Prior to joining Raytheon, Mr. Jimenez served as General Counsel, Secretary and Managing Director, Corporate Affairs of Bunge Limited, a leading global agribusiness and food company, from July 2012 to January 2015. From 2011 to 2012, he served as Senior Vice President, General Counsel and Corporate Secretary at Xylem Inc., a global water technology company spun off from ITT Corporation in 2011. From 2009 to 2011, he served as Vice President and General Counsel of ITT Corporation. From 2006 to 2009, he served as General Counsel of the U.S. Department of the Navy. He previously held a variety of other positions in government, including Deputy General Counsel (Legal Counsel) for the U.S. Department of Defense and Chief of Staff at the U.S. Department of Housing and Urban Development, as well as Deputy Chief of Staff and Acting General Counsel to the Governor of Florida. Age 53.

Thomas A. Kennedy
Dr. Kennedy has served as Chairman of the Board since October 2014, Chief Executive Officer since April 2014 and a Director since January 2014. From April 2013 to March 2014, he served as Executive Vice President and Chief Operating Officer of Raytheon Company. From June 2010 to March 2013, he served as Vice President of Raytheon Company and President of the Integrated Defense Systems (IDS) business unit. From July 2007 to June 2010, he was Vice President of the Tactical Airborne Systems product line within the Space and Airborne Systems (SAS) business unit, and from May 2003 to July 2007, he was Vice President of the Mission System Integration product line within SAS. Dr. Kennedy joined Raytheon in 1983 and has held positions of increasing responsibility as a new business leader and program manager for several radar and electronic warfare systems development programs. Age 62.

Wesley D. Kremer

Mr. Kremer has served as President of the Integrated Defense Systems (IDS) business unit since July 2015 and Vice President of Raytheon Company since October 2015. From July 2011 to July 2015, he was Vice President of the Air and Missile Defense Systems product line within the Missile Systems (MS) business unit. From May 2010 to July 2011, Mr. Kremer was Director of the Standard Missile-3 program, and from June 2008 to May 2010, he was Director of Systems Design and Performance Engineering within MS. From December 2006 to June 2008, he was General Manager of the Advanced Products Center within the Space and Airborne Systems (SAS) business unit. Prior to joining Raytheon in 2003, Mr. Kremer served 11 years in the U.S. Air Force as a weapon systems officer. Age 52.

Table of Contents

Taylor W. Lawrence
Dr. Lawrence has served as Vice President of Raytheon Company and President of the Missiles Systems (MS) business unit since July 2008. Dr. Lawrence joined Raytheon in April 2006 and until July 2008, he served as Vice President, Engineering, Technology and Mission Assurance. From August 2001 to April 2006, Dr. Lawrence was sector vice president and general manager, C4ISR and Space Sensors Division for Northrop Grumman Electronic Systems. From March 1999 to August 2001, Dr. Lawrence was vice president, Products and Technology for Northrop Grumman's Systems Development and Technology Division. Before joining Northrop Grumman, Dr. Lawrence served as the staff director for the Select Committee on Intelligence for the U.S. Senate and, previously, as deputy director, Information Systems Office of the Defense Advanced Research Projects Agency. Age 54.

Randa G. Newsome
Ms. Newsome has served as Vice President of Human Resources and Global Security since January 2015. From April 2013 to December 2014, she was Vice President of Human Resources and Security for Raytheon's Integrated Defense Systems (IDS) business unit. From December 2008 to April 2013, she was Vice President of Human Resources and Security for the former Technical Services (TS) business unit. From May 2004 to December 2008, Ms. Newsome was Director of Organization Performance and Talent Management for the former Intelligence and Information Systems business unit. Ms. Newsome joined Raytheon in 2001 as a human resources manager for the former Network Centric Systems business unit, after holding various assignments of increasing responsibility at Lockheed Martin Corporation. Age 52.

Anthony F. O'Brien
Mr. O'Brien has served as Vice President and Chief Financial Officer since March 2015. From March 2008 to March 2015, he was Vice President and Chief Financial Officer of Raytheon's Integrated Defense Systems (IDS) business unit. Mr. O'Brien joined Raytheon in 1986 and has held numerous finance positions of increasing responsibility with the Company over the course of his 31-year career, including Vice President of Finance and the senior finance executive responsible for Raytheon Airline Aviation Services and Raytheon's International Landed Companies, and Chief Financial Officer for Raytheon Aircraft Company. Age 53.

Rebecca R. Rhoads
Ms. Rhoads has served as Vice President of Raytheon Company and President of Global Business Services (GBS) since December 2013. From April 2001 to December 2013, she was a Vice President and the Chief Information Officer for Raytheon Company. From 1999 to April 2001, she was the Vice President of Information Technology for Raytheon's former Electronics Systems business unit. Ms. Rhoads began her career with General Dynamics as an electrical engineer in 1979, and worked in Engineering and Operations holding various assignments of increasing responsibility at General Dynamics, Hughes and Raytheon. Age 60.

David C. Wajsgras
Mr. Wajsgras has served as Vice President of Raytheon Company and President of the Intelligence, Information and Services (IIS) business unit since March 2015. From March 2006 to March 2015, he was Senior Vice President and Chief Financial Officer for Raytheon Company. From August 2005 to March 2006, he was Executive Vice President and Chief Financial Officer of Lear Corporation, an automotive interior systems and components supplier. From January 2002 to August 2005, he served as Senior Vice President and Chief Financial Officer of Lear. Mr. Wajsgras joined Lear in September 1999 as Vice President and Controller. Age 58.

Michael J. Wood
Mr. Wood has served as Vice President, Controller and Chief Accounting Officer since October 2006. Prior to joining Raytheon, Mr. Wood held positions of increasing responsibility over a 16-year career at KPMG LLP, an accounting firm, including as an Audit Partner serving various aerospace and defense clients. Age 49.

Richard R. Yuse

Mr. Yuse has served as Vice President of Raytheon Company and President of the Space and Airborne Systems (SAS) business unit since March 2010. From May 2007 to March 2010, he was President of the former Technical Services (TS) business unit. From March 2007 to May 2007, Mr. Yuse was Vice President and Deputy General Manager of TS, and from January 2006 to March 2007, he served as Vice President of the Integrated Air Defense product line of the Integrated Defense Systems (IDS) business unit. Mr. Yuse joined Raytheon in 1976 and has held positions of increasing responsibility on a variety of programs ranging from system architecture and design to flight test director and program manager. Age 66.

Table of Contents

PART II

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

At February 12, 2018, there were 21,414 record holders of our common stock. Our common stock is traded on the New York Stock Exchange under the symbol "RTN." For information concerning stock prices and dividends paid during the past two years, see "Note 18: Quarterly Operating Results (Unaudited)" within Item 8 of this Form 10-K. The information required by Item 5 with respect to securities authorized for issuance under equity compensation plans is contained in Part III, Item 12 of this Annual Report on Form 10-K.

Stock Performance Graph

The following chart compares the total return on a cumulative basis of $100 invested in our common stock on December 31, 2012 to the Standard & Poor's (S&P) 500 Stock Index and the S&P Aerospace & Defense Index.

Total Return To Stockholders (Includes reinvestment of dividends)

	Annual Return Percentage				
	Years Ending				
Company/Index	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Raytheon Common Stock	62.33	21.50	18.02	17.12	34.22
S&P 500 Index	32.39	13.69	1.38	11.96	21.83
S&P Aerospace & Defense Index	54.92	11.43	5.43	18.90	41.38

	Indexed Returns					
	Years Ending					
Company/Index	Base Period 12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Raytheon Common Stock	$100	$ 162.33	$ 197.22	$ 232.75	$ 272.59	$ 365.87
S&P 500 Index	100	132.39	150.51	152.59	170.84	208.14
S&P Aerospace & Defense Index	100	154.92	172.63	182.01	216.42	305.97

Table of Contents

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value (in Billions) of Shares that May Yet Be Purchased Under the Plans [2]
October (October 2, 2017–October 29, 2017)	21	$187.65	—	$ 0.9
November (October 30, 2017–November 26, 2017)	316,108	183.36	314,751	2.9
December (November 27, 2017–December 31, 2017)	225,323	187.63	225,323	2.8
Total	541,452	$185.14	540,074	

(1) Includes shares purchased related to activity under our stock plans. Such activity during the fourth quarter of 2017 includes the surrender by employees of 1,378 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. Additionally, in November 2017, our Board authorized the repurchase of up to an additional $2.0 billion of our outstanding common stock.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

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

FIVE-YEAR STATISTICAL SUMMARY

(In millions, except per share amounts and total employees)	2017	2016	2015	2014	2013
Results of Operations					
Total net sales[1]	$25,348	$24,124	$23,321	$22,826	$23,706
Operating income[1]	3,318	3,295	3,067	3,179	2,938
Interest expense, net	184	216	222	203	198
Income from continuing operations[1]	1,999	2,212	2,094	2,193	1,949
Income (loss) from discontinued operations, net of tax	2	1	13	65	64
Net income[1]	2,001	2,213	2,107	2,258	2,013
Net income attributable to Raytheon Company[1]	2,024	2,244	2,110	2,244	1,996
Diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders[1]	$6.94	$7.55	$6.87	$6.97	$5.96
Diluted earnings per share attributable to Raytheon Company common stockholders[1]	$6.95	$7.55	$6.91	$7.18	$6.16
Average diluted shares outstanding	291.4	296.8	305.2	312.6	324.2
Financial Position at Year-End					
Cash and cash equivalents	$3,103	$3,303	$2,328	$3,222	$3,296
Short-term investments	297	100	872	1,497	1,001
Total current assets[1]	11,326	10,885	10,023	10,279	9,792
Property, plant and equipment, net	2,439	2,166	2,005	1,935	1,937
Total assets[1]	30,860	30,238	29,477	27,716	25,964
Total current liabilities[1]	7,348	6,539	6,275	5,752	5,704
Long-term liabilities (excluding debt)[1]	8,287	7,758	7,134	6,918	4,329
Long-term debt	4,750	5,335	5,330	5,325	4,734
Redeemable noncontrolling interest	512	449	355	—	—
Total equity[1]	9,963	10,157	10,383	9,721	11,197
Cash Flow and Other Information					
Net cash provided by (used in) operating activities from continuing operations	$2,747	$2,852	$2,346	$2,064	$2,382
Net cash provided by (used in) investing activities	(817)	53	(1,744)	(1,322)	(473)
Net cash provided by (used in) financing activities	(2,116)	(1,930)	(1,509)	(936)	(1,797)
Bookings[1]	27,718	27,809	25,145	24,052	22,132
Total backlog[1]	38,210	36,709	33,839	33,571	33,685
Dividends declared per share	$3.19	$2.93	$2.68	$2.42	$2.20
Total employees from continuing operations	64,000	63,000	61,000	61,000	63,000

(1) Amounts prior to 2015 do not reflect the impact of the adoption of Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), in the first quarter of 2017. See “Note 1: Summary of Significant Accounting Policies” within Item 8 of this Form 10-K for additional information.

Table of Contents

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

OVERVIEW

Introduction

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

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

Business Environment

Domestic Considerations

U.S. government sales, excluding foreign military sales, accounted for 67% of our total net sales in 2017. Our principal U.S. government customer is the U.S. Department of Defense (DoD).

DoD funding levels, which are subject to budget and appropriation decisions and processes, are difficult to predict beyond the near-term. Spending caps on DoD funding imposed by the Budget Control Act of 2011 (BCA) have been raised several times, most recently by the Bipartisan Budget Act (BBA) of 2015 for fiscal years (FY) 2016 and 2017 and the BBA of 2018 for FY 2018 and FY 2019. DoD modernization funding, which consists of procurement and research and development, is of particular importance to defense contractors. The DoD increased such funding in both FY 2016 and FY 2017, and defense spending levels will increase for FY 2018 and FY 2019 as a result of the enactment of the BBA of 2018. To date, the U.S. government has not signed a formal appropriation bill into law for FY 2018 and, following two brief government shut-downs, Congress has instead passed a Continuing Resolution (CR), under which the DoD is currently operating, through March 23, 2018. The FY 2019 appropriations process is currently scheduled for completion prior to October 2018. DoD funding levels for FY 2020 and FY 2021 remain governed by the BCA. While we expect changes to those funding levels, any such change would require Congress to enact legislation.

In addition to the DoD budget considerations discussed above, future domestic defense spending levels are impacted by a number of additional factors, including external threats to our national security, funding for on-going operations overseas, the priorities of the Administration and the Congress, overall health of the U.S. and world economies, and the state of governmental finances. However, we also continue to expect the DoD to continue to prioritize and protect the key capabilities required to execute its strategy, including being able to deter and defeat peer nation threats. Such capabilities include Intelligence, Surveillance and Reconnaissance (ISR), cybersecurity, missile defense, electronic warfare, improved kinetic and non-kinetic

Table of Contents

effectors, undersea warfare, space systems, unmanned systems, special operations forces and interoperability with allied forces. We believe those priorities are well aligned with our product offerings, technologies, services and capabilities.

