Primo Water Corp
Form S-3/A
December 05, 2014
As filed with the Securities and Exchange Commission on December 5, 2014.
Registration No. 333-200016

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

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Amendment No. 1
to
Form S 3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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Primo Water Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

30-0278688
(IRS Employer Identification Number)

104 Cambridge Plaza Drive
Winston-Salem, North Carolina 27104
(336) 331-4000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Mark Castaneda
Chief Financial Officer
Primo Water Corporation
104 Cambridge Plaza Drive
Winston-Salem, North Carolina 27104
(336) 331-4000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Please send copies of all communications to:
Sean M. Jones
Patrick J. Rogers
K&L Gates LLP
214 North Tryon Street, 47th Floor
Charlotte, North Carolina 28202
(704) 331-7400

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Approximate date of commencement of proposed sale to the public:
From time to time after the effective date of this Registration Statement as determined by market conditions.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. o

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

Indicate by check mark if the registrant is a large accelerated filer, an accelerated file, 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 | o | Accelerated filer | o |
| Non-accelerated filer | o | Smaller reporting company | R |

(do not check if a smaller reporting company)

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED DECEMBER **5**, 2014

$75,000,000

Common Stock
Preferred Stock
Debt Securities
Warrants
Rights
Units

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This prospectus relates to common stock, preferred stock, debt securities, warrants, rights and units that we may sell from time to time in one or more offerings up to a total public offering price of $75,000,000 on terms to be determined at the time of sale. We will provide specific terms of these securities in supplements to this prospectus. You should read this prospectus and any supplement carefully before you invest. This prospectus may not be used to offer and sell securities unless accompanied by a prospectus supplement for those securities.

Our common stock trades on the NASDAQ Global Market under the symbol "PRMW."

These securities may be sold directly by us, through dealers or agents designated from time to time, to or through underwriters or through a combination of these methods. See "Plan of Distribution" in this prospectus. We may also describe the plan of distribution for any particular offering of these securities in any applicable prospectus supplement. If any dealers, agents or underwriters are involved in the sale of any securities in respect of which this prospectus is being delivered, we will disclose their names and the nature of our arrangements with them in a prospectus supplement. The net proceeds we expect to receive from any such sale will also be included in a prospectus supplement.

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INVESTING IN OUR SECURITIES INVOLVES RISKS. YOU SHOULD REVIEW CAREFULLY THE RISKS AND UNCERTAINTIES DESCRIBED UNDER THE HEADING "RISK FACTORS" CONTAINED IN THE APPLICABLE PROSPECTUS SUPPLEMENT AND ANY RELATED FREE WRITING PROSPECTUS, AND UNDER SIMILAR HEADINGS IN OTHER DOCUMENTS THAT ARE INCORPORATED BY REFERENCE INTO THIS PROSPECTUS. SEE "RISK FACTORS" ON PAGE 3 OF THIS PROSPECTUS.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

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The date of this prospectus is , 2014.

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## PROSPECTUS SUMMARY

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission (the "SEC") utilizing a "shelf" registration process. Under this shelf process, we may from time to time sell any combination of securities described in this prospectus in one or more offerings.

This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of the securities being offered. That prospectus supplement may include a discussion of any risk factors or other special considerations that apply to those securities. The prospectus supplement may also add, update or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and a prospectus supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and any applicable prospectus supplement together with additional information described below under the heading "Where You Can Find More Information."

When acquiring any securities discussed in this prospectus, you should rely on the information provided in this prospectus and the prospectus supplement, including the information incorporated by reference. Neither we, nor any underwriters or agents, have authorized anyone to provide you with different information. We are not offering the securities in any state where such an offer is prohibited. You should not assume that the information in this prospectus, any prospectus supplement, or any document incorporated by reference, is truthful or complete at any date other than the date mentioned on the cover page of those documents. You should also carefully review the section entitled "Risk Factors", which highlights certain risks associated with an investment in our securities, to determine whether an investment in our securities is appropriate for you.

References in this prospectus to "Primo", the "Company", "we", "us" and "our" are to Primo Water Corporation and its subsidiaries.

## RISK FACTORS

Investing in our securities involves risk. See the risk factors described in our Annual Report on Form 10-K for our most recent fiscal year (together with any material changes thereto contained in subsequently filed Quarterly Reports on Form 10-Q) and those contained in our other filings with the SEC, which are incorporated by reference in this prospectus and any accompanying prospectus supplement.

The prospectus supplement applicable to each type or series of securities we offer may contain a discussion of risks applicable to the particular types of securities that we are offering under that prospectus supplement. Prior to making a decision about investing in our securities, you should carefully consider the specific factors discussed under the caption "Risk Factors" in the applicable prospectus supplement, together with all of the other information contained in the prospectus supplement or appearing or incorporated by reference in this prospectus. These risks could materially affect our business, results of operations or financial condition and cause the value of our securities to decline. You could lose all or part of your investment.

## THE COMPANY

We are a leading provider of multi-gallon purified bottled water, self-service refill water and water dispensers sold through major retailers in the United States and Canada. We believe the market for purified water is growing due to evolving taste preferences, perceived health benefits and concerns regarding the quality of municipal tap water. Our products provide an environmentally friendly, economical, convenient and healthy solution for consuming purified and filtered water.

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Our business is designed to generate recurring demand for our purified bottled water or self-serve filtered drinking water through the sale of innovative water dispensers. This business strategy is commonly referred to as "razor-razorblade" because the initial sale of a product creates a base of users who frequently purchase complementary consumable products. We believe dispenser owners consume an average of 35 multi-gallon bottles of water annually. Once our bottled water is consumed using a water dispenser, empty bottles are exchanged at our recycling center displays, which provide a recycling ticket that offers a discount toward the purchase of a new bottle of Primo purified water ("Exchange") or they are refilled at a self-serve filtered drinking water location ("Refill"). Each of our multi-gallon water bottles can be sanitized and reused up to 40 times before being taken out of use, crushed and recycled, substantially reducing landfill waste compared to consumption of equivalent volumes of single-serve bottled water. As of September 30, 2014, our products and services were offered in each of the contiguous United States and in Canada at approximately 23,500 combined retail locations, including Lowe's Home Improvement, Walmart, Kmart, Meijer, Kroger, Food Lion, H-E-B Grocery, Sobeys and Walgreens.

We provide major retailers throughout the United States and Canada with single-vendor solutions for Exchange and Refill services, addressing a market demand that we believe was previously unmet. Our solutions are easy for retailers to implement, require minimal management supervision and store-based labor, and provide centralized billing and detailed performance reports. Our Exchange solution offers retailers attractive financial margins and the ability to optimize typically unused retail space with our displays. Our Refill solution provides filtered water through the installation and servicing of reverse osmosis water filtration systems in the back room of the retailer's store location, which minimizes the usage of the customer's retail space. The refill machine, which is typically accompanied by a sales display containing empty reusable bottles, is located within the retailer customer's floor space. Additionally, due to the recurring nature of water consumption, retailers benefit from year-round customer traffic and highly predictable revenue.

We were incorporated as a Delaware corporation on October 20, 2004. Our headquarters are located at 104 Cambridge Plaza Drive, Winston-Salem, North Carolina 27104 and our telephone number is (336) 331-4000.

INCORPORATION BY REFERENCE

This prospectus "incorporates by reference" certain information that we have filed with the SEC under the Securities Exchange Act of 1934. This means we are disclosing important information to you by referring you to those documents. We incorporate by reference the documents listed below and any future filings made by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until the offering is terminated:

- Annual Report on Form 10-K for the fiscal year ended December 31, 2013 as filed on March 17, 2014;
- The portions of our definitive Proxy Statement on Schedule 14A for our 2014 Annual Meeting of Stockholders, filed with the SEC on March 21, 2014, that are incorporated by reference into our Annual Report on Form 10-K for the fiscal year ended December 31, 2013;
- Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 filed on May 8, 2014;
- Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 filed on August 6, 2014;
- Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 filed on November 7, 2014;
- Current Reports on Form 8-K filed on March 6, 2014, May 7, 2014 and June 25, 2014 (other than the portions of those documents furnished but deemed not to have been filed); and
- The description of the Company's Common Stock contained in the Company's Registration Statement on Form 8-A, filed with the SEC pursuant to Section 12(g) of the Exchange Act on August 11, 2010, including any further amendment or report filed hereafter for the purpose of updating such description.

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You should rely only on the information incorporated by reference or provided in this prospectus. We have authorized no one to provide you with different information. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this document. All documents that we file subsequently pursuant to Sections 13(a), 13(c), 14 or 15(d) (Exchange Act File No. 001-34850) of the Exchange Act prior to the termination or completion of the offering (including all such documents that we may file with the SEC after the date of the initial registration statement and prior to the effectiveness of the registration statement) will be deemed to be incorporated in this prospectus by reference and will be a part of this prospectus from the date of the filing of the document. Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this prospectus modifies or supersedes that statement. Any statement that is modified or superseded will not constitute a part of this prospectus, except as modified or superseded.

## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You can inspect and copy these reports, proxy statements and other information at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D. C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The SEC also maintains a web site that contains reports, proxy and information statements and other information regarding issuers, such as Primo Water Corporation (www.sec.gov). Our web site is located at www.primowater.com. The information contained on our web site is not part of this prospectus and the inclusion of our website address in this prospectus is an inactive textual reference only.

We will provide, upon written or oral request, without charge to you, including any beneficial owner to whom this prospectus is delivered, a copy of any or all of the documents incorporated herein by reference other than the exhibits to those documents, unless the exhibits are specifically incorporated by reference into the information that this prospectus incorporates. You should direct a request for copies to us at Attention: Secretary, 104 Cambridge Plaza Drive, Winston-Salem, North Carolina 27104 or you may call us at (336) 331-4000.

## FORWARD-LOOKING STATEMENTS

Certain information set forth in this prospectus or incorporated by reference in this prospectus may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are intended to be covered by the "safe harbor" created by those sections. Forward-looking statements include information concerning our possible future results of operations, business strategies, competitive position, potential growth opportunities, potential market opportunities and the effects of competition. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "would" or similar expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in the "Risk Factors" section and elsewhere in this prospectus. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this prospectus. You should read this prospectus and the documents that we have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

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Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

## USE OF PROCEEDS

We currently intend to use the estimated net proceeds from the sale of these securities for general corporate and working capital purposes. We have not yet determined the amount of net proceeds to be used specifically for any of the foregoing purposes. Accordingly, our management will have significant discretion and flexibility in applying the net proceeds from the sale of these securities. Our plans to use the estimated net proceeds from the sale of these securities may change, and if they do, we will update this information in a prospectus supplement.