We currently are involved in tens of thousands of contracts, with no single contract accounting for more than 5% of our total net sales in 2017. Although we believe our diverse portfolio of programs and capabilities is well suited to a changing defense environment, we face numerous challenges and risks, as discussed above. For more information on the risks and uncertainties that could impact the U.S. government's demand for our products and services, see "Item 1A. Risk Factors" of this Form 10-K.

International Considerations

In 2017, our sales to customers outside of the U.S. accounted for 32% of our total net sales (including foreign military sales through the U.S. government). Internationally, the growing threat of additional terrorist activity, cyber threats, emerging nuclear states, long-range missiles and conventional military threats have led to an increase in demand for defense systems and services and other security solutions. In North Asia, both short- and long-term regional security concerns are increasing demand for air and missile defense, air/naval modernization and maritime security. In the Middle East and North Africa, threats from state and non-state actors are increasing demand for air and missile defense, air/land/naval force modernization, precision engagement, ISR, maritime and border security, and cybersecurity solutions. Given such threat environments, we expect our customers to continue to prioritize security investments even if their budgets are impacted by volatile short-term energy prices. In Europe, some countries have begun to increase spending in response to geopolitical events and conflicts in Eastern Europe and the resulting uncertainty and security threat environment. Based on the foregoing, we expect that European nations will continue to seek advanced air and missile defense and other capabilities, including cyber. Overall, we believe many international defense budgets have the potential to grow and to do so at a faster rate than the U.S. defense budget. However, international demand is sensitive to changes in the priorities and budgets of international customers and geopolitical uncertainties, which may be driven by changes in threat environments, volatility in worldwide economic conditions, regional and local economic and political factors, U.S. foreign policy and other risks and uncertainties. For more information on the risks and uncertainties that could impact international demand for our products and services, see "Item 1A. Risk Factors" of this Form 10-K.

Our Strategy

The following are the broad elements of our strategy:

- Build upon our areas of strength within our key mission areas;
- Focus additional resources on emerging opportunities within the DoD market;
- Engage key countries as individual markets with multiple customers; and
- Extend Raytheon's advanced cyber solutions beyond the U.S. government into international and commercial markets.

We believe that our broad mix of technologies, domain expertise and key capabilities, our cost-effective, best-value solutions and the alignment of these strengths with customer needs position us favorably to grow in our key mission areas of integrated air and missile defense; electronic warfare; command, control, communications, computers, cyber, intelligence, surveillance and reconnaissance; space systems; effects; and cyber. Globally, customers are increasingly seeking cost-effective mission solutions. These solutions can take the form of new electronics or electronic upgrades, but draw on our market focus area capabilities, deep domain expertise and system architecture skills. We continue to explore opportunities to make these affordable solutions more readily available to our international customers, including through enhanced design for export and releasability. We also continue to make investments to support our strategy, including through acquisitions and research and development.

International Growth—Because of the breadth of our offerings, our systems integration capability, the value of our solutions and our strong legacy in the international marketplace, we believe that we are well positioned to continue to

grow our international business. As discussed above in International Considerations, we believe demand continues to grow for solutions in air and missile defense, precision engagement, naval systems integration, ISR and cybersecurity. As a result we continue to enhance our focus on global growth through increased investment in our international business in existing and new international markets. Such investment provides additional resources and capabilities, both in-country and in the U.S., that strengthen the Company's position to pursue both existing and new opportunities. We also continue to adjust our international business activities to address customer priorities. For example, customer demands for local economic development are increasing, and we recently signed a memorandum of understanding with Saudi Arabia to cooperate on defense-related and technology projects and established a Saudi Arabia subsidiary to facilitate in-country work. Similarly, we recently established a United Arab Emirates subsidiary to facilitate in-country work. Although we believe our international business is well positioned to continue to grow, we recognize that we face substantial competition from both U.S. companies and other

Table of Contents

competitors in international markets, as well as the challenges of changing budget priorities, overall spending pressures and the timing of contract awards.

(In millions)	2017	2016	2015
International sales[(1)]	$8,085	$7,616	$7,197
International bookings	8,479	8,193	8,512

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

Cyber—We provide cyber capabilities to government customers, including the Intelligence Community, the DoD, other defense and civil global customers, as well as embed information assurance capabilities in our products and our information technology infrastructure. We also deliver "defense-grade" cybersecurity solutions to commercial markets worldwide through Forcepoint, our commercial cybersecurity joint venture with Vista Equity Partners. We believe the commercial and government cyber markets continue to represent strong growth markets for Raytheon. We expect to continue to seek opportunities to leverage our extensive cyber capabilities and to grow and scale our cyber businesses.

For more information on the Forcepoint joint venture transaction, see "Item 1. Business," and "Note 12: Forcepoint Joint Venture" within Item 8 of this Form 10-K.

Focus on the Customer and Execution

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

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

Table of Contents

FINANCIAL SUMMARY

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

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

(In millions, except percentages)	2017	2016	2015
Bookings	$27,718	$27,809	$25,145
Total backlog	38,210	36,709	33,839
Total net sales	25,348	24,124	23,321
Total operating income[(1)]	3,318	3,295	3,067
Total operating margin	13.1 %	13.7 %	13.2 %
Operating cash flow from continuing operations	$2,747	$2,852	$2,346

(1) Includes FAS/CAS Adjustment, described below in Critical Accounting Estimates, of $390 million, $435 million and $185 million of income in 2017, 2016 and 2015, respectively.

Backlog, which is equivalent to our remaining performance obligations, 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., indefinite-delivery, indefinite-quantity (IDIQ)). Backlog is affected by changes in foreign exchange rates.

In addition, we maintain a strong focus on program execution and the prudent management of capital and investments in order to maximize operating income and cash. We pursue a capital deployment strategy that balances funding for growing our business, including: (1) capital expenditures, acquisitions and research and development; (2) prudently managing our balance sheet, including debt repayments and pension contributions; and (3) returning cash to our shareholders, including dividend payments and share repurchases.

We also focus on earnings per share (EPS) and measures to assess our cash generation and the efficiency and effectiveness of our use of capital, such as free cash flow (FCF) and return on invested capital (ROIC), both of which are not defined measurements under U.S. Generally Accepted Accounting Principles (U.S. GAAP) and may be calculated differently by other companies.

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

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

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are based on the application of U.S. GAAP, which require us to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and the accompanying notes. Future events and their effects cannot be determined with certainty; therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such

differences may be material to our consolidated financial statements. We believe the estimates set forth below may involve a higher degree of judgment and complexity in their application than our other accounting estimates and represent the critical accounting estimates used in the preparation of our consolidated financial statements. We believe our judgments related to these accounting estimates are appropriate. However, if different assumptions or conditions were to prevail, the results could be materially different from the amounts recorded.

Table of Contents

Revenue Recognition

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). For additional information on the new standard and the impact to our results of operations, refer to Accounting Standards below.

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, for example when a contract covers multiple phases of the product lifecycle (e.g., development, production, maintenance and support), 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 regulatory approvals. In these cases, we recognize revenue based on the likelihood of obtaining timely 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. The majority of our sales are driven by pricing based on costs incurred to produce products or perform services under contracts with the U.S. government, as determined under the Federal Acquisition Regulation (FAR). The FAR provides guidance on the types of costs that are allowable in establishing prices for goods and

Table of Contents

services under U.S. government contracts. 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 in the form of either offset obligations or in-country industrial participation (ICIP) agreements, required under certain contracts. These obligations may or may not be distinct depending on their nature.

Based on this analysis, any quarterly adjustments to net sales, cost of sales and the related impact to operating income are recognized as necessary in the period they become known. These adjustments may result from positive program performance, and may result in an increase in operating income during the performance of individual performance obligations, if we determine we will be successful in mitigating risks surrounding the technical, schedule and cost aspects of those performance obligations or realizing related opportunities. Likewise, these adjustments may result in a decrease in operating income if we determine we will not be successful in mitigating these risks or realizing related opportunities. Changes in estimates of net sales, cost of sales and the related impact to operating income are recognized quarterly on a cumulative catch-up basis, which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a performance obligation's percentage of completion. A significant change in one or more of these estimates could affect the profitability of one or more of our performance obligations.

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.

Table of Contents

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

(In millions, except per share amounts)	2017	2016	2015
Operating income	$442	$418	$392
Income from continuing operations attributable to Raytheon Company	287	283	255
Diluted EPS from continuing operations attributable to Raytheon Company	$0.98	$0.95	$0.84

Pension and Other Postretirement Benefits (PRB) Costs

We have pension plans covering the majority of our employees hired prior to January 1, 2007, including certain employees in foreign countries. We must calculate our pension and PRB costs under both Financial Accounting Standards (FAS) requirements under U.S. GAAP and CAS requirements. The requirements under FAS and CAS differ, and both calculations require judgment. U.S. GAAP outlines the methodology used to determine pension and PRB expense or income for financial reporting purposes. CAS prescribes the allocation to and recovery of pension and PRB costs on U.S. government contracts. The CAS requirements for pension and PRB costs and its calculation methodology differ from the FAS requirements and calculation methodology. As a result, while both CAS and FAS use long-term assumptions in their calculation methodologies, each method results in different calculated amounts of pension and PRB cost. In addition, we are subject to the funding requirements under the Pension Protection Act of 2006 (PPA), which amended the Employee Retirement Income Security Act of 1974 (ERISA). Under the PPA, we are required to fully fund our pension plans over a rolling seven-year period as determined annually based upon the PPA calculated funded status at the beginning of each year. The funding requirements are primarily based on the year's expected service cost and amortization of other previously unfunded liabilities. Due to the differences in requirements and calculation methodologies, our FAS pension expense or income is not indicative of the PPA funding requirements.

The results of each segment only include pension and PRB expense as determined under CAS. The difference between our pension and PRB expense under FAS and our pension and PRB expense under CAS is the FAS/CAS Adjustment and is reported as a separate line in our segment results. The FAS/CAS Adjustment effectively increases or decreases the amount of total pension expense in our results of operations so that such amount is equal to the FAS expense amount under U.S. GAAP. This resulted in $390 million, $435 million and $185 million of income in 2017, 2016 and 2015, respectively, reflected in our consolidated results of operations.

On December 27, 2011, the CAS Pension Harmonization Rule (CAS Harmonization) was published in the Federal Register. The rule was intended to improve the alignment of the pension cost recovered through contract pricing under CAS and the pension funding requirements under the PPA. The rule shortened the CAS amortization period for gains and losses from 15 to 10 years and requires the use of a discount rate based on high quality corporate bonds, consistent with PPA, to measure liabilities in determining the CAS pension expense. CAS Harmonization increases pension costs under CAS. The related FAS/CAS Pension Adjustment results in an increase to income in 2014 and beyond, primarily due to the CAS Harmonization transition phase in of 0% in 2013, 25% in 2014, 50% in 2015, 75% in 2016 and 100% in 2017.

Due to the low interest rate environment, Congress provided for temporary pension funding relief through a provision in the Surface Transportation Extension Act of 2012 (STE Act). The provision was extended through 2020 by the Highway and Transportation Funding Act of 2014 (HATFA) and the Bipartisan Budget Act (BBA) of 2015. The provision adjusts the 24-month average high quality corporate bond rates used to determine the PPA funded status so that they are within a floor and cap, or "corridor," based on the 25-year average of corporate bond rates. Beginning in 2020, the provision is gradually phased out. This provision impacts CAS expense as well because CAS Harmonization incorporates the PPA interest rate into CAS calculations. The BBA of 2015 also increases the insurance premiums that we are required to pay the Pension Benefit Guarantee Corporation (PBGC). However, we do not expect the increases to have a material effect on our financial position, results of operations or liquidity.

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

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

Table of Contents

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

To establish our long-term ROA assumption we employ a "building block" approach. We then annually consider whether it is appropriate to change our long-term ROA assumption by reviewing the existing assumption against a statistically determined reasonable range of outcomes. The building block approach and the reasonable range of outcomes are based upon our asset allocation assumptions and long-term capital market assumptions. Such assumptions incorporate the economic outlook for various asset classes over short- and long-term periods and also take into consideration other factors, including historical market performance, inflation and interest rates.

Actuarial Standard of Practice No. 27, Selection of Economic Assumptions for Measuring Pension Obligations (ASOP 27) requires the selection of a reasonable long-term ROA assumption that considers multiple criteria including the purposes of measurement, the actuary's professional judgment, historical and current economic data and estimates of future experience and has no significant bias. We evaluate our long-term ROA assumption against a reasonable range of possible outcomes which we define as between the 35th to 65th percentile likelihood of achieving a long-term return over future years. We believe that validating our ROA assumption within this reasonable range ensures an unbiased result while also ensuring that the ROA assumption is not solely reactive to short-term market conditions that may not persist, and is consistent with external actuarial practices.

The reasonable range of long-term returns that was used to validate the long-term ROA assumption for the calculation of the net periodic benefit cost for 2017, 2016 and 2015, is shown below.

Percentile	2017	2016	2015
35th	5.82 %	6.09 %	6.37 %
65th	7.96 %	8.16 %	8.37 %

2015 ROA Assumption—In the fourth quarter of 2014, we reduced our long-term target allocation for equities and increased our target allocation for fixed income within the investment policy allocations established by our Investment Committee in order to reduce the overall exposure to equity volatility. This change in asset allocation reduced the range of reasonable outcomes that we use to evaluate our long-term ROA assumption and we determined that the historical assumption of 8.75% no longer fell within this range. As a result, we employed a building block approach to develop our 2015 long-term ROA assumption. Under this building block method, the overall expected investment return equals the weighted-average of the individual expected return for each asset class based on the target asset allocation and the long-term capital market assumptions. The expected return for each asset class is composed of inflation plus a risk-free rate of return, plus an expected risk premium for that asset class. The resulting return is then adjusted for administrative, investment management and trading expenses as well as recognition of excess returns, also known as alpha, for active management. The building block approach resulted in a long-term ROA assumption of 8.0% for 2015. To validate this assumption we compared the result against the reasonable range of outcomes and confirmed that the 8.0% result fell between the 55th and 60th percentiles of the reasonable range for 2015 with the 50th percentile at 7.37%. In addition, when we updated our target asset allocation and our long-term ROA assumption changed from 8.75% to 8.0%, we assessed what our historical asset performance may have been since 1986 using the updated target allocation and concluded the average return would likely have been equal to or greater than 8.0% for the time period from 1986 through 2014.

Based upon our application of the building block approach and our review of the resulting assumption against the 35th to 65th percentile reasonable range and an analysis of our historical results, we established a 2015 long-term domestic

ROA assumption of 8.0% for purposes of determining the net periodic benefit cost for 2015 and determined that the assumption is reasonable and consistent with the provisions of ASOP 27.

2016 ROA Assumption—The long-term domestic ROA of 8.0% fell between the 60th and 65th percentiles of the applicable reasonable range for 2016. The 50th percentile of this reasonable range was 7.12%.

Table of Contents

2017 ROA Assumption—At year end 2016, we determined that the 8.0% long-term ROA assumption no longer fell within the range of reasonable outcomes, driven primarily by the current outlook on economic assumptions used to develop the reasonable range. As a result, we employed the building block approach described above to develop our 2017 long-term ROA assumption. The building block approach resulted in a long-term ROA assumption of 7.5% for 2017. To validate this assumption, we compared the result against the reasonable range of outcomes and confirmed that the 7.5% fell between the 55th and 60th percentile of the reasonable range for 2017 with the 50th percentile at 6.89%.

Based upon our application of the building block approach and our review of the resulting assumption against the 35th to 65th percentile reasonable range and an analysis of our historical results, we established a 2017 long-term ROA domestic assumption of 7.5% for purposes of determining the net periodic benefit cost for 2017 and determined that the assumption is reasonable and consistent with the provisions of ASOP 27.

2018 ROA Assumption—The long-term domestic ROA of 7.5% fell between the 60th and 65th percentiles of the applicable reasonable range for 2018. The 50th percentile of this reasonable range was 6.74%.

Once our long-term ROA has been determined to be within the 35th to 65th percentile range of results, we review historical averages and patterns of returns to confirm the reasonableness of our long-term ROA assumption compared to past results. While history is not solely indicative of future market expectations, it does provide insight into general historical trends and long-term asset performance. Our average annual actual rate of return from 1986 to 2017 of 8.97%, determined on an arithmetic basis, exceeds our estimated 7.5% assumed return. Arithmetic annual averages represent the simple average returns over independent annual periods, whereas geometric returns reflect the compound average returns of dependent annual periods. The average annual actual return on a geometric basis for the same period was 8.33%. In addition, the actual annual returns have exceeded our long-term ROA assumption of 7.5% in five of the past ten years.

If we significantly change our long-term investment allocation or strategy, or if there is a significant change in the economic assumptions, then our long-term ROA assumption could change in the future.

Our domestic pension plans' actual rates of return were approximately 15%, 6% and 0% for 2017, 2016 and 2015, respectively. The difference between the actual rate of return and our long-term ROA assumption is included in deferred gains and losses.

The investment policy asset allocation ranges for our domestic pension plans, as set by our Investment Committee, for the year ended December 31, 2017 were as follows:

Asset Category	
Global equity (combined U.S. and international equity)	30%-60%
U.S. equities	20%-35%
International equities	10%-25%
Fixed-income securities	20%-45%
Cash and cash equivalents	0%-10%
Private equity and private real estate	10%-20%
Real assets	0%-4%
Other (including absolute return funds)	5%-15%

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

The discount rate represents the interest rate that should be used to determine the present value of future cash flows currently expected to be required to settle our pension and PRB obligations. The discount rate assumption is determined by using a theoretical bond portfolio model consisting of bonds rated AA or better by Moody's Investors Service for which the timing and amount of cash flows approximate the estimated benefit payments for each of our pension plans. The discount rate assumption for our domestic pension plans at December 31, 2017 is 3.72%, which represents a weighted-average discount rate across our plans, compared to the December 31, 2016 discount rate of 4.36%.

Table of Contents

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

Other FAS and CAS Considerations—An increase or decrease of 25 basis points in the discount rate assumption would have had the following approximate impacts on 2017 FAS pension results:

(In millions)	Increase	Decrease
Impact of change in discount rate on net periodic benefit cost	$ (63)	$ 67
Impact of change in discount rate on benefit obligations	(783)	854

Changes in the high-quality corporate bond rate assumption could impact the CAS discount rate for purposes of determining CAS pension expense due to CAS Harmonization. However in 2017, the CAS pension expense was not impacted by this assumption due to the passage of the HATFA and the BBA of 2015 which extended the provisions of pension funding relief as described above. The discount rate assumption could impact CAS pension expense in future periods depending upon the interest rate and regulatory environments.

An increase or decrease of 25 basis points in the long-term ROA assumption would have had the following approximate impacts on 2017 FAS and CAS pension results:

(In millions)	Increase	Decrease
FAS expense	$ (45)	$ 45
CAS expense	9	(9)

The net impact to the 2017 FAS/CAS Pension Adjustment would be $54 million. In addition to this impact, a portion of the $9 million change in CAS pension expense would also be allocated to fixed-price contracts in backlog and would either increase or decrease the profit rate on those contracts at the time of such a change (i.e., a change in the long-term ROA assumption on January 1, 2017 would drive a change in estimated costs in EACs and related contract profit rates as of December 31, 2016). The contract impact resulting from the change in CAS pension expense is difficult to estimate because remaining performance periods can vary, the amount and timing of expected new awards (i.e., the proposals expected to be awarded in the year which will bear their allocated portion of the change in CAS pension expense), and our mix of fixed-price and cost reimbursable contracts can change. Based on our contract profile at December 31, 2016, if we had 56% of our backlog in fixed-price contracts, and they were on average 50% complete, with our actual new award profile for 2017, a 25 basis point change in our long-term ROA assumption at January 1, 2017 would drive $2 million of aggregate total EAC adjustments at December 31, 2016. In addition, our fixed-price contracts in backlog as of December 31, 2016 would have a lower profit rate in 2017, resulting in $1 million impact as costs are incurred in that year on those contracts. The total impact on 2016 would be $2 million driven by the aggregate EAC adjustments and the total impact on 2017 would be approximately $53 million (the FAS/CAS Pension Adjustment and the lower profit rate impact in 2017 on fixed-price contracts in backlog at December 31, 2016). A change in our long-term ROA assumption would be subject to review by our government customer for reasonableness. Given our history of recovering changes to CAS pension expense, we expect the assumption change would be allocable and allowable, per regulatory guidelines, as long as the assumption is reasonable.

The impact of changing our long-term ROA for our domestic pension plans from 8.75% to 8.0% in 2015 increased our FAS expense by $140 million, increased our CAS expense by $40 million and decreased our FAS/CAS Pension Adjustment to income by $100 million in 2015. The impact of changing our long-term ROA for our domestic pension plans from 8.0% to 7.5% in 2017 increased our FAS expense by $87 million, decreased our CAS expense by $18 million and decreased our FAS/CAS Pension Adjustment to income by $105 million in 2017. The CAS impact is primarily driven by whether the pre-CAS Harmonization methodology applies, which uses a discount rate based on the long-term ROA assumption, or the post-CAS

Table of Contents

Harmonization methodology applies, which uses a discount rate based on high-quality corporate bond rates. The actual CAS impact is not linear and can vary significantly from the theoretical impact described above because it relies on the actual change in the long-term ROA and the corresponding relationship between the long-term ROA, which is used under the pre-CAS Harmonization methodology, and the high-quality corporate bond rates, which are used under the post-CAS Harmonization methodology. In addition, the timing of the change relative to the transition period for CAS Harmonization affects the CAS impact. The $40 million increase in our CAS expense in 2015 was included in our EACs and did not have a significant impact on our 2014 results based on our overall ending overhead positions. The $18 million decrease in our CAS expense in 2017 was included in our EACs and did not have a significant impact on our 2016 results based on our overall ending overhead positions.

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

Under FAS, a “corridor” approach may be elected and applied in the recognition of asset and liability gains or losses which limits expense recognition to the net outstanding gains and losses in excess of the greater of 10% of the projected benefit obligation (PBO) or the calculated “market-related value” of assets. We do not use a “corridor” approach in the calculation of Financial Accounting Standards (FAS) pension expense.
Our pension and PRB plans’ investments are stated at fair value. Investments in equity securities (common and preferred) are valued at the last reported sales price when an active market exists. Investments in fixed-income securities are generally valued using methods based upon market transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. Investments in private equity funds, private real estate funds, and other commingled funds are estimated at fair market value which primarily utilizes net asset values reported by the investment manager or fund administrator. We review additional valuation and pricing information from the fund managers, including audited financial statements, to evaluate the net asset values.

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

(In millions)	2017	2016	2015
Beginning balance	$(11,115)	$(10,912)	$(11,437)
Amortization of net losses included in net income	1,191	1,006	1,135
Gain (loss) arising during the period	(1,842)	(1,209)	(610)
Ending balance	$(11,766)	$(11,115)	$(10,912)

The balance in AOCL related to our pension and PRB plans is composed primarily of differences between changes in discount rates, differences between actual and expected asset returns, differences between actual and assumed demographic experience, and changes in plan provisions. Changes to our pension and PRB obligation as a result of these variables are initially reflected in other comprehensive income. The deferred gains and losses are amortized and included in future pension expense over the average employee service period of approximately nine years at December 31, 2017. The $1.8 billion in 2017 losses arising during the period were driven primarily by the decrease in the discount rate from 4.36% at December 31, 2016 to 3.72% at December 31, 2017, which had an impact of approximately $2.1 billion, as well as other actuarial factors, partially offset by actual returns, which were higher than our expected return and had an impact of approximately $1.3 billion.

The $1.2 billion in 2016 losses arising during the period were driven primarily by the decrease in the discount rate from 4.47% at December 31, 2015 to 4.36% at December 31, 2016, which had an impact of approximately $0.5 billion, and actual returns, which were lower than our expected return, and had an impact of approximately $0.4 billion, as well as other actuarial factors.

Table of Contents

The $0.6 billion in 2015 losses arising during the period were driven primarily by actual returns, which were lower than our expected return and had an impact of approximately $1.6 billion, as well as other actuarial factors, partially offset by the increase in the discount rate from 4.08% at December 31, 2014 to 4.47% at December 31, 2015, which had an impact of approximately $1.2 billion.