## DESCRIPTION OF COMMON STOCK WE MAY OFFER

The following summary description of our common stock is based on the provisions of our amended and restated certificate of incorporation, amended and restated bylaws and the applicable provisions of the Delaware General Corporation Law. This information is a summary and may not be complete in all respects. For information on how to obtain copies of our amended and restated certificate of incorporation and amended and restated bylaws, see the discussion above under the heading "Where You Can Find More Information."

We may offer our common stock issuable upon the conversion of debt securities, preferred stock or units and the exercise of warrants or rights.

### Authorized Capital

We currently have authority to issue 70,000,000 shares of our common stock, par value $0.001 per share. As of October 31, 2014, 24,530,299 shares of our common stock were issued and outstanding.

### Voting Rights

Except as otherwise required by Delaware law, at every annual or special meeting of stockholders, every holder of common stock is entitled to one vote per share. There is no cumulative voting in the election of directors.

### Dividend Rights

Subject to preferences that may be applicable to any outstanding series of preferred stock, the holders of our common stock will receive ratably any dividends declared by our Board of Directors out of funds legally available for the payment of dividends. We have never paid or declared cash dividends on our common stock. We currently intend to retain all available funds and any future earnings to finance the development and expansion of our business. We do not expect to pay any dividends on our common stock in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend upon various factors, including our results of operations, financial condition, capital requirements, investment opportunities and other factors that our Board of Directors deems relevant.

### Liquidation and Preemptive Rights

In the event of our liquidation, dissolution or winding-up, the holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of our preferred stock, if any, then outstanding. The holders of our common stock have no preemptive or other subscription rights.

Our outstanding shares of common stock are fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

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## DESCRIPTION OF PREFERRED STOCK WE MAY OFFER

This section describes the general terms and provisions of the preferred stock we may offer. This information is a summary and may not be complete in all respects. The specific terms of any series will be described in a prospectus supplement or a free writing prospectus, as applicable. The specific terms of the preferred stock as described in a prospectus supplement or free writing prospectus will supplement and, if applicable, may modify or replace the general terms described in this section. Any series of preferred stock we issue will be governed by our amended and restated certificate of incorporation and by any certificate of designations relating to that series. We will file any amendment to our amended and restated certificate of incorporation and any certificate of designation with the SEC and incorporate it by reference as an exhibit to our registration statement at or before the time we issue any preferred stock of that series.

### Authorized Preferred Stock

Our amended and restated certificate of incorporation authorizes us to issue 10,000,000 shares of undesignated preferred stock, par value $0.001 per share. We may issue preferred stock from time to time in one or more series, without shareholder approval, when authorized by our Board of Directors.

Our Board of Directors' ability to authorize, without shareholder approval, the issuance of preferred stock with conversion and other rights, may adversely affect the rights of holders of our common stock or other series of preferred stock that may be outstanding.

No shares of our preferred stock are currently issued and outstanding.

### Specific Terms of a Series of Preferred Stock

The preferred stock we may offer will be issued in one or more series. The preferred stock will have the dividend, liquidation, redemption and voting rights discussed below, unless otherwise described in a prospectus supplement relating to a particular series. A prospectus supplement will discuss the following features of the series of preferred stock to which it relates:

- the designations and stated value per share;
- the number of shares offered;
- the amount of liquidation preference per share;
- the public offering price at which the preferred stock will be issued;
- the dividend rate, the method of its calculation, the dates on which dividends would be paid and the dates, if any, from which dividends would cumulate;
- any redemption or sinking fund provisions;
- any conversion or exchange rights; and
- any additional voting, dividend, liquidation, redemption, sinking fund and other rights, preferences, privileges, limitations and restrictions.

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Rank

Unless otherwise stated in the prospectus supplement, the preferred stock will have priority over our common stock with respect to dividends and distribution of assets, but will rank junior to all our outstanding indebtedness for borrowed money. Any series of preferred stock could rank senior, equal or junior to our other capital stock, as may be specified in a prospectus supplement, as long as our amended and restated certificate of incorporation so permits.

Dividends

Holders of each series of preferred stock shall be entitled to receive cash dividends to the extent specified in the prospectus supplement when, as and if declared by our Board of Directors, from funds legally available for the payment of dividends. The rates and dates of payment of dividends of each series of preferred stock will be stated in the prospectus supplement. Dividends will be payable to the holders of record of preferred stock as they appear on our books on the record dates fixed by our Board of Directors. Dividends on any series of preferred stock may be cumulative or non-cumulative, as discussed in the applicable prospectus supplement.

Convertibility

Shares of a series of preferred stock may be exchangeable or convertible into shares of our common stock, another series of preferred stock or other securities or property. The conversion or exchange may be mandatory or optional. The prospectus supplement will specify whether the preferred stock being offered has any conversion or exchange features, and will describe all the related terms and conditions.

Redemption

The terms, if any, on which shares of preferred stock of a series may be redeemed will be discussed in the applicable prospectus supplement.

Liquidation

Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of Primo, holders of each series of preferred stock will be entitled to receive distributions upon liquidation in the amount described in the related prospectus supplement. These distributions will be made before any distribution is made on any securities ranking junior to the preferred stock with respect to liquidation, including our common stock. If the liquidation amounts payable relating to the preferred stock of any series and any other securities ranking on a parity regarding liquidation rights are not paid in full, the holders of the preferred stock of that series will share ratably in proportion to the full liquidation preferences of each security. If the liquidation amounts payable are insufficient to pay any distribution to the preferred stock of any series and any other securities ranking on a parity regarding liquidation rights, the holders of the preferred stock of that series will receive nothing. Holders of our preferred stock will not be entitled to any other amounts from us after they have received their full liquidation preference.

Voting

The holders of preferred stock of each series will have no voting rights, except as required by law and as described below or in a prospectus supplement. Our Board of Directors may, upon issuance of a series of preferred stock, grant voting rights to the holders of that series to elect additional board members if we fail to pay dividends in a timely fashion.

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Without the affirmative vote of a majority of the shares of preferred stock of any series then outstanding, we may not:

- increase or decrease the aggregate number of authorized shares of that series;
- increase or decrease the par value of the shares of that series; or
- alter or change the powers, preferences or special rights of the shares of that series so as to affect them adversely.

No Other Rights

The shares of a series of preferred stock will not have any preferences, voting powers or relative, participating, optional or other special rights except:

- as discussed above or in the prospectus supplement;
- as provided in our amended and restated certificate of incorporation and in any certificate of designation; and
- as otherwise required by law.

## DESCRIPTION OF DEBT SECURITIES WE MAY OFFER

General

The debt securities that we may issue will constitute debentures, notes, bonds or other evidences of indebtedness of Primo, to be issued in one or more series, which may include senior debt securities, subordinated debt securities and senior subordinated debt securities. The particular terms of any series of debt securities we offer, including the extent to which the general terms set forth below may be applicable to a particular series, will be described in a prospectus supplement relating to such series.

Debt securities that we may issue will be issued under an indenture between us and a trustee qualified to act as such under the Trust Indenture Act of 1939. We have filed the form of the indenture as an exhibit to the registration statement of which this prospectus is a part. When we refer to the "indenture" in this prospectus, we are referring to the indenture under which your debt securities are issued as supplemented by any supplemental indenture applicable to your debt securities. We will provide the name of the trustee in any prospectus supplement related to the issuance of debt securities, and we will also provide certain other information related to the trustee, including describing any relationship we have with the trustee, in such prospectus supplement.

As used in this "Description of Debt Securities We May Offer," the terms "Company," "we," "our," and "us" refer to Primo Water Corporation, a Delaware corporation, and do not, unless otherwise specified, include our subsidiaries.

THE FOLLOWING DESCRIPTION IS A SUMMARY OF THE MATERIAL PROVISIONS OF THE INDENTURE. IT DOES NOT RESTATE THE INDENTURE IN ITS ENTIRETY. THE INDENTURE IS GOVERNED BY THE TRUST INDENTURE ACT OF 1939. THE TERMS OF THE DEBT SECURITIES INCLUDE THOSE STATED IN THE INDENTURE AND THOSE MADE PART OF THE INDENTURE BY REFERENCE TO THE TRUST INDENTURE ACT. WE URGE YOU TO READ THE INDENTURE BECAUSE IT, AND NOT THIS DESCRIPTION, DEFINES YOUR RIGHTS AS A HOLDER OF THE DEBT SECURITIES.

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Information You Will Find In The Prospectus Supplement

The indenture provides that we may issue debt securities from time to time in one or more series and that we may denominate the debt securities and make them payable in foreign currencies. The indenture does not limit the aggregate principal amount of debt securities that can be issued thereunder. The prospectus supplement for a series of debt securities will provide information relating to the terms of the series of debt securities being offered, which may include:

- the title and denominations of the debt securities of the series;
- any limit on the aggregate principal amount of the debt securities of the series;
- the date or dates on which the principal and premium, if any, with respect to the debt securities of the series are payable or the method of determination thereof;
- the rate or rates, which may be fixed or variable, at which the debt securities of the series shall bear interest, if any, or the method of calculating and/or resetting such rate or rates of interest;
- the dates from which such interest shall accrue or the method by which such dates shall be determined and the duration of the extensions and the basis upon which interest shall be calculated;
- the interest payment dates for the series of debt securities or the method by which such dates will be determined, the terms of any deferral of interest and any right of ours to extend the interest payment periods;
- the place or places where the principal and interest on the series of debt securities will be payable;
- the terms and conditions upon which debt securities of the series may be redeemed, in whole or in part, at our option or otherwise;
- our obligation, if any, to redeem, purchase, or repay debt securities of the series pursuant to any sinking fund or other specified event or at the option of the holders and the terms of any such redemption, purchase, or repayment;
- the terms, if any, upon which the debt securities of the series may be convertible into or exchanged for other securities, including, among other things, the initial conversion or exchange price or rate and the conversion or exchange period;
- if the amount of principal, premium, if any, or interest with respect to the debt securities of the series may be determined with reference to an index or formula, the manner in which such amounts will be determined;
- if any payments on the debt securities of the series are to be made in a currency or currencies (or by reference to an index or formula) other than that in which such securities are denominated or designated to be payable, the currency or currencies (or index or formula) in which such payments are to be made and the terms and conditions of such payments;
- any changes or additions to the provisions of the indenture dealing with defeasance, including any additional covenants that may be subject to our covenant defeasance option;

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- the currency or currencies in which payment of the principal and premium, if any, and interest with respect to debt securities of the series will be payable, or in which the debt securities of the series shall be denominated, and the particular provisions applicable thereto in accordance with the indenture;
- the portion of the principal amount of debt securities of the series which will be payable upon declaration of acceleration or provable in bankruptcy or the method by which such portion or amount shall be determined;
- whether the debt securities of the series will be secured or guaranteed and, if so, on what terms;
- any addition to or change in the events of default with respect to the debt securities of the series;
- the identity of any trustees, authenticating or paying agents, transfer agents or registrars;
- the applicability of, and any addition to or change in, the covenants currently set forth in the indenture;
- the subordination, ranking or priority, if any, of the debt securities of the series and terms of the subordination;
- any other terms of the debt securities of the series which are not prohibited by the indenture; and
- whether securities of the series shall be issuable as registered securities or bearer securities (with or without interest coupons), and any restrictions applicable to the offering, sale or delivery of such bearer securities and the terms upon which such bearer securities of a series may be exchanged for registered securities, and vice versa.