Goodwill

We evaluate our goodwill for impairment annually as of the first day of our fiscal fourth quarter and in any interim period in which circumstances arise that indicate our goodwill may be impaired. Indicators of impairment include, but are not limited to, the loss of significant business, significant decreases in federal government appropriations or funding for our contracts, or other significant adverse changes in industry or market conditions. No events occurred during the periods presented that indicated the existence of an impairment with respect to our goodwill. We estimate the fair value of our reporting units using a discounted cash flow (DCF) model based on our most recent long-range plan in place at the time of our impairment testing, and compare the estimated fair value of each reporting unit to its net book value, including goodwill. We discount the cash flow forecasts using the weighted-average cost of capital method at the date of evaluation. The weighted-average cost of capital is comprised of the estimated required rate of return on equity, based on publicly available data for peer companies plus an equity risk premium related to specific company risk factors, and the after tax rate of return on debt, each weighted at the relative values of the estimated debt and equity for the industry. Preparation of forecasts for use in the long-range plan and the selection of the discount rate involve significant judgments that we base primarily on existing firm orders, expected future orders, contracts with suppliers, labor agreements and general market conditions. Significant changes in these forecasts or the discount rate selected could affect the estimated fair value of one or more of our reporting units and could result in a goodwill impairment charge in a future period. When available and as appropriate, we also use comparative market multiples to corroborate our DCF model results. There was no indication of goodwill impairment as a result of our 2017 annual impairment analysis, as the fair values of each of our reporting units exceeded their respective net book values, including goodwill.

Based on our 2017 impairment analysis the reporting unit that was closest to impairment was the Forcepoint reporting unit, which had a fair value in excess of net book value, including goodwill, of approximately 30%. All other factors equal, a 10% decrease in expected future cash flows for our Forcepoint reporting unit would result in an excess of fair value over net book value of approximately 15%. Alternatively, all other factors being equal, a 100 basis points increase in the discount rate used in the calculation of the fair value of our Forcepoint reporting unit would also result in an excess of fair value over net book value of approximately 20%. Based on our 2017 impairment analysis of the other reporting units, the reporting unit that was closest to impairment had a fair value in excess of net book value, including goodwill, of approximately 145%. If we are required to record an impairment charge in the future, it could materially affect our results of operations.

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 new standard is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning after December 15, 2016.

39

Table of Contents

Effective January 1, 2017, we elected to early adopt the requirements of Topic 606 using the full retrospective method, where the standard was applied to each prior reporting period presented and the cumulative effect of applying the standard was recognized at January 1, 2015. 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 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 March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which amended the accounting for employee share-based payment transactions to require recognition of the tax effects resulting from the settlement of stock-based awards as income tax expense or benefit in the income statement in the reporting period in which they occur. In addition, the ASU required that all tax-related cash flows resulting from share-based payments, including the excess tax benefits related to the settlement of stock-based awards, be classified as cash flows from operating activities in the statement of cash flows. The ASU also required that cash paid by directly withholding shares for tax withholding purposes be classified as a financing activity in the statement of cash flows. In addition, the ASU allowed companies to make an accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The new standard was effective for annual reporting periods beginning after December 15, 2016 with early adoption permitted. We elected to early adopt the requirements of the amended standard in the first quarter of 2016. In accordance with U.S. GAAP, we adopted the amendment requiring recognition of excess tax benefits and tax deficiencies in the income statement prospectively beginning in the first quarter of 2016, which 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. In 2017 and 2016, the impact to our income statement was $36 million and $47 million, respectively, included in federal and foreign income taxes. In addition, we elected to adopt the amendment related to the presentation of excess tax benefits within operating activities on the statement of cash flows prospectively beginning in the first quarter of 2016. We had previously classified cash paid for tax withholding purposes as a financing activity in the statement of cash flows, therefore there is no change related to this requirement. Furthermore, we elected to change our accounting policy to account for forfeitures when they occur for consistency with our government recovery accounting practices on a modified retrospective basis.

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.

Table of Contents

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 at December 31, 2017 and 2016, that sum to the total of such amounts in the consolidated statements of cash flows:

(In millions)	2017	2016
Cash and cash equivalents	$3,103	$3,303
Restricted cash	12	—
Cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	$3,115	$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 intend to adopt the standard on the effective date of January 1, 2019. We are currently evaluating the potential changes from this ASU to our future financial reporting and disclosures and designing and implementing related processes and controls. We expect the standard to have an impact of approximately $1 billion on our assets and liabilities for the addition of right-of-use assets and lease liabilities, but we do not expect it to have a material impact 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 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 will adopt the requirements of the new standard in the first quarter of 2018 on a retrospective basis for the presentation of the service cost component in operating expenses, and the other components of the net benefit cost in other pension expense within non-operating (income) expense, net. We expect the standard to increase 2017 and 2016 operating income due to the removal of the non-service component of FAS pension expense by $913 million and $601 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 any of the remaining provisions of the standard to have a material impact on our financial position, results of operations or liquidity.

Other new pronouncements issued but not effective until after December 31, 2017 are not expected to have a material impact on our financial position, results of operations or liquidity.

CONSOLIDATED RESULTS OF OPERATIONS

Total Net Sales

The composition of external net sales by products and services for each segment in 2017 was approximately the following:

(% of segment total external net sales)	IDS	IIS	MS	SAS	Forcepoint
Products[(1)]	90%	45%	95%	100%	90%
Services	10%	55%	5%	—%	10%

(1) Products net sales includes software related sales, including software subscriptions.

Table of Contents

(In millions, except percentages)	2017	2016	2015	% of Total Net Sales 2017	2016	2015
Net sales						
Products	$21,416	$20,309	$19,623	84.5 %	84.2 %	84.1 %
Services	3,932	3,815	3,698	15.5 %	15.8 %	15.9 %
Total net sales	$25,348	$24,124	$23,321	100.0%	100.0%	100.0%

Total Net Sales - 2017 vs. 2016—The increase in total net sales of $1,224 million in 2017 compared to 2016 was primarily due to higher external net sales of $681 million at MS primarily due to higher net sales on the Paveway program principally driven by international requirements, higher net sales on the Standard Missile-3 (SM-3) program principally driven by planned increases in production, higher net sales on the Standard Missile-2 (SM-2) program due to the recognition of previously deferred precontract costs based on a contract award in the second quarter of 2017 and planned increases in production, and higher net sales on the Excalibur program due to recognition of previously deferred precontract costs based on a contract award in the third quarter of 2017, partially offset by lower net sales on the Exoatmospheric Kill Vehicle (EKV) program due to a planned decline in production.

Products and Services Net Sales - 2017 vs. 2016—The increase in products net sales of $1,107 million in 2017 compared to 2016 was primarily due to higher external products net sales of $593 million at MS primarily due to the programs discussed above. The increase in services net sales of $117 million in 2017 compared to 2016 was primarily due to higher external services net sales of $89 million at IIS and $88 million at MS, partially offset by lower external services net sales of $37 million at IDS. The increase in external services net sales at IIS was spread across numerous programs with no individual or common significant driver. The increase in external services net sales at MS was driven principally by higher services net sales on certain classified programs and on a land warfare systems program primarily due to planned increases in engineering activity. The decrease in external services net sales at IDS was primarily driven by lower services net sales on a joint battle field sensor program that substantially completed in 2016 and lower activity on a radar sustainment program for the Missile Defense Agency (MDA).

Total Net Sales - 2016 vs. 2015—The increase in total net sales of $803 million in 2016 compared to 2015 was primarily due to higher external net sales of $548 million at MS and $359 million at SAS, partially offset by lower external net sales of $324 million at IDS. The increase in external net sales at MS was primarily due to higher net sales on the Paveway program principally driven by international requirements. The increase in external net sales at SAS was primarily due to higher net sales on classified programs, including an international classified program awarded in the first quarter of 2016. The decrease in external net sales at IDS was primarily due to lower net sales on our missile defense radar production programs, lower net sales on an international communications program and lower net sales on the Air Warfare Destroyer (AWD) program, all due to the scheduled completion of certain production phases on these programs.

Products and Services Net Sales - 2016 vs. 2015—The increase in products net sales of $686 million in 2016 compared to 2015 was primarily due to higher external products net sales of $533 million at MS and $474 million at SAS, partially offset by lower external products net sales of $394 million at IDS. The increase in external products net sales at MS and SAS was primarily due to the programs discussed above. The decrease in external products net sales at IDS was primarily due to the programs discussed above. The increase in services net sales of $117 million in 2016 compared to 2015 was primarily due to higher external services net sales of $116 million at IIS and $70 million at IDS, partially offset by lower external services net sales of $115 million at SAS. The increase in external services net sales at IIS was spread across numerous programs with no individual or common significant driver. The increase in external services net sales at IDS was driven principally by higher services net sales on radar sustainment programs for the MDA and various Patriot support programs. The decrease in external services net sales at SAS was primarily due to lower services net sales on classified programs.

42

Table of Contents

Sales to Major Customers

				% of Total Net Sales		
(In millions, except percentages)	2017	2016	2015	2017	2016	2015
Sales to the U.S. government[1][2]	$16,860	$16,083	$15,788	67 %	67 %	68 %
U.S. direct commercial sales and other U.S. sales	403	425	336	2 %	2 %	1 %
Foreign military sales through the U.S. government	3,311	2,899	2,812	13 %	12 %	12 %
Foreign direct commercial sales and other foreign sales[1]	4,774	4,717	4,385	19 %	20 %	19 %
Total net sales	$25,348	$24,124	$23,321	100 %	100 %	100 %

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

(2) Includes sales to the DoD of $16,152 million, or 64% of total net sales, in 2017, $15,340 million, or 64% of total net sales, in 2016 and $14,891 million, or 64% of total net sales, in 2015.

As described above in Domestic Considerations, U.S. defense spending levels are difficult to predict due to numerous factors, including U.S. government budget appropriation decisions, geopolitical events and macroeconomic conditions.

Total Cost of Sales

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

				% of Total Net Sales		
(In millions, except percentages)	2017	2016	2015	2017	2016	2015
Cost of sales						
Products	$15,872	$14,853	$14,563	62.6 %	61.6 %	62.4 %
Services	3,204	3,112	3,045	12.6 %	12.9 %	13.1 %
Total cost of sales	$19,076	$17,965	$17,608	75.3 %	74.5 %	75.5 %

Total Cost of Sales - 2017 vs. 2016—The increase in total cost of sales of $1,111 million in 2017 compared to 2016 was primarily due to higher external cost of sales at MS and IDS. The increase in external cost of sales at MS was driven principally by the activity on the programs described above in Total Net Sales. The increase in external cost of sales at IDS was principally driven by higher external cost of sales on an international early warning radar program awarded in the first quarter of 2017 and 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, partially offset by lower external cost of sales on certain international Patriot programs due to the scheduled completion of certain production phases of the programs.

Products and Services Cost of Sales - 2017 vs. 2016—The increase in products cost of sales of $1,019 million in 2017 compared to 2016 was primarily due to higher external products cost of sales at MS and IDS both driven principally by the activity described above in Total Net Sales. The increase in services cost of sales of $92 million in 2017 compared to 2016 was primarily due to higher external services cost of sales at MS and IIS, partially offset by lower external services cost of sales at IDS. The increase in external services cost of sales at MS was driven principally by the programs described above in Total Net Sales. The increase in external services cost of sales at IIS was spread across numerous programs with no individual or common significant driver. The decrease in external services cost of sales at IDS was driven principally by the programs described above in Total Net Sales.

Total Cost of Sales - 2016 vs. 2015—The increase in total cost of sales of $357 million in 2016 compared to 2015 was primarily due to higher external cost of sales at MS, SAS and IIS, partially offset by lower external cost of sales at IDS and lower expense related to the FAS/CAS Adjustment as described below in Segment Results beginning on page

48. The increases in external cost of sales at MS and SAS were driven principally by the activity on the programs described above in Total Net Sales. The increase in external cost of sales at IIS was driven principally by a $181 million impact from the eBorders settlement

Table of Contents

in 2015. The decrease in external 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 in the second quarter of 2016, and the programs described above in Total Net Sales.

Products and Services Cost of Sales - 2016 vs. 2015—The increase in products cost of sales of $290 million in 2016 compared to 2015 was primarily due to higher external products cost of sales at SAS and MS, partially offset by lower external products cost of sales at IDS and lower expense related to the FAS/CAS Adjustment as described below in Segment Results beginning on page 48. The increases in external products cost of sales at SAS and MS were driven principally by the activity on the programs described above in Total Net Sales. The decrease in external products cost of sales at IDS was primarily due to the programs described above in Total Net Sales. The increase in services cost of sales of $67 million in 2016 compared to 2015 was primarily due to higher external services cost of sales at IIS and IDS, partially offset by lower external services cost of sales at SAS all of which were driven principally by the programs described above in Total Net Sales.

General and Administrative Expenses

				% of Total Net Sales		
(In millions, except percentages)	2017	2016	2015	2017	2016	2015
Administrative and selling expenses	$2,220	$2,109	$1,940	8.8 %	8.7 %	8.3 %
Research and development expenses	734	755	706	2.9 %	3.1 %	3.0 %
Total general and administrative expenses	$2,954	$2,864	$2,646	11.7 %	11.9 %	11.3 %

The increase in administrative and selling expenses of $111 million in 2017 compared to 2016 was primarily driven by a $58 million increase at Forcepoint principally driven by higher costs for the sales organization due to increased salesforce staffing and higher amortization of deferred commissions.

The increase in administrative and selling expenses of $169 million in 2016 compared to 2015 was primarily driven by an $89 million increase in selling and marketing expenses at Forcepoint principally driven by our acquisitions of Websense, Inc. (Websense) in the second quarter of 2015 and Stonesoft in the first quarter of 2016. Included in administrative and selling expenses in 2015 was $26 million of Websense transaction and integration-related costs recorded at Corporate as described below in Segment Results beginning on page 48.

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 $32 million, $26 million and $28 million in 2017, 2016 and 2015, respectively.

The decrease in research and development expenses of $21 million in 2017 compared to 2016 was primarily due to lower research and development expenses of $25 million at MS driven principally by lower independent research and development activity related to advanced technologies efforts that substantially completed in 2016, partially offset by higher research and development expenses of $15 million at Forcepoint principally driven by the Skyfence acquisition in the first quarter of 2017, with the remaining change spread across numerous items.

The increase in research and development expenses of $49 million in 2016 compared to 2015 was primarily due to increased research and development expenses of $41 million at Forcepoint driven by our acquisitions of Websense in the second quarter of 2015 and Stonesoft in the first quarter of 2016.

Total Operating Expenses

				% of Total Net Sales		
(In millions, except percentages)	2017	2016	2015	2017	2016	2015
Total operating expenses	$22,030	$20,829	$20,254	86.9 %	86.3 %	86.8 %

The increase in total operating expenses of $1,201 million in 2017 compared to 2016 was primarily due to the increase in total cost of sales of $1,111 million, the primary drivers of which are described above in Total Cost of Sales.

Table of Contents

The increase in total operating expenses of $575 million in 2016 compared to 2015 was primarily due to the increase in total cost of sales of $357 million, the primary drivers of which are described above in Total Cost of Sales.

Operating Income

				% of Total Net Sales		
(In millions, except percentages)	2017	2016	2015	2017	2016	2015
Operating income	$3,318	$3,295	$3,067	13.1 %	13.7 %	13.2 %

The increase in operating income of $23 million in 2017 compared to 2016 was due to the increase in total net sales of $1,224 million, the primary drivers of which are described above in Total Net Sales, partially offset by the increase in total operating expenses of $1,201 million, the primary drivers of which are described above in Total Operating Expenses. Included in total operating expenses in 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.

The increase in operating income of $228 million in 2016 compared to 2015 was due to the increase in total net sales of $803 million, the primary drivers of which are described above in Total Net Sales, partially offset by the increase in total operating expenses of $575 million, the primary drivers of which are described above in Total Operating Expenses. Included in total operating expenses in 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. Included in total operating expenses in 2015 was the $181 million reduction to cost of sales from the eBorders settlement in the first quarter of 2015.

Total Non-Operating (Income) Expense, Net

(In millions)	2017	2016	2015
Non-operating (income) expense, net			
Interest expense	$205	$232	$233
Interest income	(21)	(16)	(11)
Other expense (income), net	21	(6)	4
Total non-operating (income) expense, net	$205	$210	$226

Total non-operating (income) expense, net in 2017 was relatively consistent with 2016. Included in the change of total non-operating (income) expense, net was a decrease in interest expense of $27 million due to the repurchase of long-term debt in the second quarter of 2017. Also included in the change of total non-operating (income) expense, net was an increase in other expense (income), net of $27 million primarily due to the $39 million pretax charge associated with the make-whole provision on the early repurchase of long-term debt in the second quarter of 2017, partially offset by a $13 million change in the mark-to-market of marketable securities held in trust associated with certain of our non-qualified deferred compensation and employee benefit plans, due to net gains of $21 million in 2017 compared to net gains of $8 million in 2016.

The decrease in total non-operating (income) expense, net, of $16 million in 2016 compared to 2015, was primarily due to a $9 million change in the mark-to-market of marketable securities held in trust associated with certain of our non-qualified deferred compensation and employee benefit plans, due to net gains of $8 million in 2016 compared to net losses of $1 million in 2015.

Federal and Foreign Income Taxes

On December 22, 2017, the President signed the Tax Cuts and Jobs Act (2017 Act) which enacts a wide range of changes to the U.S. corporate income tax system. The 2017 Act reduces the U.S. corporate tax rate to 21% effective in 2018, broadens the tax base and changes rules for expensing and capitalizing business expenditures, establishes a territorial tax system for foreign earnings as well as a minimum tax on certain foreign earnings, provides for a one-time transition tax on previously undistributed foreign earnings, and introduces new rules for the treatment of

certain export sales.

Table of Contents

At December 31, 2017, we have not completed our accounting for the tax effects of enactment of the 2017 Act; however, in certain cases, as described below, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. For the items for which we were able to determine a reasonable estimate, we recognized a provisional amount of $171 million in accordance with Staff Accounting Bulletin No. 118 (SAB 118), which is included as a component of income tax expense from continuing operations.

(In millions)	2017	2016	2015
Federal and foreign income taxes	$1,114	$873	$747

The increase in federal and foreign income taxes of $241 million in 2017 compared to 2016 was primarily due to the effects of the enactment of the 2017 Act, as discussed above.

The increase in federal and foreign income taxes of $126 million in 2016 compared to 2015 was primarily due to an increase in operating income.

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

	2017	2016	2015
Statutory tax rate	35.0 %	35.0 %	35.0 %
Research and development tax credit	(1.5)	(1.3)	(1.2)
Tax settlements and refund claims	—	—	(3.2)
Domestic manufacturing deduction benefit	(2.5)	(2.7)	(3.1)
Foreign income tax rate differential	0.2	—	(1.4)
Equity compensation	(1.2)	(1.6)	—
TRS tax-free gain	—	(1.8)	—
Remeasurement of deferred taxes	3.2	—	—
One-time transition tax on previously undistributed foreign earnings	2.3	—	—
Other items, net	0.3	0.7	0.2
Effective tax rate	35.8 %	28.3 %	26.3 %

Our effective tax rate reflects the 35% U.S. statutory rate adjusted for various permanent differences between book and tax reporting. In December 2017, we adjusted our deferred tax balances that we expect to realize on or after January 1, 2018 to reflect the new 21% U.S. corporate income tax rate applicable under the 2017 Act. We also recorded the impact of the one-time transition tax on previously undistributed foreign earnings.

As noted above, amounts recorded to reflect the impacts of the 2017 Act are provisional in nature and represent what we believe are reasonable estimates. In the near term, we expect the changes in the 2017 Act to reduce our effective tax rate to below 21%. We continue to prepare, review and assess certain information and perform analyses related to the 2017 Act. A more detailed discussion on the effects of the 2017 Act is provided in “Note 16: Income Taxes” within Item 8 of this Form 10-K.

In December 2015, U.S. legislation was enacted to permanently reinstate the Research and Development tax credit (R&D tax credit) which had expired December 31, 2014. In 2017, 2016 and 2015 we recorded a full year benefit of approximately $46 million, $41 million and $33 million related to the 2017, 2016 and 2015 R&D tax credits, respectively.

Our effective tax rate in 2017 was higher than the statutory federal tax rate primarily due to the remeasurement of deferred tax balances, which increased the rate by approximately 3.2% and the one-time transition tax on undistributed foreign earnings, which increased the rate by 2.3%. Items which decreased our effective tax rate were the domestic manufacturing deduction, which decreased the rate by approximately 2.5%, the R&D tax credit, which

decreased the rate by approximately 1.5% and the tax benefit recognized upon settlement of stock-based awards, which decreased the rate by 1.2%. The remaining increase of 0.5% is composed of various unrelated items, which individually or collectively are not significant.

Table of Contents

Our effective tax rate in 2016 was lower than the statutory federal tax rate primarily due to the domestic manufacturing deduction, which decreased the rate by approximately 2.7%, the tax-free gain related to the sale of our equity method investment in TRS SAS as described in above in Total Cost of Sales, which decreased the rate by 1.8%, the tax benefit recognized upon settlement of stock-based awards due to the adoption of the new accounting standard for stock-based compensation in the first quarter of 2016 as discussed further in “Note 1: Summary of Significant Accounting Policies” within Item 8 of this Form 10-K, which decreased the rate by 1.6%, and the R&D tax credit, which decreased the rate by approximately 1.3%. The remaining increase of 0.7% is composed of various unrelated items, which individually or collectively are not significant.

Our effective tax rate in 2015 was lower than the statutory federal tax rate primarily due to tax settlements and refunds, which decreased the rate by approximately 3.2%, the domestic manufacturing deduction, which decreased the rate by approximately 3.1%, the foreign rate differential, which decreased the rate by 1.4% and was primarily driven by the tax impact of the eBorders settlement, and the R&D tax credit, which decreased the rate by approximately 1.2%.The remaining increase of 0.2% is composed of various unrelated items, which individually or collectively are not significant.

Our effective tax rate in 2017 was 7.5% higher than in 2016 primarily due to the remeasurement of deferred tax balances, which increased the rate by approximately 3.2%, the one-time transition tax on undistributed foreign earnings, which increased the rate by 2.3% and the tax-free gain related to the sale of our equity method investment in TRS SAS as discussed above, which decreased the 2016 rate by 1.8%. The remaining increase of 0.2% is composed of various unrelated items, which individually or collectively are not significant.

Our effective tax rate in 2016 was 2.0% higher than in 2015 primarily due to tax settlements in 2015, which decreased the 2015 rate by 3.2% and the foreign rate differential, primarily driven by the e-Borders settlement in 2015, which decreased the 2015 rate by 1.4%, partially offset by the tax-free gain related to the sale of our equity method investment in TRS SAS as discussed above, which decreased the rate by 1.8% and the tax benefit recognized upon settlement of stock-based awards as discussed above, which decreased the rate by 1.6%. The remaining increase of 0.8% is composed of various unrelated items, which individually or collectively are not significant.

Income from Continuing Operations

(In millions)	2017	2016	2015
Income from continuing operations	$1,999	$2,212	$2,094

The decrease in income from continuing operations of $213 million in 2017 compared to 2016 was primarily due to the $241 million increase in federal and foreign income taxes, described above in Federal and Foreign Income Taxes, partially offset by the $23 million increase in operating income, described above in Operating Income.

The increase in income from continuing operations of $118 million in 2016 compared to 2015 was primarily due to the $228 million increase in operating income, described above in Operating Income, partially offset by the $126 million increase in federal and foreign income taxes, described above in Federal and Foreign Income Taxes.

Net Income

(In millions)	2017	2016	2015
Net income	$2,001	$2,213	$2,107

The decrease in net income of $212 million in 2017 compared to 2016 was primarily due to the decrease in income from continuing operations of $213 million described above in Income from Continuing Operations.

The increase in net income of $106 million in 2016 compared to 2015 was due to the increase in income from continuing operations of $118 million described above in Income from Continuing Operations.

Table of Contents

Diluted EPS from Continuing Operations Attributable to Raytheon Company Common Stockholders			
(In millions, except per share amounts)	2017	2016	2015
Income from continuing operations attributable to Raytheon Company	$2,022	$2,243	$2,097
Diluted weighted-average shares outstanding	291.4	296.8	305.2
Diluted EPS from continuing operations attributable to Raytheon Company	$6.94	$7.55	$6.87

The decrease in diluted EPS from continuing operations attributable to Raytheon Company common stockholders of $0.61 in 2017 compared to 2016 was primarily due to the decrease in income from continuing operations described above in Income from Continuing Operations, partially offset by a decrease in weighted-average shares outstanding, which was driven by the common stock share activity shown in the table below. Diluted EPS from continuing operations attributable to Raytheon Company common stockholders was reduced by $0.01 in 2016 for the impact of our redeemable noncontrolling interest redemption value adjustments, as discussed in “Note 1: Summary of Significant Accounting Policies” within Item 8 of this Form 10-K.

The increase in diluted EPS from continuing operations attributable to Raytheon Company common stockholders of $0.68 in 2016 compared to 2015 was primarily due to the increase in income from continuing operations described above in Income from Continuing Operations and a decrease in weighted-average shares outstanding, which was driven by the common stock share activity shown in the table below. Diluted EPS from continuing operations attributable to Raytheon Company common stockholders was reduced by $0.01 in 2016 for the impact of our redeemable noncontrolling interest redemption value adjustments, as discussed in “Note 1: Summary of Significant Accounting Policies” within Item 8 of this Form 10-K.