Holders of debt securities may present debt securities for exchange in the manner, at the places, and subject to the restrictions set forth in the debt securities, the indenture, and the prospectus supplement. We will provide these services without charge, other than any tax or other governmental charge payable in connection therewith, but subject to the limitations provided in the indenture, any board resolution establishing such debt securities and any applicable indenture supplement. Debt securities in bearer form and the coupons, if any, appertaining thereto will be transferable by delivery.

Senior Debt

We may issue senior debt securities under the indenture. Unless otherwise set forth in the applicable indenture supplement and described in a prospectus supplement, the senior debt securities will be senior unsecured obligations, ranking equally with all of our existing and future senior unsecured debt. The senior debt securities will be senior to all of our subordinated debt and junior to any secured debt we may incur as to the assets securing such debt.

Subordinated Debt

We may issue subordinated debt securities under the indenture. These subordinated debt securities will be subordinate and junior in right of payment, to the extent and in the manner set forth in the indenture and any applicable indenture supplement, to all of our senior indebtedness.

If this prospectus is being delivered in connection with a series of subordinated debt securities, the accompanying prospectus supplement or the information incorporated by reference will set forth the approximate amount of senior indebtedness outstanding as of the end of the most recent fiscal quarter.

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Senior Subordinated Debt

We may issue senior subordinated debt securities under the indenture. These senior subordinated debt securities will be, to the extent and in the manner set forth in the applicable indenture supplement, subordinate and junior in right of payment to all of our "senior indebtedness" and senior to our other subordinated debt. See the discussions above under "—Senior Debt" and "—Subordinated Debt" for a more detailed explanation of our senior and subordinated indebtedness.

Interest Rate

Debt securities that bear interest will do so at a fixed rate or a floating rate. We may sell, at a discount below the stated principal amount, any debt securities which bear no interest or which bear interest at a rate that at the time of issuance is below the prevailing market rate. The relevant prospectus supplement will describe the special United States federal income tax considerations applicable to:

- any discounted debt securities; and
- any debt securities issued at par which are treated as having been issued at a discount for United States federal income tax purposes.

Registered Global Securities

We may issue registered debt securities of a series in the form of one or more fully registered global securities. We will deposit the registered global security with a depository or with a nominee for a depository identified in the prospectus supplement relating to such series. The global security or global securities will represent and will be in a denomination or aggregate denominations equal to the portion of the aggregate principal amount of outstanding registered debt securities of the series to be represented by the registered global security or securities. Unless it is exchanged in whole or in part for debt securities in definitive registered form, a registered global security may not be transferred, except as a whole in three cases:

- by the depository for the registered global security to a nominee of the depository;
- by a nominee of the depository to the depository or another nominee of the depository; and
- by the depository or any nominee to a successor of the depository or a nominee of the successor.

The prospectus supplement relating to a series of debt securities will describe the specific terms of the depository arrangement concerning any portion of that series of debt securities to be represented by a registered global security. We anticipate that the following provisions will generally apply to all depository arrangements.

Upon the issuance of a registered global security, the depository will credit, on its book-entry registration and transfer system, the principal amounts of the debt securities represented by the registered global security to the accounts of persons that have accounts with the depository. These persons are referred to as "participants." Any underwriters, agents or dealers participating in the distribution of debt securities represented by the registered global security will designate the accounts to be credited. Only participants or persons that hold interests through participants will be able to beneficially own interests in a registered global security. The depository for a global security will maintain records of beneficial ownership interests in a registered global security for participants. Participants or persons that hold through participants will maintain records of beneficial ownership interests in a global security for persons other than participants. These records will be the only means to transfer beneficial ownership in a registered global security.

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The laws of some states may require that specified purchasers of securities take physical delivery of the securities in definitive form. These laws may limit the ability of those persons to own, transfer or pledge beneficial interests in global securities.

So long as the depository, or its nominee, is the registered owner of a registered global security, the depository or its nominee will be considered the sole owner or holder of the debt securities represented by the registered global security for all purposes under the indenture. Except as set forth below, owners of beneficial interests in a registered global security:

- may not have the debt securities represented by a registered global security registered in their names;
- will not receive or be entitled to receive physical delivery of debt securities represented by a registered global security in definitive form; and
-

Interest expense

51

53

Interest income

(3
)

(3
)

Other (income) expense, net

—

(7
)

Total non-operating (income) expense, net

48

43

Income from continuing operations before taxes

740

663

Federal and foreign income taxes

147

167

Income from continuing operations

593

496

Income (loss) from discontinued operations, net of tax

7

(2
)
Net income

600

494

Less: Net income attributable to noncontrolling interests in subsidiaries

4

6

Net income attributable to Raytheon Company

$
596

$
488

Basic earnings (loss) per share attributable to Raytheon Company common stockholders:

Income from continuing operations

$
1.87

$
1.50

Income (loss) from discontinued operations, net of tax

0.02

(0.01
)
Net income

1.89

1.49

Diluted earnings (loss) per share attributable to Raytheon Company common stockholders:

Income from continuing operations

$
1.87

$
1.49

Income (loss) from discontinued operations, net of tax

0.02

(0.01
)
Net income

1.89

1.49

Amounts attributable to Raytheon Company common stockholders:

Income from continuing operations

$
589

$
490

Income (loss) from discontinued operations, net of tax

7

(2
)
Net income

$
596

$
488

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

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RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

| (In millions) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Net income | $600 | $494 |
| Other comprehensive income (loss), before tax: | | |
| Foreign exchange translation | 6 | (45) |
| Cash flow hedges and interest rate locks | (1) | (4) |
| Unrealized gains (losses) on investments and other, net | — | (2) |
| Pension and other employee benefit plans, net: | | |
| Amortization of prior service cost included in net periodic cost | 2 | 1 |
| Amortization of net actuarial loss included in net income | 222 | 294 |
| Pension and other employee benefit plans, net | 224 | 295 |
| Other comprehensive income (loss), before tax | 229 | 244 |
| Income tax benefit (expense) related to items of other comprehensive income (loss) | (78) | (102) |
| Other comprehensive income (loss), net of tax | 151 | 142 |
| Total comprehensive income | 751 | 636 |
| Less: Comprehensive income attributable to noncontrolling interests in subsidiaries | 4 | 6 |
| Comprehensive income attributable to Raytheon Company | $747 | $630 |

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

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RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

| Three Months Ended March 30, 2014 and March 31, 2013 (in millions) | Common stock | Additional paid-in capital | Accumulated other comprehensive income (loss) | Retained earnings | Total Raytheon Company stockholders' equity | Noncontrolling interests in subsidiaries | Total equity |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2013 | $3 | $1,972 | $ (5,113 ) | $14,173 | $ 11,035 | $ 162 | $11,197 |
| Net income | | | | 596 | 596 | 4 | 600 |
| Other comprehensive income (loss), net of tax | | | 151 | | 151 | | 151 |
| Dividends declared | | | | (187 ) | (187 ) | | (187 ) |
| Distributions and other activity related to noncontrolling interests | | | | | — | (1 ) | (1 ) |
| Common stock plans activity | | 53 | | | 53 | | 53 |
| Share repurchases | | (230 ) | | | (230 ) | | (230 ) |
| Balance at March 30, 2014 | $3 | $1,795 | $ (4,962 ) | $14,582 | $ 11,418 | $ 165 | $11,583 |
| | | | | | | | |
| Balance at December 31, 2012 | $3 | $2,928 | $ (7,788 ) | $12,883 | $ 8,026 | $ 164 | $8,190 |
| Net income | | | | 488 | 488 | 6 | 494 |
| Other comprehensive income (loss), net of tax | | | 142 | | 142 | | 142 |
| Dividends declared | | | | (178 ) | (178 ) | | (178 ) |
| Common stock plans activity | | 46 | | | 46 | | 46 |
| Share repurchases | | (234 ) | | | (234 ) | | (234 ) |
| Balance at March 31, 2013 | $3 | $2,740 | $ (7,646 ) | $13,193 | $ 8,290 | $ 170 | $8,460 |

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

RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| (In millions) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income | $600 | $494 |
| (Income) loss from discontinued operations, net of tax | (7) | 2 |
| Income from continuing operations | 593 | 496 |
| Adjustments to reconcile to net cash provided by (used in) operating activities from continuing operations, net of the effect of acquisitions and divestitures | | |
| Depreciation and amortization | 107 | 108 |
| Stock-based compensation | 38 | 31 |
| Deferred income taxes | (31) | 2 |
| Tax benefit from stock-based awards | (11) | (3) |
| Changes in assets and liabilities | | |
| Contracts in process, net and advance payments and billings in excess of costs incurred | (77) | (493) |
| Inventories | — | (62) |
| Prepaid expenses and other current assets | (51) | 88 |
| Accounts payable | (100) | (129) |
| Income taxes receivable/payable | 224 | 243 |
| Accrued employee compensation | (201) | (150) |
| Other accrued expenses | 5 | 23 |
| Other long-term liabilities | (12) | (15) |
| Pension and other postretirement benefit plans | 180 | 291 |
| Other, net | (5) | (8) |
| Net cash provided by (used in) operating activities from continuing operations | 659 | 422 |
| Net cash provided by (used in) operating activities from discontinued operations | 12 | 1 |
| Net cash provided by (used in) operating activities | 671 | 423 |
| Cash flows from investing activities | | |
| Additions to property, plant and equipment | (39) | (49) |
| Proceeds from sales of property, plant and equipment | — | 1 |
| Additions to capitalized internal use software | (12) | (9) |
| Purchases of short-term investments | (1,345) | (201) |
| Sales of short-term investments | 457 | — |
| Maturities of short-term investments | 400 | 153 |
| Net cash provided by (used in) investing activities | (539) | (105) |
| Cash flows from financing activities | | |
| Dividends paid | (174) | (164) |
| Repurchases of common stock under stock repurchase programs | (200) | (225) |
| Repurchases of common stock to satisfy tax withholding obligations | (30) | (9) |
| Proceeds from exercise of stock options | 1 | 14 |
| Tax benefit from stock-based awards | 11 | 3 |
| Net cash provided by (used in) financing activities | (392) | (381) |
| Net increase (decrease) in cash and cash equivalents | (260) | (63) |
| Cash and cash equivalents at beginning of the year | 3,296 | 3,188 |
| Cash and cash equivalents at end of period | $3,036 | $3,125 |