Our common stock share activity for the years ended 2017, 2016, and 2015 was as follows:

(Shares in millions)	2017	2016	2015
Beginning balance	292.8	299.0	307.3
Stock plans activity	1.1	1.5	1.6
Share repurchases	(5.5)	(7.7)	(9.9)
Ending balance	288.4	292.8	299.0

Diluted EPS Attributable to Raytheon Company Common Stockholders			
(In millions, except per share amounts)	2017	2016	2015
Net income attributable to Raytheon Company	$2,024	$2,244	$2,110
Diluted weighted-average shares outstanding	291.4	296.8	305.2
Diluted EPS attributable to Raytheon Company	$6.95	$7.55	$6.91

The decrease in diluted EPS attributable to Raytheon Company common stockholders of $0.60 in 2017 compared to 2016 was primarily due to the $0.61 decrease in diluted EPS from continuing operations attributable to Raytheon Company common stockholders described above in Diluted EPS from Continuing Operations Attributable to Raytheon Company Common Stockholders.

The increase in diluted EPS attributable to Raytheon Company common stockholders of $0.64 in 2016 compared to 2015 was primarily due to the $0.68 increase in diluted EPS from continuing operations attributable to Raytheon Company common stockholders described above in Diluted EPS from Continuing Operations Attributable to Raytheon Company Common Stockholders.

SEGMENT RESULTS

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

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 1: Summary of Significant Accounting Policies” within Item 8 of this Form 10-K. The amounts and presentation of our business segments, including corporate and eliminations for intersegment activity, set forth in this Form 10-K reflect these changes.

Table of Contents

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

Bookings are impacted by the timing and amounts of awards in a given period, which are subject to numerous factors, including: (1) the desired capability by the customer and urgency of customer needs; (2) customer budgets and other fiscal constraints; (3) political and economic and other environmental factors; (4) the timing of customer negotiations; (5) the timing of governmental approvals and notifications; and (6) the timing of option exercises or increases in scope.

Bookings (in millions)	2017	2016	2015
Integrated Defense Systems	$4,934	$5,377	$6,389
Intelligence, Information and Services	6,615	5,563	5,319
Missile Systems	9,672	7,894	8,149
Space and Airborne Systems	5,907	8,414	4,936
Forcepoint	590	561	352
Total	$27,718	$27,809	$25,145

Included in bookings were international bookings of $8,479 million, $8,193 million and $8,512 million in 2017, 2016 and 2015, respectively, which included foreign military bookings through the U.S. government. International bookings amounted to 31%, 29% and 34% of total bookings in 2017, 2016 and 2015, respectively. Classified bookings amounted to 17%, 20%, and 15% of total bookings in 2017, 2016 and 2015, respectively.

We record bookings for not-to-exceed contract awards (e.g., undefinitized contract awards, binding letter agreements) based on reasonable estimates of the 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. Contract cancellations and terminations include contract underruns on cost-type programs.

Backlog—We disclose period-end backlog for each segment. Backlog, which is equivalent to our remaining performance obligations, 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., indefinite-delivery, indefinite-quantity (IDIQ)). Backlog is affected by changes in foreign exchange rates.

Table of Contents

Backlog (in millions) at December 31	2017	2016	2015
Integrated Defense Systems	$9,186	$10,159	$10,460
Intelligence, Information and Services	6,503	5,662	5,867
Missile Systems	13,426	11,568	10,801
Space and Airborne Systems	8,611	8,834	6,260
Forcepoint[1]	484	486	451
Total[2]	$38,210	$36,709	$33,839

(1) Forcepoint backlog excludes the unfavorable impact of $12 million, $45 million and $86 million at December 31, 2017, December 31, 2016 and December 31, 2015, respectively, related to the acquisition accounting adjustments to record acquired deferred revenue at fair value.

(2) Included in the change in backlog at December 31, 2017 compared to December 31, 2016 and at December 31, 2016 compared to December 31, 2015 was backlog adjustments of $0.8 billion and $0.7 billion, respectively, primarily related to contract underruns and contract deobligations.

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:

Total Net Sales (in millions)	2017	2016	2015
Integrated Defense Systems	$5,804	$5,529	$5,848
Intelligence, Information and Services	6,177	6,169	6,137
Missile Systems	7,787	7,096	6,569
Space and Airborne Systems	6,430	6,182	5,814
Forcepoint	608	586	344
Eliminations	(1,423)	(1,361)	(1,330)
Total business segment sales	25,383	24,201	23,382
Acquisition Accounting Adjustments[1]	(35)	(77)	(61)
Total	$25,348	$24,124	$23,321

(1) 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.

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 costs 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 costs, 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, 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.

Table of Contents

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:

EAC Adjustments (in millions)	2017	2016	2015
Gross favorable	$1,116	$900	$835
Gross unfavorable	(674)	(482)	(443)
Total net EAC adjustments	$442	$418	$392

In recent years, our net EAC adjustments generally have been between 1.5% and 2.0% of total net sales. Our net EAC adjustments as a percentage of total net sales were 1.7% in 2017, 2016 and 2015.

Significant EAC adjustments in 2017, 2016 and 2015 are discussed in the Operating Income and Margin section of each business segment's discussion below. The $24 million increase in net EAC adjustments in 2017 compared to 2016 was primarily due to the increase in net EAC adjustments at IDS and MS, partially offset by the decrease in net EAC adjustments at SAS, all of which are described below in the respective segment's results. The $26 million increase in net EAC adjustments in 2016 compared to 2015 was primarily due to the increase in net EAC adjustments at SAS and IIS, partially offset by the decrease in net EAC adjustments at MS, all of which are described below in the respective segment's results.

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 (e.g., real estate transactions).

Operating income by segment was as follows:

Operating Income (in millions)	2017	2016	2015
Integrated Defense Systems	$935	$971	$859
Intelligence, Information and Services	455	467	648
Missile Systems	1,010	921	877
Space and Airborne Systems	862	808	851
Forcepoint	33	90	56
Eliminations	(148)	(142)	(140)
Total business segment operating income	3,147	3,115	3,151
Acquisition Accounting Adjustments	(160)	(198)	(168)
FAS/CAS Adjustment	390	435	185
Corporate	(59)	(57)	(101)
Total	$3,318	$3,295	$3,067

51

Table of Contents

Integrated Defense Systems

(In millions, except percentages)	2017	2016	2015	% Change 2017 compared to 2016	2016 compared to 2015
Total net sales	$5,804	$5,529	$5,848	5.0 %	(5.5)%
Total operating expenses					
Cost of sales—labor	2,138	1,983	1,896	7.8 %	4.6 %
Cost of sales—materials and subcontractors	1,845	1,867	2,164	(1.2)%	(13.7)%
Other cost of sales and other operating expenses	886	708	929	25.1 %	(23.8)%
Total operating expenses	4,869	4,558	4,989	6.8 %	(8.6)%
Operating income	$935	$971	$859	(3.7)%	13.0 %
Operating margin	16.1 %	17.6 %	14.7 %		

Change in Operating Income (in millions)	Year Ended 2017 Versus Year Ended 2016	Year Ended 2016 Versus Year Ended 2015
Volume	$23	$(41)
Net change in EAC adjustments	39	(6)
Mix and other performance	(98)	159
Total change in operating income	$(36)	$112

(In millions, except percentages)	2017	2016	2015	% Change 2017 compared to 2016	2016 compared to 2015
Bookings	$4,934	$5,377	$6,389	(8.2)%	(15.8)%
Total Backlog	9,186	10,159	10,460	(9.6)%	(2.9)%

IDS is a leader in integrated air and missile defense; large land- and sea-based radar solutions; command, control, communications, computers, cyber and intelligence solutions; and naval combat and ship electronic and sensing systems. IDS delivers combat-proven performance against the complete spectrum of airborne and ballistic missile threats and is a world leader in the technology, development, and production of sensors and mission systems. IDS provides solutions to the U.S. Department of Defense (DoD) and the U.S. Intelligence Community, as well as more than 50 international customers which represent approximately half of IDS's business.

Total Net Sales—The increase in total net sales of $275 million in 2017 compared to 2016 was primarily due to higher net sales of $260 million on an international early warning radar program awarded in the first quarter of 2017 and higher net sales of $106 million on an international Patriot program driven by an award in the fourth quarter of 2016, partially offset by $161 million of lower net sales on certain international Patriot programs due to the scheduled completion of certain production phases of the programs.

The decrease in total net sales of $319 million in 2016 compared to 2015 was primarily due to lower net sales of $134 million on our missile defense radar production programs, $88 million of lower net sales on an international communications program and $70 million of lower net sales on the Air Warfare Destroyer (AWD) program, all due to the scheduled completion of certain production phases on these programs. Included in the change in total net sales are

higher net sales of $59 million on integrated air and missile defense programs, including $114 million of higher net sales on an international Patriot program awarded in the first quarter of 2015 due to a scheduled increase in production, and $160 million of lower net sales from the scheduled completion of certain production phases on an international air and missile defense systems program.

Total Operating Expenses—The increase in total operating expenses of $311 million in 2017 compared to 2016 was primarily due to an increase in other cost of sales and other operating expenses of $178 million and an increase in labor costs of $155 million. The increase in other cost of sales and other operating expenses was principally driven by the tax-free gain of $158

Table of Contents

million from the sale of our equity method investment in TRS SAS in the second quarter of 2016. Almost half of the increase in labor costs was driven by activity on the international early warning radar program described above in Total Net Sales with the remaining change spread across numerous programs with no individual or common significant driver.

The decrease in total operating expenses of $431 million in 2016 compared to 2015 was primarily due to a decrease in materials and subcontractors costs of $297 million and a decrease in other cost of sales and other operating expenses of $221 million. The decrease in materials and subcontractors costs was primarily due to the activity on the international air and missile defense program and the AWD program described above in Total Net Sales. The decrease 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 and a change in previously deferred precontract costs of $109 million in the second quarter of 2015 related to the international Patriot program awarded in the second quarter of 2015.

Operating Income and Margin—The decrease in operating income of $36 million in 2017 compared to 2016 was primarily due to a change in mix and other performance of $98 million, partially offset by a net change in EAC adjustments of $39 million and higher volume of $23 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, partially offset by activity on the international Patriot program awarded in the fourth quarter of 2016 discussed above in Total Net Sales. Also included in the change in mix and other performance was $10 million of gains on real estate transactions in 2017 and $9 million of gains on real estate transactions in 2016. The net change in EAC adjustments was primarily driven 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. The increase in volume was primarily due to the international early warning radar program and the certain international Patriot programs described above in Total Net Sales. The decrease in operating margin in 2017 compared to 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 $112 million in 2016 compared to 2015 was primarily due to a change in mix and other performance of $159 million, partially offset by lower volume of $41 million. The change in mix and other performance 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. Also included in the change in mix and other performance were $9 million of gains on real estate transactions in 2016. The decrease in volume was primarily due to the programs described above in Total Net Sales. Included in the net change in EAC adjustments in 2016 compared to 2015 was 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, and net positive profit adjustments of $20 million in the second and fourth quarters of 2015 on the AWD program. In the fourth quarter of 2015, the AWD program had a contract modification and restructure which changed the incentive fee structure such that almost all of our incentive fees are tied solely to our performance. Previously our incentive fees were tied directly to both our cost performance and the cost performance of the shipyard. Under the original contract, there was an unfavorable EAC adjustment in the second quarter of 2015 of $33 million to eliminate all remaining estimated incentive fees due to the shipbuilder extending the planned schedule and a related increase in costs to complete its portion of the program. The modification and restructure resulted in a favorable $53 million EAC adjustment in the fourth quarter of 2015. The increase in operating margin in 2016 compared to 2015 was primarily due to the change in mix and other performance.

Backlog and Bookings—Backlog was $9,186 million, $10,159 million and $10,460 million at December 31, 2017, 2016 and 2015, respectively. The decrease in backlog of $973 million at December 31, 2017 compared to December 31, 2016 was primarily at our Integrated Air and Missile Defense (IAMD) product line principally due to sales in excess

of bookings, partially offset by our Mission Systems Sensors (MSS) product line primarily due to bookings in excess of sales. The decrease in backlog of $301 million at December 31, 2016 compared to December 31, 2015 was primarily at our IAMD product line principally due to sales in excess of bookings.