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

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RAYTHEON COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Presentation

We prepared the accompanying unaudited consolidated financial statements of Raytheon Company and all wholly-owned and majority-owned domestic and otherwise controlled foreign subsidiaries on the same basis as our annual audited financial statements. We condensed or omitted certain information and footnote disclosures normally included in our annual audited financial statements, which we prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Our quarterly financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013. As used in this report, the terms "we," "us," "our," "Raytheon" and the "Company" mean Raytheon Company and its subsidiaries, unless the context indicates another meaning.

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

Note 2: Changes in Estimates under Percentage of Completion Contract Accounting

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

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

Three Months Ended

| (In millions, except per share amounts) | Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Operating income | $122 | $139 |
| Income from continuing operations attributable to Raytheon Company | 79 | 90 |
| Diluted earnings per share (EPS) from continuing operations attributable to Raytheon Company | $0.25 | $0.27 |

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Note 3: Inventories

Inventories consisted of the following:

| (In millions) | Mar 30, 2014 | Dec 31, 2013 |
|---|---|---|
| Materials and purchased parts | $75 | $73 |
| Work in process | 278 | 279 |
| Finished goods | 10 | 11 |
| Total | $363 | $363 |

We capitalize costs incurred in advance of contract award or funding in inventories if we determine that contract award or funding is probable. To the extent these are precontract costs, start-up costs have been excluded. We included capitalized precontract costs and other deferred costs of $90 million and $100 million in inventories as work in process at March 30, 2014 and December 31, 2013, respectively.

Note 4: Accounting Standards

New pronouncements issued but not effective until after March 30, 2014 are not expected to have a material impact on our financial position, results of operations or liquidity.

Note 5: Acquisitions

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

A rollforward of our goodwill by segment is as follows:

| (In millions) | Integrated Defense Systems | Intelligence, Information and Services | Missile Systems | Space and Airborne Systems | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2013 | $1,800 | $2,708 | $4,150 | $4,106 | $12,764 |
| Effect of foreign exchange rates and other | 1 | — | — | — | 1 |
| Balance at March 30, 2014 | $1,801 | $2,708 | $4,150 | $4,106 | $12,765 |

Note 6: Discontinued Operations

In pursuing our business strategies we have divested certain non-core businesses, investments, and assets when appropriate. All residual activity relating to our previously disposed businesses appears in discontinued operations. We retained certain assets and liabilities of our previously-disposed businesses. At March 30, 2014 and December 31, 2013, we had $52 million and $56 million, respectively, of assets primarily related to the receivable associated with the Flight Options excise tax settlement, and our retained interest in general aviation finance receivables previously sold by Raytheon Aircraft. At March 30, 2014 and December 31, 2013, we had $17 million and $16 million, respectively, of liabilities primarily related to certain environmental and product liabilities, non-income tax obligations, various contract obligations and aircraft lease obligations. We also retained certain pension assets and obligations, which we include in our pension disclosures.

Note 7: Derivatives and Other Financial Instruments

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

The fair value amounts of asset derivatives included in other assets, net and liability derivatives included in other accrued expenses on our consolidated balance sheets related to foreign currency forward contracts were as follows:

| (In millions) | Asset Derivatives Mar 30, 2014 | Asset Derivatives Dec 31, 2013 | Liability Derivatives Mar 30, 2014 | Liability Derivatives Dec 31, 2013 |
|---|---|---|---|---|
| Derivatives designated as hedging instruments | $22 | $20 | $27 | $23 |
| Derivatives not designated as hedging instruments | 4 | 3 | 5 | 3 |
| Total | $26 | $23 | $32 | $26 |

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The fair values of these derivatives are Level 2 in the fair value hierarchy at March 30, 2014 and December 31, 2013 because they are determined based on a market approach utilizing externally quoted forward rates for similar contracts.
We recognized the following pretax gains (losses) related to foreign currency forward contracts designated as cash flow hedges:

| (In millions) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Effective portion | | |
| Gain (loss) recognized in accumulated other comprehensive loss (AOCL) | $(2) | $(1) |
| Gain (loss) reclassified from AOCL to operating income | — | 2 |
| Amount excluded from effectiveness assessment and ineffective portion | | |
| Gain (loss) recognized in operating income | — | — |

Pretax losses related to foreign currency forward contracts not designated as cash flow hedges were less than $1 million and $2 million for the first quarters of 2014 and 2013, respectively.

We use foreign currency forward contracts to fix the functional currency value of specific commitments, payments and receipts. The aggregate notional amount of the outstanding foreign currency forward contracts was $1,400 million and $1,396 million at March 30, 2014 and December 31, 2013, respectively.

Our foreign currency forward contracts contain off-set or netting provisions to mitigate credit risk in the event of counterparty default, including payment default and cross default. At March 30, 2014 and December 31, 2013, the fair value of our counterparty default exposure was less than $1 million and spread across numerous highly rated counterparties.

There were no interest rate swaps outstanding at March 30, 2014 or December 31, 2013.

Other Financial Instruments—We invest in marketable securities in accordance with our short-term investment policy and cash management strategy. These marketable securities are classified as available-for-sale and are recorded at fair value as short-term investments in our consolidated balance sheets. These investments are deemed Level 2 assets under the fair value hierarchy at March 30, 2014 and December 31, 2013, as their fair value is determined under a market approach using valuation models that utilize observable inputs, including maturity date, issue date, settlements date, and current rates. At March 30, 2014 and December 31, 2013, we had short-term investments of $1,495 million and $1,001 million, respectively, consisting of highly rated bank certificates of deposit with a minimum long-term debt rating of A or A2 and a minimum short-term debt rating of A-1 and P-1. The amortized cost of these securities closely approximated their fair value at March 30, 2014 and December 31, 2013. There were no securities deemed to have other than temporary declines in value for the first quarter of 2014. In the first quarter of 2014, we recorded unrealized gains on short-term investments of less than $1 million, net of tax, in AOCL. In the first three months of 2014, we recorded sales of short-term investments of $457 million, which resulted in gains of less than $1 million recorded in other (income) expense, net. For purposes of computing realized gains and losses on available-for-sale securities, we determine cost on a specific identification basis.

In addition to the financial instruments discussed above, we hold other financial instruments, including cash and cash equivalents, notes receivable and debt. The carrying amounts for cash and cash equivalents and notes receivable approximated their fair values. The carrying value of long-term debt of $4,735 million at March 30, 2014 and $4,734 million at December 31, 2013, was recorded at amortized cost. The estimated fair value of long-term debt of approximately $5,172 million and $5,036 million at March 30, 2014 and December 31, 2013, respectively, was determined based on quoted prices in inactive markets, which falls within Level 2 of the fair value hierarchy.

In addition, we did not have any transfers of assets or liabilities between levels of the fair value hierarchy during the first quarter of 2014.

Note 8: Commitments and Contingencies

Environmental Matters—We are involved in various stages of investigation and cleanup related to remediation of various environmental sites. Our estimate of the liability of total environmental remediation costs includes the use of a discount rate and takes into account that a portion of these costs is eligible for future recovery through the pricing of our products and services to the U.S. Government. We consider such recovery probable based on government contracting regulations and our long history of receiving reimbursement for such costs, and accordingly have recorded the estimated future recovery of these costs from the U.S. Government within contracts in process, net. Our estimates regarding remediation costs to be incurred were as follows:

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| (In millions, except percentages) | Mar 30, 2014 | Dec 31, 2013 |
|---|---|---|
| Total remediation costs—undiscounted | $208 | $198 |
| Weighted average discount rate | 5.6 % | 5.6 % |
| Total remediation costs—discounted | $148 | $133 |
| Recoverable portion | 97 | 90 |

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

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

Financing Arrangements and Other—We issue guarantees and banks and surety companies issue, on our behalf, letters of credit and surety bonds to meet various bid, performance, warranty, retention and advance payment obligations of us or our affiliates. These instruments expire on various dates through 2023. Additional guarantees of project performance for which there is no stated value also remain outstanding. The stated values outstanding consisted of the following:

| (In millions) | Mar 30, 2014 | Dec 31, 2013 |
|---|---|---|
| Guarantees | $348 | $378 |
| Letters of credit | 1,768 | 1,424 |
| Surety bonds | 230 | 238 |

Included in guarantees and letters of credit described above were $203 million and $256 million, respectively, at March 30, 2014, and $233 million and $268 million, respectively, at December 31, 2013, related to our joint venture in Thales-Raytheon Systems Co. Ltd. (TRS). We provide these guarantees and letters of credit to TRS and other affiliates to assist these entities in obtaining financing on more favorable terms, making bids on contracts and performing their contractual obligations. While we expect these entities to satisfy their loans, and meet their project performance and other contractual obligations, their failure to do so may result in a future obligation to us. We periodically evaluate the risk of TRS and other affiliates failing to satisfy their loans, project performance and meet other contractual obligations described above. At March 30, 2014, we believe the risk that TRS and other affiliates will not be able to perform or meet their obligations is minimal for the foreseeable future based on their current financial condition. All obligations were current at March 30, 2014. At March 30, 2014 and December 31, 2013, we had an estimated liability of $7 million and $8 million, respectively, related to these guarantees and letters of credit.