The bookings decrease of $443 million in 2017 compared to 2016 was driven primarily by the $319 million decrease in the specifically disclosed bookings below. In 2017, IDS booked $1,030 million for the Upgraded Early Warning Radar (UEWR) system for Qatar, $448 million to provide advanced Patriot air and missile defense capabilities for certain international customers, including $145 million for Qatar and $303 million for two other international customers, $440 million on the Air and Missile Defense Radar (AMDR) program for the U.S. Navy, $304 million on an Early Warning Surveillance Radar System (EWSRS) support program for an international customer, $303 million to provide Consolidated Contractor Logistics Support

Table of Contents

(CCLS) for the MDA, $263 million to provide Patriot engineering services support for U.S. and international customers, $180 million on the Multi-Function RF System (MFRFS) program for the U.S. Army and $144 million on the Army Navy/Transportable Radar Surveillance-Model 2 (AN/TPY-2) radar sustainment program for the MDA.

The bookings decrease of $1,012 million in 2016 compared to 2015 was driven primarily by the $1,162 million decrease in the specifically disclosed bookings below. In 2016, IDS booked approximately $1.8 billion to provide advanced Patriot air and missile defense capabilities for certain international customers, including $480 million for Kuwait, $163 million for Qatar, and $623 million, $265 million and $226 million for three international customers. IDS also booked $373 million on the Aegis weapon system for the U.S. Navy and international customers, $228 million to provide CCLS, $227 million to provide Patriot engineering services support for U.S. and international customers, $200 million on the AN/TPY-2 radar sustainment program for the MDA, $117 million for in-service support for the Collins class submarine for the Royal Australian Navy, $110 million on the AMDR program for the U.S. Navy, $92 million for the Engineering and Manufacturing Development phase on the competitively awarded Enterprise Air Surveillance Radar (EASR) program for the U.S. Navy, and $86 million to provide advanced Patriot air and missile defense capability for the U.S. Army. IDS also booked $198 million on a classified program.

In 2015, IDS booked $2.0 billion to provide advanced Patriot air and missile defense capability for the Kingdom of Saudi Arabia and $769 million to provide advanced Patriot air and missile defense capability for the Republic of Korea. IDS also booked $366 million on the Zumwalt-class destroyer program for the U.S. Navy, $266 million to provide Patriot engineering services support for U.S. and international customers, $245 million to provide CCLS and $141 million for a radar sustainment contract for the MDA, $163 million to continue development on the Air Defense Operations Center (ADOC) for Qatar, $139 million to provide satellite communication ground terminals for an international customer, $110 million for the AWD program for the Australian Navy, $83 million to provide advanced Patriot air and missile defense capability for the U.S. Army, and $83 million to provide training and logistics support for an international customer.

Intelligence, Information and Services

(In millions, except percentages)	2017	2016	2015	% Change 2017 compared to 2016	2016 compared to 2015
Total net sales	$6,177	$6,169	$6,137	0.1 %	0.5 %
Total operating expenses					
Cost of sales—labor	2,610	2,478	2,399	5.3 %	3.3 %
Cost of sales—materials and subcontractors	2,309	2,400	2,527	(3.8)%	(5.0)%
Other cost of sales and other operating expenses	803	824	563	(2.5)%	46.4 %
Total operating expenses	5,722	5,702	5,489	0.4 %	3.9 %
Operating income	$455	$467	$648	(2.6)%	(27.9)%
Operating margin	7.4 %	7.6 %	10.6 %		

Change in Operating Income (in millions)	Year Ended 2017 Versus Year Ended 2016	Year Ended 2016 Versus Year Ended 2015
Volume	$—	$(1)

Net change in EAC adjustments	3	13
Mix and other performance	(15)	(193)
Total change in operating income	$(12)	$(181)

(In millions, except percentages)	2017	2016	2015	% Change 2017 compared to 2016	2016 compared to 2015
Bookings	$6,615	$5,563	$5,319	18.9%	4.6%
Total Backlog	6,503	5,662	5,867	14.9%	(3.5)%

Table of Contents

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

Total Net Sales—Total net sales in 2017 were relatively consistent with 2016. Included in the change in net sales was higher net sales of $84 million on a U.S. Air Force program due to increased contract activities, higher net sales of $38 million on programs in support of the U.S. Army's Warfighter Field Operations Customer Support (Warfighter FOCUS) activities driven principally by customer determined activity levels, lower net sales of $67 million on a program for the U.S. Army which substantially completed in 2016 and lower net sales of $47 million on a classified program for an international customer which was substantially completed in 2016.

Total net sales in 2016 were relatively consistent with 2015. Included in the change in net sales was higher net sales of $91 million on a U.S. Air Force program due to increased effort to achieve the current schedule milestones, higher net sales of $84 million on various cybersecurity and special missions programs due to a continued focus on cyber capabilities resulting in expansion with key customers, lower net sales of $74 million on the Joint Polar Satellite System (JPSS) Common Ground System (CGS) for NASA due to the program transitioning from the development phase to the test phase and lower net sales of $68 million on training activities on the Air Traffic Control Optimum Training Solution (ATCOTS) contract for the FAA, which ended in 2015.

Total Operating Expenses—Total operating expenses in 2017 were relatively consistent with 2016. The increase in labor costs of $132 million was driven principally by activity on various classified programs and activity on the U.S. Air Force program described above in Total Net Sales.

The increase in total operating expenses of $213 million in 2016 compared to 2015 was primarily due to an increase in other cost of sales and other operating expenses of $261 million, partially offset by a decrease in materials and subcontractors costs of $127 million. The increase in other cost of sales and other operating expenses was driven principally by the $181 million reduction to cost of sales from the eBorders settlement in the first quarter of 2015. The decrease in materials and subcontractors costs was driven principally by various classified programs.

Operating Income and Margin—The decrease in operating income of $12 million and the related decrease in operating margin in 2017 compared to 2016 was primarily due to a change in mix and performance of $15 million spread across numerous programs with no individual or common significant driver. Included in mix and other performance in 2017 was a $2 million gain on a real estate transaction. Included in mix and other performance in 2016 was a $3 million net gain related to the termination and expected cost recovery of a pension plan for one of our joint ventures and a $2 million gain on a real estate transaction.

The decrease in operating income of $181 million and the related decrease in operating margin in 2016 compared to 2015 was primarily due to a change in mix and other performance of $193 million partially offset by a net change in EAC adjustments of $13 million. The change in mix and other performance was principally driven by the $181 million impact from the eBorders settlement in the first quarter of 2015. Included in mix and other performance in 2016 was a $3 million net gain related to the termination and expected cost recovery of a pension plan for one of our joint ventures and a $2 million gain on a real estate transaction. The net change in EAC adjustments was primarily due to a $37 million net change in EAC adjustments for a classified program for an international customer, due to higher than expected costs in 2015, partially offset by a $17 million net change in EAC adjustments due to higher design and material costs on a munition release capability program for the U.S. Air Force.

Backlog and Bookings—Backlog was $6,503 million, $5,662 million and $5,867 million at December 31, 2017, 2016 and 2015, respectively. The increase in backlog of $841 million at December 31, 2017 compared to December 31, 2016 was primarily due to bookings in excess of sales within the Navigation and Environmental Solutions (NES) product line, primarily driven by the U.S. Air Force programs bookings described below. The decrease in backlog of $205 million at December 31, 2016 compared to December 31, 2015 was primarily due to $256 million of backlog adjustments from contract underruns and contract deobligations.

Table of Contents

The bookings increase of $1,052 million in 2017 compared to 2016 was driven primarily by the $1,483 million increase in the specifically disclosed bookings below. In 2017, IIS booked approximately $1.4 billion on U.S. Air Force programs, $810 million on domestic training programs and $342 million on foreign training programs in support of Warfighter FOCUS activities, $233 million to upgrade the Phalanx Close-In Weapon System (CIWS) for the Royal Canadian Navy, $148 million on the Standard Terminal Automation Replacement System (STARS) program for the FAA, $106 million to provide ISR support for the U.S. Air Force, $98 million on the Development, Operations and Maintenance (DOMino) cyber program for the DHS, and $77 million to support the Naval Communications Station, Harold E Holt (HEH) facility for Australia. IIS also booked $2,041 million on a number of classified contracts, including $448 million on two multi-year awards for certain classified customers.

Bookings in 2016 were relatively consistent with 2015. In 2016, IIS booked $744 million on domestic training programs and $283 million on foreign training programs in support of Warfighter FOCUS activities, $269 million on the Joint Precision Approach and Landing System (JPALS) program for the U.S. Navy program, $170 million to provide a common ground station for unmanned vehicles for the U.S. Air Force, and $105 million to provide ISR support for the U.S. Air Force. IIS also booked $310 million for a U.S. Air Force program and $1,891 million on a number of classified contracts.

In 2015, IIS booked $703 million on domestic training programs and $260 million on foreign training programs in support of Warfighter FOCUS activities, $185 million on the STARS program, $105 million on a contract to support the U.S. Air Force's Distributed Common Ground System (DCGS), $103 million on the Wide Area Augmentation System (WAAS) program and $78 million on the NextGen Weather Processor (NWP) program for the FAA, and $78 million to continue supporting the Counter Narcoterrorism Technology Program Office (CNTPO). IIS also booked $1,953 million on a number of classified contracts.

Missile Systems

(In millions, except percentages)	2017	2016	2015	% Change 2017 compared to 2016	2016 compared to 2015
Total net sales	$7,787	$7,096	$6,569	9.7 %	8.0 %
Total operating expenses					
Cost of sales—labor	2,303	2,097	1,980	9.8 %	5.9 %
Cost of sales—materials and subcontractors	3,386	2,949	2,749	14.8 %	7.3 %
Other cost of sales and other operating expenses	1,088	1,129	963	(3.6)%	17.2 %
Total operating expenses	6,777	6,175	5,692	9.7 %	8.5 %
Operating income	$1,010	$921	$877	9.7 %	5.0 %
Operating margin	13.0 %	13.0 %	13.4 %		

Change in Operating Income (in millions)	Year Ended 2017 Versus Year Ended 2016	Year Ended 2016 Versus Year Ended 2015
Volume	$82	$63
Net change in EAC adjustments	10	(63)
Mix and other performance	(3)	44
Total change in operating income	$89	$44

(In millions, except percentages)	2017	2016	2015	% Change 2017 compared to 2016	2016 compared to 2015
Bookings	$9,672	$7,894	$8,149	22.5 %	(3.1)%
Total Backlog	13,426	11,568	10,801	16.1 %	7.1 %

Table of Contents

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

Total Net Sales—The increase in total net sales of $691 million in 2017 compared to 2016 was primarily due to $245 million of higher net sales on the Paveway program principally driven by international requirements, $168 million of higher net sales on the Standard Missile-3 (SM-3) program principally driven by planned increases in production, $115 million of higher net sales on the Standard Missile-2 (SM-2) program due to the recognition of previously deferred precontract costs based on a contract award in the second quarter of 2017 and planned increases in production, $96 million of higher net sales on the Excalibur program due to recognition of previously deferred precontract costs based on a contract award in the third quarter of 2017, partially offset by $138 million of lower net sales on the Exoatmospheric Kill Vehicle (EKV) program due to a planned decline in production.

The increase in total net sales of $527 million in 2016 compared to 2015 was primarily due to $432 million of higher net sales on the Paveway program principally driven by international requirements.

Total Operating Expenses—The increase in total operating expenses of $602 million in 2017 compared to 2016 was primarily due to an increase in materials and subcontractors costs of $437 million and an increase in labor costs of $206 million. The increase in materials and subcontractors costs was primarily driven by activity on the programs described above in Total Net Sales, activity on an international missile defense program and activity on Evolved Seasparrow Missile (ESSM) both due to planned increases in production. The increase in labor costs was principally driven by activity on the SM-3 program described above in Total Net Sales, activity on classified programs, and development activity on advanced missile and interceptor programs, partially offset by activity on the EKV 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 $483 million in 2016 compared to 2015 was primarily due to an increase in materials and subcontractors costs of $200 million, an increase in other cost of sales and other operating expenses of $166 million and an increase in labor costs of $117 million. The increase in materials and subcontractors costs was driven principally by activity on the Paveway program described above in Total Net Sales. The increase in other cost of sales and other operating expenses was principally driven by a change in previously deferred precontract costs based on contract awards or funding. The increase in labor costs was principally driven by development activity on an advanced interceptors program and a ship defense missile program.

Operating Income and Margin—The increase in operating income of $89 million in 2017 compared to 2016 was primarily due to an increase in volume of $82 million principally driven by activity on the programs described above in Total Net Sales. Included in the net change in EAC adjustments was reductions of expected costs to fulfill industrial cooperation agreements for an international customer resulting in adjustments of $37 million and $36 million on two contracts due to a favorable change in requirements in the third quarter of 2017, partially offset by an unfavorable $40 million adjustment on a $1.4 billion contract, driven by the final contract modification in the third quarter of 2017 which was less than we anticipated based upon the previous contract price negotiations. Operating margin in 2017 was consistent with 2016.