In 1997, we provided a first loss guarantee of $133 million on $1.3 billion of U.S. Export-Import Bank loans (maturing in 2015) to the Brazilian Government related to IDS' System for the Vigilance of the Amazon (SIVAM) program. Loan repayments by the Brazilian Government were current at March 30, 2014.

We have entered into industrial cooperation agreements, sometimes referred to as offset agreements, as a condition to obtaining orders for our products and services from certain customers in foreign countries. At March 30, 2014, the aggregate amount of our offset agreements had an outstanding notional value of approximately $5 billion. These agreements are designed to return economic value to the foreign country by requiring us to engage in activities supporting local defense or commercial industries, promoting a balance of trade, developing in-country technology capabilities, or addressing other local development priorities. Offset agreements may be satisfied through activities that do not require a direct cash payment, including transferring technology, providing manufacturing, training and other consulting support to in-country projects, and the purchase by third parties (e.g., our vendors) of supplies from in-country vendors. These agreements may also be satisfied through our use of cash for activities such as subcontracting with local partners, purchasing supplies from in-country vendors, providing financial support for in-country projects, and making investments in local ventures. Such activities may also vary by country depending upon requirements as dictated by their governments. We typically do not commit to offset agreements until orders for our products or services are definitive. The amounts ultimately applied against our offset agreements are based on negotiations with the customers and typically require cash outlays that represent only a fraction of the notional value in the offset agreements. Offset programs usually extend over several or more years and may provide for penalties in the event we fail to perform in accordance with offset requirements. We have historically not been required to pay any such penalties.

As a U.S. Government contractor, we are subject to many levels of audit and investigation by the U.S. Government relating to our contract performance and compliance with applicable rules and regulations. Agencies that oversee contract performance include: the Defense Contract Audit Agency, the Defense Contract Management Agency, the Inspector General of the Department of Defense and other departments and agencies, the Government Accountability Office, the Department of Justice and Congressional Committees. From time to time, these and other agencies investigate or conduct audits to determine whether our operations are being conducted in accordance with applicable requirements. Such investigations and audits could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, the suspension of government export licenses or the suspension or debarment from future U.S. Government contracting. U.S. Government investigations often take years to complete and many result in no adverse action against us. Our final allowable incurred costs for each year are also subject to audit and have from time to time resulted in disputes between us and the U.S. Government with litigation resulting at the Court of Federal Claims (COFC) or the Armed Services Board of Contract Appeals (ASBCA) or their related courts of appeals. In addition, the Department of Justice 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 and the International Traffic in Arms Regulations) may also be investigated or audited. Other than as specifically disclosed herein, we do not expect these audits, investigations or disputes to have a material effect on our financial position, results of operations or liquidity, either individually or in the aggregate.

On July 22, 2010, Raytheon Systems Limited (RSL) was notified by the UK Border Agency (UKBA) that it had been terminated for cause on a program. The termination notice included allegations that RSL had failed to perform on certain key milestones and other matters in addition to claiming entitlement to recovery of certain losses incurred and previous payments made to RSL. We believe that RSL performed well and delivered substantial capabilities to the UKBA under the program, which has been operating successfully and providing actionable information since live operations began in May 2009. As a result of the termination notice, we adjusted our estimated amounts of revenue and cost under the program in the second quarter of 2010. On July 29, 2010, RSL filed a dispute notice on the grounds that the termination by the UKBA was not valid. On August 18, 2010, the UKBA initiated arbitration proceedings on this issue. On March 22, 2011, the UKBA gave notice that it had presented a demand to draw on the approximately $80 million of letters of credit provided by RSL upon the signing of the contract with the UKBA in 2007. On March 23, 2011, the UKBA submitted a detailed claim in the arbitration of approximately £350 million (approximately $582 million based on foreign exchange rates as of March 30, 2014) for damages and clawback of previous payments, plus interest and arbitration costs, excluding any credit for capability delivered or draw on the letters of credit. The UKBA also asserted that additional amounts may be detailed in the claim in the future if estimates of its damages change, and for continuing post-termination losses and any re-procurement costs, which have not been quantified. At RSL's request, on March 29, 2011, the Arbitration Tribunal issued an interim order restraining the UKBA from drawing down on the letters of credit pending a hearing on the issue. Following the hearing, the Tribunal lifted the restraint on the basis that, at this early stage of the proceedings, the Tribunal had not heard the evidence needed to decide the merits of whether the contractual conditions for a drawdown had been established. The Tribunal also concluded that any decision on the UKBA's right to call on the letters of credit is inextricably intertwined with the ultimate decision on the merits in the arbitration. The Tribunal also preserved RSL's right to claim damages should RSL later establish that the drawdown was not valid. As a result, on April 6, 2011, the UKBA drew the $80 million on the letters of credit.

As a result of the Tribunal’s decision that the letters of credit are inextricably intertwined with the ultimate decision on the merits in the arbitration, we were no longer able to evaluate, independently from the overall claim, the probability of recovery of any amounts drawn on the letters of credit. We therefore recorded $80 million of costs related to the UKBA drawdown (UKBA LOC Adjustment), which was included in the operating expenses of our Intelligence, Information and Services (IIS) segment in the first quarter of 2011.

In June 2011, RSL submitted in the arbitration its defenses to the UKBA claim as well as substantial counterclaims in the amount of approximately £500 million (approximately $831 million based on foreign exchange rates as of March 30, 2014) against the UKBA for the collection of receivables, damages and interest. On October 3, 2011, the UKBA filed its reply to RSL's counterclaims, and increased its claim amount by approximately £32 million, to include additional civil service and post termination costs, and approximately £33 million for interest, raising the gross amount of the UKBA claim for damages and clawback of previous payments to approximately £415 million (approximately $690 million based on foreign exchange rates as of March 30, 2014). On January 6, 2012, RSL filed its response to the UKBA's reply. RSL is pursuing vigorously the collection of all receivables for the program and damages in connection with the wrongful termination and is mounting a strong defense to the UKBA's alleged claims for losses and previous payments. RSL has also settled substantially all subcontractor claims, novated all key subcontracts to the UKBA and agreed with the UKBA that RSL's exit obligations to operate the previously delivered capability ended in April 2011. Effective April 15, 2011, the UKBA took over responsibility for operating the previously delivered capability. In March 2013, the UKBA updated the total net amount of its claims to approximately £302 million (approximately $502 million based on foreign exchange rates as of March 30, 2014) for damages, clawback of previous payments and interest, and inclusive of a credit for capability delivered by RSL. Arbitration hearings commenced in late 2012 and were completed in 2013. We expect a decision in the first half of 2014.

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The receivables and other assets remaining under the program for technology and services delivered were approximately $40 million at March 30, 2014 and December 31, 2013. We believe the remaining receivables and other assets are probable of recovery in litigation or arbitration. We currently do not believe it is probable that RSL is liable for losses, previous payments (which includes the $80 million related to the drawdown on the letters of credit), clawback or other claims asserted by the UKBA either in its March 2011 arbitration filing or its October 2011 reply. Due to the inherent uncertainties in litigation and arbitration, and the complexity and technical nature of actual and potential claims and counterclaims, it is reasonably possible that the ultimate amount of any resolution of the termination could be less or greater than the amounts we have recorded. For the same reasons, at this time, we are unable to estimate a range of the possible loss or recovery, if any, beyond the claim and counterclaim amounts. If we fail to collect the receivable balances or are required to make payments against claims or other losses asserted by the UKBA in excess of the amounts we have recorded, it could have a material adverse effect on our financial position, results of operations or liquidity.

On June 29, 2012 and July 13, 2012, we received a contracting officer's final decision (COFD) for 2004 and 2005 incurred costs at SAS. The COFDs demand a total payment of $241 million for costs, interest and penalties associated with several issues, the largest of which relates to specific research and development and capital projects undertaken by SAS between 2000 and 2005. To date, no COFDs have been provided for 2000 to 2003 periods at SAS on these issues. The Government alleges that the costs incurred on the projects should have been charged directly to U.S. Government contracts rather than through indirect rates and that these costs should not be recoverable. We strongly disagree with the Government's position. We have requested a deferment of the payment and in February and May 2013, we filed complaints in the U.S. COFC challenging the 2004 and 2005 COFDs, respectively. Due to the inherent uncertainties of litigation, we cannot estimate a range of potential loss. We believe that we appropriately charged the disputed costs based on government accounting standards and applicable precedent and properly disclosed our approach to the Government. We also believe that in many cases, the statute of limitations has run on the issues. Based upon the foregoing, we do not expect the results of the COFDs to have a material impact on our financial position, results of operations or liquidity.

In addition, various other claims and legal proceedings generally incidental to the normal course of business are pending or threatened against, or initiated by, us. We do not expect any of these proceedings to result in any additional liability or gains that would materially affect our financial position, results of operations or liquidity. In connection with certain of our legal matters, we may be entitled to insurance recovery for qualified legal costs. We do not expect any insurance recovery to have a material impact on the financial exposure that could result from these matters.
Product Warranty—We provide for product warranties in conjunction with certain product sales for which we recognize revenue upon delivery.
Activity related to product warranty accruals was as follows:

| (In millions) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 |
|---|---|---|
| Beginning balance | $30 | $33 |
| Provisions for warranties | — | 3 |
| Warranty services provided | (1) | (2) |
| Ending balance | $29 | $34 |

We account for warranty provision costs incurred under our long-term contracts using the cost-to-cost measure of progress as contracts costs, as the estimation of these costs is integral in determining the price of the related long-term contracts. The table above excludes these costs.

Note 9: Stockholders' Equity
The changes in shares of our common stock outstanding were as follows:

Three Months Ended

| (In millions) | Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Beginning balance | 314.5 | 328.1 |
| Stock plans activity | 0.6 | 0.7 |
| Stock repurchases | (2.3) | (4.4) |
| Ending balance | 312.8 | 324.4 |

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In September 2011, our Board of Directors authorized the repurchase of up to $2.0 billion of our outstanding common stock. Additionally, in November 2013, our Board of Directors authorized the repurchase of up to an additional $2.0 billion of our outstanding common stock. At March 30, 2014, we had approximately $2.1 billion available under these repurchase programs. Stock repurchases will take place from time to time at management's discretion depending on market conditions.

Stock repurchases also include shares surrendered by employees to satisfy tax withholding obligations in connection with restricted stock awards, restricted stock units and stock options issued to employees.