The increase in operating income of $44 million in 2016 compared to 2015 was primarily due to an increase in volume of $63 million and a change in mix and other performance of $44 million, partially offset by a net change in EAC adjustments of $63 million. The increase in volume and the change in mix and other performance were both

driven principally by activity on the Paveway program described above in Total Net Sales. The net change in EAC adjustments was primarily driven by a $48 million unfavorable change on two next generation precision strike weapon contracts due to increases in expected costs to complete the programs, a $38 million unfavorable change on a missile defense interceptor program driven primarily by a decrease in estimated incentive fees due to re-phasing incentive events in the first quarter of 2016 and an increase in expected cost to complete the program, and a $25 million favorable resolution of a contractual issue in the first quarter of 2015, partially offset by a $68 million favorable change on the Paveway program driven by lower labor and material production costs as well as improved estimated costs to fulfill other contractual requirements. The decrease in operating margin in 2016 compared to 2015 was primarily due to the net change in EAC adjustments, partially offset by the change in mix and other performance.

Table of Contents

Backlog and Bookings—Backlog was $13,426 million, $11,568 million and $10,801 million at December 31, 2017, 2016 and 2015, respectively. The increase in backlog of $1,858 million at December 31, 2017 compared to December 31, 2016 was primarily due to bookings in excess of sales, primarily within the Air Warfare Systems (AWS) product line. The increase in backlog of $767 million at December 31, 2016 compared to December 31, 2015 was primarily due to bookings in excess of sales, primarily within the Advanced Missile Systems (AMS) and Air and Missile Defense Systems (AMDS) product lines.

The bookings increase of $1,778 million in 2017 compared to 2016 was driven primarily by the $1,775 million increase in the specifically disclosed bookings below. In 2017, MS booked $2.2 billion for Paveway for the U.S. Air Force and international customers, $816 million for Advanced Medium-Range Air-to-Air Missile (AMRAAM) for the U.S. Air Force, U.S. Navy and international customers, $673 million for SM-3 for the MDA and international customers, $661 million for SM-2 for the U.S. Navy and international customers, $538 million for the Redesigned Kill Vehicle (RKV) program for the MDA, $468 million for the Joint Standoff Weapon (JSOW) for the U.S. Navy, U.S. Air Force and international customers, $424 million for Tomahawk for the U.S. Navy and international customers, $378 million for Tube-launched, Optically-tracked, Wireless-guided (TOW) missiles for the U.S. Army, U.S. Marine Corps and international customers, $347 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, $214 million for Phalanx CIWS for the U.S. Navy and international customers, $214 million for Excalibur for the U.S. Army, $156 million for Horizontal Technology Integration (HTI) forward-looking infrared kits for the U.S. Army and an international customer, $135 million for Javelin for the U.S. Army and international customers, $116 million for the Long Range Precision Fires (LRPF) Missile system for the U.S. Army and $104 million for Mobile Range for the U.S. Navy, U.S. Army and U.S. Air Force. MS also booked $1,027 million on classified contracts, including $223 million on a major contract.

Bookings in 2016 were relatively consistent with 2015. In 2016, MS booked $941 million for Paveway for the U.S. Air Force and international customers, $923 million for SM-3 for the MDA and international customers, $799 million for AMRAAM for the U.S. Air Force, U.S. Navy and international customers, $554 million for Phalanx CIWS for the U.S. Navy and international customers, $416 million for Standard Missile-6 (SM-6) for the U.S. Navy, $383 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, $367 million for Tomahawk for the U.S. Navy and international customers, $325 million for Rolling Airframe Missile (RAM) for the U.S. Navy and international customers, $321 million for ESSM for the U.S. Navy and international customers, $276 million for TOW missiles for the U.S. Army, U.S. Marine Corps and international customers, $243 million for Miniature Air Launched Decoy (MALD) for the U.S. Air Force and Navy, $223 million for Stinger® for the U.S. Army and international customers, $195 million for Woomera Mobile Range Upgrade program for the Royal Australian Air Force, $175 million for Hypersonic Air-breathing Weapon Concept program for the Defense Advanced Research Projects Agency (DARPA) and U.S. Air Force and $130 million for the David’s Sling weapon system’s Stunner Missile for an international customer. MS also booked $425 million on classified contracts.

In 2015, MS booked $1,726 million for Paveway for the U.S. Air Force and international customers, $1,215 million for SM-3 for the MDA and an international customer, $637 million for AMRAAM for the U.S. Air Force, U.S. Navy and international customers, $623 million on ESSM for the U.S. Navy and international customers, $580 million for AIM-9X Sidewinder short-range air-to-air missiles for the U.S. Armed Forces and international customers, $310 million for Phalanx CIWS for the U.S. Navy, U.S. Army and international customers, $273 million for SM-6 for the U.S. Navy, $267 million for Tomahawk for the U.S. Navy and an international customer, $235 million for JSOW for the U.S. Navy, and international customers, $169 million for RAM for the U.S. Navy and international customers, $152 million for the production of Stinger for the U.S. Army and international customers, $148 million for the production of EKV for the MDA, $110 million for MALD for the U.S. Air Force and Navy, $108 million for the production of the Light Armored Vehicle-Anti-Tank (LAV-AT) for the U.S. Marines, and $104 million for production of Javelin missiles for the U.S. Army and international customers. MS also booked $582 million on classified contracts, including $158 million on a major program.

58

Table of Contents

Space and Airborne Systems

(In millions, except percentages)	2017	2016	2015	% Change 2017 compared to 2016	2016 compared to 2015
Total net sales	$6,430	$6,182	$5,814	4.0 %	6.3 %
Total operating expenses					
Cost of sales—labor	2,673	2,419	2,483	10.5 %	(2.6)%
Cost of sales—materials and subcontractors	1,877	1,949	1,457	(3.7)%	33.8 %
Other cost of sales and other operating expenses	1,018	1,006	1,023	1.2 %	(1.7)%
Total operating expenses	5,568	5,374	4,963	3.6 %	8.3 %
Operating income	$862	$808	$851	6.7 %	(5.1)%
Operating margin	13.4 %	13.1 %	14.6 %		

Change in Operating Income (in millions)	Year Ended 2017 Versus Year Ended 2016	Year Ended 2016 Versus Year Ended 2015
Volume	$26	$58
Net change in EAC adjustments	(28)	73
Mix and other performance	56	(174)
Total change in operating income	$54	$(43)

(In millions, except percentages)	2017	2016	2015	% Change 2017 compared to 2016	2016 compared to 2015
Bookings	$5,907	$8,414	$4,936	(29.8)%	70.5 %
Total Backlog	8,611	8,834	6,260	(2.5)%	41.1 %

SAS is a leader in the design, development and manufacture of integrated sensor and communication systems for advanced missions. These missions include intelligence, surveillance and reconnaissance; precision engagement; manned and unmanned aerial operations; and space. Leveraging state-of-the-art technologies, mission systems and domain knowledge, SAS designs, manufactures, supports and sustains civil and military electro-optical/infrared (EO/IR) sensors; airborne radars for surveillance and fire control applications; lasers; precision guidance systems; signals intelligence systems; processors; electronic warfare systems; communications; and space-qualified systems. Key customers are the U.S. Navy, Air Force, and Army, international allies and classified customers.

Total Net Sales—The increase in total net sales of $248 million in 2017 compared to 2016 was primarily due to higher net sales of $89 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 $69 million on a domestic classified program awarded in the third quarter of 2016, partially offset by lower net sales of $99 million on an international classified program awarded in the first quarter of 2016 due to planned reduced schedule requirements. The remaining change in total net sales was spread across numerous programs with no individual or common significant driver.

The increase in total net sales of $368 million in 2016 compared to 2015 was primarily due to higher net sales of $339 million on classified programs, including an international classified program awarded in the first quarter of 2016.

Total Operating Expenses—The increase in total operating expenses of $194 million in 2017 compared to 2016 was primarily due to an increase in labor costs of $254 million, principally driven by activity on domestic and international tactical radar systems programs and activity on the domestic classified program described above in Total Net Sales.

Table of Contents

The increase in total operating expenses of $411 million in 2016 compared to 2015 was primarily due to an increase in materials and subcontractors costs of $492 million, principally driven by activity on the classified programs described above in Total Net Sales.

Operating Income and Margin—The increase in operating income of $54 million in 2017 compared to 2016 was primarily driven by a change in mix and other performance of $56 million and an increase in volume of $26 million, partially offset by a net change in EAC adjustments of $28 million. The change in mix and other performance includes a $15 million gain on a real estate transaction in the second quarter of 2017, offset by a $26 million decrease primarily driven by lower activity on two international tactical radar systems programs due to scheduled completion of certain production phases, with the remaining change spread across numerous programs with no individual or common significant driver. 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 increased estimated labor and material production costs on the international classified program described above in Total Net Sales. The increase in operating margin in 2017 compared to 2016 was primarily due to the change in mix and other performance, partially offset by the net change in EAC adjustments.

The decrease in operating income of $43 million in 2016 compared to 2015 was primarily due to a change in mix and other performance of $174 million, partially offset by a net change in EAC adjustments of $73 million and higher volume of $58 million. The change in mix and other performance was primarily driven by lower activity due to scheduled completion of certain production phases on two international tactical radar systems programs and activity on the international classified program described above in Total Net Sales. Also included in mix and other performance was an $11 million gain on a real estate transaction in the second quarter of 2015. The net change in EAC adjustments was principally driven by labor and material production efficiencies on tactical radar systems programs which amounted to $30 million, and improved program performance on domestic classified programs. The increase in volume was primarily driven by the international classified program described above in Total Net Sales. The decrease in operating margin in 2016 compared to 2015 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 $8,611 million, $8,834 million and $6,260 million at December 31, 2017, 2016 and 2015, respectively. The decrease in backlog of $223 million at December 31, 2017 compared to December 31, 2016 was primarily due to sales in excess of bookings, principally within our Intelligence, Surveillance and Reconnaissance Systems (ISRS) and Space Systems (SS) product lines, partially offset by bookings in excess of sales at our Secure Sensor Solutions (S^3) product line. The increase in backlog of $2,574 million at December 31, 2016 compared to December 31, 2015 was primarily due to bookings in excess of sales, principally within our Electronic Warfare Systems (EWS) and SS product lines.

The bookings decrease of $2,507 million in 2017 compared to 2016 was driven primarily by the $3,240 million decrease in the specifically disclosed bookings below. In 2017, SAS booked $256 million for Active Electronically Scanned Array (AESA) radars for the U.S. Air Force, $250 million on two contracts for international customers, one for military processors and one for radar warning receivers, approximately $200 million on classified and unclassified space programs and $175 million for radar components for the U.S. Navy and the Royal Australian Air Force. SAS also booked $1,384 million on a number of classified contracts.

The bookings increase of $3,478 million in 2016 compared to 2015 was driven primarily by the $3,478 million increase in the specifically disclosed bookings below. In 2016, SAS booked $992 million on the NGJ program for the U.S. Navy, over $650 million on an international classified program, $610 million on AESA production awards for the U.S. Air Force and international customers, $553 million on the JPSS program for NASA, $164 million to provide integrated Sentinel support services for the U.K. Royal Air Force, $91 million on the next-generation Multi-Spectral

Targeting System (MTS) for the U.S. Air Force, $87 million to provide radar components, and $75 million on a cryptographic modernization program. SAS also booked $2,283 million on a number of classified contracts, including $590 million for a major classified contract.

In 2015, SAS booked $153 million on a multi-mission radar program for the U.S. Navy and an international customer, $106 million for the production of AESA radars for the U.S. Air Force, $102 million on the Navy Multiband Terminal (NMT) program, $99 million on an AESA radar Performance Based Logistics (PBL) contract for an international customer, $92 million to provide radar spares for an international customer, $92 million for the production of AESA radars for an international customer, $88 million to provide radar components for the U.S. Air Force, and $82 million to provide communication subsystems for the U.S. Navy and an international customer. SAS also booked $1,213 million on a number of classified contracts.

Table of Contents

Forcepoint

(In millions, except percentages)	2017	2016	2015	% Change 2017 compared to 2016	% Change 2016 compared to 2015
Total net sales	$608	$586	$344	3.8 %	70.3 %
Total operating expenses					
Cost of sales	116	110	63	5.5 %	74.6 %
Selling and marketing	246	187	98	31.6 %	90.8 %
Research and development	143	128	87	11.7 %	47.1 %
General and administrative	70	71	40	(1.4)%	77.5 %
Total operating expenses	575	496	288	15.9 %	72.2 %
Operating income	$33	$90	$56	(63.3)%	60.7 %
Operating margin	5.4 %	15.4 %	16.3 %		

(In millions, except percentages)	2017	2016	2015	% Change