Our stock repurchases were as follows:

| | Three Months Ended | | | |
|---|---|---|---|---|
| (In millions) | Mar 30, 2014 | | Mar 31, 2013 | |
| | $ | Shares | $ | Shares |
| Stock repurchased under our stock repurchase programs | $200 | 2.1 | $225 | 4.2 |
| Stock repurchased to satisfy tax withholding obligations | 30 | 0.2 | 9 | 0.2 |
| Total stock repurchases | $230 | 2.3 | $234 | 4.4 |

In March 2014, our Board of Directors authorized a 10% increase to our annual dividend payout rate from $2.20 to $2.42 per share. Our Board of Directors also declared dividends of $0.605 per share during the first three months of 2014, compared to dividends of $0.550 per share during the first three months of 2013. Dividends are subject to quarterly approval by our Board of Directors.

Earnings Per Share (EPS)

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

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

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

| | Three Months Ended | |
|---|---|---|
| | Mar 30, 2014 | Mar 31, 2013 |
| Basic EPS attributable to Raytheon Company common stockholders: | | |
| Distributed earnings | $0.59 | $0.55 |
| Undistributed earnings | 1.28 | 0.95 |
| Total | $1.87 | $1.50 |

| | | |
|---|---|---|
| Diluted EPS attributable to Raytheon Company common stockholders: | | |
| Distributed earnings | $0.59 | $0.54 |
| Undistributed earnings | 1.28 | 0.95 |
| Total | $1.87 | $1.49 |

Basic and diluted EPS from discontinued operations attributable to Raytheon Company common stockholders and unvested share-based payment awards was earnings of $0.02 and a loss of $0.01 for the first quarters of 2014 and 2013, respectively.

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The income attributable to participating securities was as follows:

| (In millions) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Income from continuing operations attributable to participating securities | $11 | $9 |
| Income (loss) from discontinued operations, net of tax attributable to participating securities[1] | — | — |
| Net income attributable to participating securities | $11 | $9 |

(1) Income (loss) from discontinued operations, net of tax attributable to participating securities was earnings of less than $1 million and a loss of less than $1 million for the first quarters of 2014 and 2013, respectively.

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

| (In millions) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Shares for basic EPS (including 6.0 and 6.3 participating securities for the three months ended March 30, 2014 and March 31, 2013, respectively). | 315.0 | 327.4 |
| Dilutive effect of stock options and LTPP | 0.8 | 0.8 |
| Shares for diluted EPS | 315.8 | 328.2 |

There were no stock options with exercise prices greater than the average market price (anti-dilutive) that were excluded from our calculation of diluted EPS for the first quarters of 2014 and 2013. Stock options to purchase the following number of shares of common stock had exercise prices that were less than the average market price (dilutive) of our common stock and were included in our calculations of diluted EPS:

| (In millions) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Stock options included in calculations of EPS (dilutive) | — | 0.5 |

Stock-based Compensation Plans

Restricted stock activity for the first three months of 2014 was as follows:

| (In millions) | Number of Shares |
|---|---|
| Outstanding unvested at December 31, 2013 | 5.3 |
| Forfeited | (0.1) |
| Outstanding unvested at March 30, 2014 | 5.2 |

During the first three months of 2014 and 2013, we issued 0.7 million and 0.4 million shares, respectively, of our common stock in connection with the vesting of our 2011–2013 and 2010–2012 LTPP awards. During the same periods, we also granted our 2014–2016 and 2013–2015 LTPP awards with an aggregate target award of 0.3 million and 0.4 million shares, respectively, for each period.

The performance goals for the 2014–2016 LTPP award are independent of each other and based on three metrics, as defined in the award agreements: return on invested capital (ROIC), weighted at 50%; total shareholder return (TSR) relative to a peer group, weighted at 25%; and cumulative free cash flow from continuing operations (CFCF), weighted at 25%. The ultimate award, which is determined at the end of the three-year cycle, can range from zero to 200% of the target award and includes dividend equivalents, which are not included in the aggregate target award numbers.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes foreign exchange translation adjustments, gains and losses on derivative instruments qualified as cash flow hedges, unrealized gains (losses) on investments, and gains and losses associated with pension and other postretirement benefits. The computation of other comprehensive income (loss) and its components are presented in the consolidated statements of comprehensive income.

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Other comprehensive income (loss) consisted of the following activity during the first three months of 2014 and 2013:

| (In millions) | Foreign exchange translation | Cash flow hedges and interest rate locks | Unrealized gains (losses) on investments and other, net | Pension and other employee benefit plans, net | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2013 | $47 | $(8) | $(9) | $(5,143) | $(5,113) |
| Before tax amount | 6 | (1) | — | 224 | 229 |
| Tax (expense) or benefit | — | 1 | — | (79) | (78) |
| Net of tax amount | 6 | — | — | 145 | 151 |
| Balance at March 30, 2014 | $53 | $(8) | $(9) | $(4,998) | $(4,962) |
| | | | | | |
| Balance at December 31, 2012 | $60 | $(5) | $(10) | $(7,833) | $(7,788) |
| Before tax amount | (45) | (4) | (2) | 295 | 244 |
| Tax (expense) or benefit | — | 2 | — | (104) | (102) |
| Net of tax amount | (45) | (2) | (2) | 191 | 142 |
| Balance at March 31, 2013 | $15 | $(7) | $(12) | $(7,642) | $(7,646) |

Material amounts reclassified out of AOCL were related to amortization of net actuarial loss associated with our pension and other employee benefit plans, and were $222 million and $294 million before tax in the first three months of 2014 and 2013, respectively. This component of AOCL is included in the calculation of net periodic benefit expense (income) (see "Note 10: Pension and Other Employee Benefits" for additional details).

The defined benefit pension and other employee benefit plans is shown net of tax benefits of $2,701 million and $2,780 million at March 30, 2014 and December 31, 2013, respectively. The cash flow hedges and interest rate locks are shown net of tax benefits of $5 million and $4 million at March 30, 2014 and December 31, 2013, respectively. The unrealized gains (losses) on investments and other are shown net of tax benefits of $3 million and $4 million at March 30, 2014 and December 31, 2013, respectively. We expect approximately $3 million of after-tax net unrealized losses on our cash flow hedges at March 30, 2014 to be reclassified into earnings at then-current values over the next twelve months as the underlying hedged transactions occur.

Note 10: Pension and Other Employee Benefits

We have pension plans covering the majority of our employees, including certain employees in foreign countries (Pension Benefits). Our primary pension obligations relate to our domestic IRS qualified pension plans. We also provide certain health care and life insurance benefits to retired employees and to eligible employees upon retirement through other postretirement benefit plans (Other Benefits).

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

| (In millions) | Mar 30, 2014 | Dec 31, 2013 |
|---|---|---|
| Marketable securities held in trust | $486 | $479 |

Included in marketable securities held in trust in the table above was $307 million and $304 million at March 30, 2014 and December 31, 2013, respectively, related to the nonqualified defined contribution plans. The liabilities related to the nonqualified defined contribution plans were $303 million and $300 million at March 30, 2014 and December 31, 2013, respectively.

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

| (In millions) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Service cost | $117 | $150 |
| Interest cost | 281 | 249 |
| Expected return on plan assets | (401) | (376) |
| Amortization of prior service cost included in net periodic pension expense | 2 | 2 |
| Amortization of net actuarial loss included in net income | 222 | 293 |
| Net periodic pension expense | $221 | $318 |

Net periodic pension expense (income) includes income of $2 million and expense of $1 million from foreign Pension Benefit plans in the first quarters of 2014 and 2013, respectively.

The components of net periodic expense (income) related to our Other Benefits were as follows:

| (In millions) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Service cost | $1 | $2 |
| Interest cost | 9 | 8 |
| Expected return on plan assets | (8) | (8) |
| Amortization of prior service cost included in net periodic postretirement expense | — | (1) |
| Amortization of net actuarial loss included in net income | — | 1 |
| Net periodic postretirement expense | $2 | $2 |

Long-term pension and other postretirement benefit plan liabilities were as follows:

| (In millions) | Mar 30, 2014 | Dec 31, 2013 |
|---|---|---|
| Long-term pension liabilities | $3,339 | $3,387 |
| Other postretirement benefit plan liabilities | 286 | 288 |
| Total long-term pension and other postretirement benefit plan liabilities | $3,625 | $3,675 |

We may make both required and discretionary contributions to our pension plans. Required contributions are primarily determined in accordance with the Pension Protection Act (PPA), which amended the Employee Retirement Income Security Act of 1974 (ERISA) rules and are affected by the actual return on plan assets and plan funded status. The funding requirements under the PPA require us to fully fund our pension plans over a rolling seven-year period as determined annually based upon the funded status at the beginning of the year. In July 2012, the Surface Transportation Extension Act, which is also referred to as the Moving Ahead for Progress in the 21st Century Act (STE Act), was passed by Congress and signed by the President. The STE Act includes a provision for temporary pension funding relief due to the low interest rate environment. The provision reduced our cash funding requirements primarily in 2013 and 2012. We made the following required contributions to our pension and other postretirement benefit plans:

| (In millions) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Required pension contributions | $43 | $29 |

We did not make any discretionary contributions to our pension plans during the first quarters of 2014 and 2013; however, we periodically evaluate whether to make discretionary contributions.

Note 11: Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. We have participated in the IRS Compliance Assurance Process (CAP) program since 2011. We continue to participate in the CAP program for the 2013 and 2014 tax years. In the first quarter of 2014 the IRS completed the examination for the 2012 tax year, which completed all examinations through the 2012 tax year. We are also under audit by multiple state and foreign tax authorities.

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We believe that our income tax reserves are adequate; however, amounts asserted by taxing authorities could be greater or less than amounts accrued and reflected in our consolidated balance sheets. Accordingly, we may record adjustments to the amounts for federal, foreign and state tax-related liabilities in the future as we revise estimates or we settle or otherwise resolve the underlying matters. In the ordinary course of business, we may take new positions that could increase or decrease our unrecognized tax benefits in future periods.

In the first quarter of 2014, a foreign subsidiary authorized and completed a transaction which resulted in a taxable dividend of approximately $115 million. The transaction does not affect our indefinite reinvestment assertion because it generated a net tax benefit of approximately $80 million. We do not provide for deferred taxes on undistributed earnings of non-U.S. subsidiaries when the earnings have been determined to be indefinitely invested or are expected to be remitted free of additional tax. This transaction decreased our first quarter 2014 effective tax rate by approximately 10.8%.

The balance of our unrecognized tax benefits, exclusive of interest, was $110 million and $118 million at March 30, 2014 and December 31, 2013, respectively, and $119 million and $129 million at March 31, 2013 and December 31, 2012, respectively, the majority of which would affect our earnings if recognized.

Note 12: Business Segment Reporting

Our reportable segments, organized based on capabilities and technologies, are: Integrated Defense Systems; Intelligence, Information and Services; Missile Systems; and Space and Airborne Systems. Segment total net sales and operating income generally include intersegment sales and profit recorded at cost plus a specified fee, which may differ from what the selling entity would be able to obtain on sales to external customers. Corporate and Eliminations includes corporate expenses and intersegment sales and profit eliminations. Corporate expenses represent unallocated costs and certain other corporate costs not considered part of management’s evaluation of reportable segment operating performance.

Segment financial results were as follows:

| | Three Months Ended | |
|---|---|---|
| Total Net Sales (in millions) | Mar 30, 2014 | Mar 31, 2013 |
| Integrated Defense Systems | $1,481 | $1,596 |
| Intelligence, Information and Services | 1,450 | 1,521 |
| Missile Systems | 1,574 | 1,636 |
| Space and Airborne Systems | 1,398 | 1,582 |
| Corporate and Eliminations | (395) | (456) |
| Total | $5,508 | $5,879 |

| | Three Months Ended | |
|---|---|---|
| Intersegment Sales (in millions) | Mar 30, 2014 | Mar 31, 2013 |
| Integrated Defense Systems | $30 | $24 |
| Intelligence, Information and Services | 200 | 191 |
| Missile Systems | 31 | 39 |
| Space and Airborne Systems | 134 | 202 |
| Total | $395 | $456 |

| | Three Months Ended | |
|---|---|---|
| Operating Income (in millions) | Mar 30, 2014 | Mar 31, 2013 |
| Integrated Defense Systems | $226 | $262 |
| Intelligence, Information and Services | 125 | 124 |

| | | |
|---|---|---|
| Missile Systems | 208 | 214 |
| Space and Airborne Systems | 190 | 227 |
| FAS/CAS Adjustment | 87 | (71) |
| Corporate and Eliminations | (48) | (50) |
| Total | $788 | $706 |

We must calculate our pension and other postretirement benefit (PRB) costs under both Financial Accounting Standards (FAS) requirements under GAAP and U.S. Government cost accounting standards (CAS). GAAP outlines the methodology used to

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determine pension expense or income for financial reporting purposes, which is not indicative of the funding requirements for pension and PRB plans that we determine by other factors. CAS prescribes the allocation to and recovery of pension and PRB costs on U.S. Government contracts. The results of each segment only include pension and PRB expense as determined under CAS. The CAS requirements for pension costs and its calculation methodology differ from the FAS requirements and calculation methodology. As a result, while both FAS and CAS use long-term assumptions in their calculation methodologies, each method results in different calculated amounts of pension and PRB cost. The FAS/CAS Adjustment, which is reported as a separate line in our segment results above, represents the difference between our pension and PRB expense or income under FAS in accordance with GAAP and our pension and PRB expense under CAS.

The components of our FAS/CAS Adjustment were as follows:

| (In millions) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 |
|---|---|---|
| FAS/CAS Pension Adjustment | $86 | $(72) |
| FAS/CAS PRB Adjustment | 1 | 1 |
| FAS/CAS Adjustment | $87 | $(71) |

The components of total operating income related to Corporate and Eliminations were as follows:

| (In millions) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 |
|---|---|---|
| Intersegment profit eliminations | $(39) | $(42) |
| Corporate | (9) | (8) |
| Total | $(48) | $(50) |

| Intersegment Operating Income (in millions) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 |
|---|---|---|
| Integrated Defense Systems | $2 | $2 |
| Intelligence, Information and Services | 20 | 16 |
| Missile Systems | 3 | 6 |
| Space and Airborne Systems | 14 | 18 |
| Total | $39 | $42 |

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

| Total Assets (in millions) | Mar 30, 2014 | Dec 31, 2013 |
|---|---|---|
| Integrated Defense Systems | $4,042 | $3,897 |
| Intelligence, Information and Services | 3,848 | 3,772 |
| Missile Systems | 6,471 | 6,316 |
| Space and Airborne Systems | 6,386 | 6,399 |
| Corporate | 5,794 | 5,583 |
| Total | $26,541 | $25,967 |

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With respect to the unaudited consolidated financial information of Raytheon Company for the three months ended March 30, 2014 and March 31, 2013, PricewaterhouseCoopers LLP (PricewaterhouseCoopers) reported that it has applied limited procedures in accordance with professional standards for a review of such information. Its report dated April 24, 2014, appearing below, states that the firm did not audit and does not express an opinion on that unaudited consolidated financial information. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers is not subject to the liability provisions of Section 11 of the Securities Act of 1933 (Securities Act) for its report on the unaudited consolidated financial information because that report is not a “report” or a “part” of a registration statement prepared or certified by PricewaterhouseCoopers within the meaning of Sections 7 and 11 of the Securities Act.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Raytheon Company:

We have reviewed the accompanying consolidated balance sheet of Raytheon Company and its subsidiaries as of March 30, 2014, and the related consolidated statements of operations, of comprehensive income, and of equity for the three-month periods ended March 30, 2014 and March 31, 2013 and the consolidated statements of cash flows for the three-month periods ended March 30, 2014 and March 31, 2013. This interim financial information is the responsibility of the Company’s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of operations, of comprehensive income, of equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 11, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2013, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Boston, Massachusetts
April 24, 2014

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

Overview

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

We operate in four segments: Integrated Defense Systems (IDS); Intelligence, Information and Services (IIS); Missile Systems (MS); and Space and Airborne Systems (SAS). For a more detailed description of our segments, see "Business Segments" within Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2013.

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013 and our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

CONSOLIDATED RESULTS OF OPERATIONS

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

As described in "Note 1: Basis of Presentation" within Item 1 of this Form 10-Q, we prepared the accompanying unaudited consolidated financial statements of Raytheon Company on the same basis as our annual audited consolidated financial statements.

Total Net Sales

The composition of external net sales by products and services for each segment for the first quarter of 2014 was relatively consistent with the year ended December 31, 2013, which was approximately the following:

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

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

| | Three Months Ended | | % of Total Net Sales | | | |
|---|---|---|---|---|---|---|
| (In millions, except percentages) | Mar 30, 2014 | Mar 31, 2013 | Mar 30, 2014 | | Mar 31, 2013 | |
| Net sales | | | | | | |
| Products | $4,565 | $4,906 | 82.9 | % | 83.4 | % |
| Services | 943 | 973 | 17.1 | % | 16.6 | % |
| Total net sales | $5,508 | $5,879 | 100.0 | % | 100.0 | % |

Total Net Sales - First Quarter of 2014 vs. First Quarter of 2013—The decrease in total net sales of $371 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to lower external net sales of $121 million at IDS and $116 million at SAS. The decrease in external net sales at IDS was primarily due to lower net sales on an international Patriot program awarded in the second quarter of 2011 driven by the scheduled completion of certain production phases, lower net sales from the scheduled completion of certain production phases on an international Patriot program awarded in the first quarter of 2008, and lower net sales on a close combat tactical radar program due to planned decreases in production. The decrease in total net sales at IDS was partially offset by higher net sales from various other international air and missile defense programs, driven principally by new awards. The decrease in external net sales at SAS was primarily due to lower net sales on classified programs, and lower net sales on integrated communications systems programs principally driven by lower U.S Army and U.S. Air Force customer requirements on tactical communications systems.

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Products and Services Net Sales - First Quarter of 2014 vs. First Quarter of 2013—The decrease in products net sales of $341 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to lower external products net sales of $151 million at IDS, $103 million at SAS and $57 million at MS. The decrease in external products net sales at IDS and SAS were driven principally by the programs described above. The decrease in external products net sales at MS was primarily due to lower net sales on land warfare systems programs driven principally by planned declines in production due to the U.S. Army budget environment. The decrease in services net sales of $30 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to lower external services net sales at IIS of $50 million, driven principally by lower net sales on training programs supporting the U.S. Army's Warfighter FOCUS activities due to a decrease in customer-determined activity levels.

Sales to Major Customers - First Quarter of 2014 vs. First Quarter of 2013—The following is a breakdown of net sales to major customers:

| (In millions, except percentages) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 | % of Total Net Sales Mar 30, 2014 | | % of Total Net Sales Mar 31, 2013 | |
|---|---|---|---|---|---|---|
| Sales to the U.S. Government[1] | $3,989 | $4,277 | 72 | % | 73 | % |
| Sales to the U.S. Department of Defense[1] | 3,763 | 3,994 | 68 | % | 68 | % |
| Total international sales[2] | 1,469 | 1,536 | 27 | % | 26 | % |
| Foreign direct commercial sales[1] | 805 | 783 | 15 | % | 13 | % |
| Foreign military sales through the U.S. Government | 664 | 753 | 12 | % | 13 | % |

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

Total Cost of Sales

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

| (In millions, except percentages) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 | % of Total Net Sales Mar 30, 2014 | | % of Total Net Sales Mar 31, 2013 | |
|---|---|---|---|---|---|---|
| Cost of sales | | | | | | |
| Products | $3,391 | $3,800 | 61.6 | % | 64.6 | % |
| Services | 770 | 805 | 14.0 | % | 13.7 | % |
| Total cost of sales | $4,161 | $4,605 | 75.5 | % | 78.3 | % |

Total Cost of Sales - First Quarter of 2014 vs. First Quarter of 2013—The decrease in total cost of sales of $444 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to a $158 million change in the FAS/CAS Adjustment and lower external cost of sales of $78 million at IDS, $76 million at IIS, $67 million at SAS and $60 million at MS. The decrease in the FAS/CAS Adjustment was driven principally by a $97 million decrease in our FAS expense and by a $61 million increase in our CAS expense, which is included in the results of each segment and generally recovered through pricing of our products and services to the U.S. Government. The changes in both our FAS expense and CAS expense are described in our Segment Results beginning on page 27. The decreases in external cost of sales at IDS and SAS were driven principally by the activity on the programs described above in Total Net Sales. The decrease in external cost of sales at IIS was primarily due to lower activity on training programs supporting the U.S. Army's Warfighter FOCUS activities due to a decrease in customer-determined activity levels and on various classified programs. The decrease in external cost of sales at IIS was partially offset by increased activity on a classified cyber program for an international customer. The remaining change in external cost of sales at IIS was spread across numerous programs primarily driven by the domestic budget environment. The decrease in external cost of sales at MS was primarily due to decreased activity on land warfare systems programs driven principally by planned declines in production due to the U.S. Army budget environment.

Products and Services Cost of Sales - First Quarter of 2014 vs. First Quarter of 2013—The decrease in products cost of sales of $409 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to $130 million of lower expense related to the FAS/CAS Adjustment described above and lower external products cost of sales of $110 million at IDS, $68 million at SAS and $64 million at MS. The decreases in external products cost of sales at IDS, MS and SAS were principally driven by the programs described above. The decrease in services cost of sales of $35 million in the first quarter of

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2014 compared to the first quarter of 2013 was primarily due to lower external services cost of sales of $43 million at IIS, principally driven by activity on training programs supporting the U.S. Army's Warfighter FOCUS activities due to a decrease in customer-determined activity levels.

General and Administrative Expenses

| (In millions, except percentages) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 | % of Total Net Sales Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|---|---|
| Administrative and selling expenses | $448 | $461 | 8.1 % | 7.8 % |
| Research and development expenses | 111 | 107 | 2.0 % | 1.8 % |
| Total general and administrative expenses | $559 | $568 | 10.1 % | 9.7 % |

Administrative and selling expenses in the first quarter of 2014 were relatively consistent in amount and as a percentage of total net sales with the first quarter of 2013.

Included in administrative and selling expenses is the provision for state income taxes, which generally can be recovered through the pricing of products and services to the U.S. Government. Net state income taxes allocated to our contracts were $13 million and $30 million in the first quarters of 2014 and 2013, respectively.

Research and development expenses in the first quarter of 2014 were relatively consistent in amount and as a percentage of total net sales with the first quarter of 2013.

Total Operating Expenses

| (In millions, except percentages) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 | % of Total Net Sales Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|---|---|
| Total operating expenses | $4,720 | $5,173 | 85.7 % | 88.0 % |

The decrease in total operating expenses of $453 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to the decrease in cost of sales of $444 million, the primary drivers of which are described above in Total Cost of Sales.

Operating Income

| (In millions, except percentages) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 | % of Total Net Sales Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|---|---|
| Operating income | $788 | $706 | 14.3 % | 12.0 % |

The increase in operating income of $82 million in the first quarter of 2014 compared to the first quarter of 2013 was due to the decrease in total operating expenses of $453 million, the primary drivers of which are described above in Total Operating Expenses, partially offset by the decrease in total net sales of $371 million, the primary drivers of which are described above in Total Net Sales.

Total Non-Operating (Income) Expense, Net

| (In millions) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Non-operating (income) expense, net | | |
| Interest expense | $51 | $53 |
| Interest income | (3 ) | (3 ) |

| | | |
|---|---|---|
| Other (income) expense, net | — | (7 ) |
| Total non-operating (income) expense, net | $48 | $43 |

Total non-operating (income) expense, net was relatively consistent in the first quarter of 2014 compared to the first quarter of 2013.

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Federal and Foreign Income Taxes

| (In millions, except percentages) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Federal and foreign income taxes | $147 | $167 |
| Effective tax rate | 19.9 % | 25.2 % |

Our effective tax rate in the first quarter of 2014 was 19.9% compared to 25.2% in the first quarter of 2013. The decrease of 5.3% was primarily due to the tax benefit on a foreign dividend, which decreased the rate by approximately 10.8%, partially offset by an increase of 4.7% due to the expiration of the U.S. research and development tax credit as of December 31, 2013. The remaining increase of 0.8% is composed of various items which individually or collectively are not significant.

Our effective tax rate in the first quarter of 2014 was 15.1% lower than the statutory federal rate primarily due to the tax benefit on a foreign dividend, which decreased the rate by approximately 10.8%, the domestic manufacturing deduction which decreased the rate by 2.7% and tax settlements which decreased the rate by 1.0%. The remaining decrease of 0.6% is composed of various items which individually or collectively are not significant.

Our effective tax rate in the first quarter of 2013 was 9.8% lower than the statutory federal tax rate primarily due to the reinstatement of the R&D tax credit which reduced our effective tax rate by 4.7%, the domestic manufacturing deduction which decreased the rate by approximately 2.4%, and the 2011 R&D refund claim described above which decreased our rate by 1.7%. The remaining decrease of 1.0% is composed of various items which individually or collectively are not significant.

Income from Continuing Operations

| (In millions) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Income from continuing operations | $593 | $496 |

The increase in income from continuing operations of $97 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to the $82 million increase in operating income, the primary drivers of which are described above in Operating Income.

Net Income

| (In millions) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Net income | $600 | $494 |

The increase in net income of $106 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to the $82 million increase in operating income, the primary drivers of which are described above in Operating Income.

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

| (In millions, except per share amounts) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Income from continuing operations attributable to Raytheon Company | $589 | $490 |

| | | |
|---|---|---|
| Diluted weighted-average shares outstanding | 315.8 | 328.2 |
| Diluted EPS from continuing operations attributable to Raytheon Company | $1.87 | $1.49 |

The increase in diluted EPS from continuing operations attributable to Raytheon Company common stockholders of $0.38 in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to the increase in income from continuing operations described above and a decrease in weighted-average shares outstanding, which was affected by the common stock share activity shown in the table below.

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Our common stock share activity for the first quarters of 2014 and 2013 was as follows:

| (In millions) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Beginning balance | 314.5 | 328.1 |
| Stock plans activity | 0.6 | 0.7 |
| Stock repurchases | (2.3) | (4.4) |
| Ending balance | 312.8 | 324.4 |

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

Diluted earnings (loss) per share from discontinued operations attributable to Raytheon Company common stockholders was earnings of $0.02 and a loss of $0.01 for the first quarters of 2014 and 2013, respectively.

Diluted EPS Attributable to Raytheon Company Common Stockholders

| (In millions, except per share amounts) | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Net income attributable to Raytheon Company | $596 | $488 |
| Diluted weighted-average shares outstanding | 315.8 | 328.2 |
| Diluted EPS attributable to Raytheon Company | $1.89 | $1.49 |

The increase in diluted EPS attributable to Raytheon Company common stockholders of $0.40 in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to the $0.38 increase in diluted EPS from continuing operations attributable to Raytheon Company common stockholders described above.

Adjusted EPS

Adjusted EPS was as follows:

| | Three Months Ended Mar 30, 2014 | Mar 31, 2013 |
|---|---|---|
| Diluted EPS from continuing operations attributable to Raytheon Company common stockholders | $1.87 | $1.49 |
| Per share impact of FAS/CAS Adjustment | (0.18) | 0.14 |
| Per share impact of the tax benefit of foreign dividend | (0.25) | — |
| Per share impact of 2012 R&D tax credit | — | (0.08) |
| Adjusted EPS | $1.43 | $1.56 |

Adjusted EPS is diluted EPS from continuing operations attributable to Raytheon Company common stockholders excluding the EPS impact of the FAS/CAS Adjustment, tax effected at the federal statutory rate of 35%, and from time to time, certain other items. In addition to the FAS/CAS Adjustment, the first quarter of 2014 Adjusted EPS also excludes the EPS impact of the tax benefit related to a foreign dividend. In January 2014, a foreign subsidiary authorized and completed a transaction which resulted in a taxable dividend of approximately $115 million and generated a net tax benefit of approximately $80 million. In addition to the FAS/CAS Adjustment, the first quarter of 2013 Adjusted EPS also excludes the EPS impact of the R&D tax credit that relates to 2012. In January 2013, Congress approved legislation that included the extension of the R&D tax credit. The legislation retroactively reinstated the R&D tax credit for 2012 and extended it through December 31, 2013. As a result, we recorded the 2012 benefit in the first quarter of 2013. We are providing Adjusted EPS because management uses it for the purpose of evaluating and forecasting our financial performance and believes that it provides additional insight into our underlying business performance. We believe it allows investors to benefit from being able to assess our operating performance in the context of how our principal customer, the U.S. Government, allows us to recover pension and other postretirement benefit costs and to better compare our operating performance to others in the industry on that same basis. Adjusted EPS is not a measure of financial performance under GAAP and should be considered supplemental to and not a substitute for financial performance in accordance with GAAP. Adjusted EPS may not be defined and calculated by other companies in the same manner and the amounts presented may not recalculate directly due to rounding.

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SEGMENT RESULTS

We report our results in the following segments: Integrated Defense Systems (IDS); Intelligence, Information and Services (IIS); Missile Systems (MS); and Space and Airborne Systems (SAS). 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 cost of sales and the components of cost of sales within our segment disclosures.

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

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

| | Three Months Ended | |
|---|---|---|
| Bookings (in millions) | Mar 30, 2014 | Mar 31, 2013 |
| Integrated Defense Systems | $1,180 | $926 |
| Intelligence, Information and Services | 1,011 | 830 |
| Missile Systems | 1,083 | 811 |
| Space and Airborne Systems | 1,019 | 1,039 |
| Total | $4,293 | $3,606 |

Included in bookings were international bookings of $1,683 million and $1,183 million in the first quarters of 2014 and 2013, respectively, which included foreign military bookings through the U.S. Government. International bookings amounted to 39% and 33% of total bookings in the first quarters of 2014 and 2013, respectively.

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

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

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| Backlog (in millions) | Funded Backlog Mar 30, 2014 | Funded Backlog Dec 31, 2013 | Total Backlog Mar 30, 2014 | Total Backlog Dec 31, 2013 |
|---|---|---|---|---|
| Integrated Defense Systems | $8,977 | $9,397 | $10,596 | $10,916 |
| Intelligence, Information and Services | 2,585 | 2,592 | 5,579 | 5,856 |
| Missile Systems | 6,564 | 6,859 | 8,667 | 9,162 |
| Space and Airborne Systems | 4,619 | 4,166 | 7,341 | 7,751 |
| Total | $22,745 | $23,014 | $32,183 | $33,685 |

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

Total Net Sales—We generally express changes in 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 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 the 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) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 |
|---|---|---|
| Integrated Defense Systems | $1,481 | $1,596 |
| Intelligence, Information and Services | 1,450 | 1,521 |
| Missile Systems | 1,574 | 1,636 |
| Space and Airborne Systems | 1,398 | 1,582 |
| Corporate and Eliminations | (395) | (456) |
| Total | $5,508 | $5,879 |

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

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

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

Changes in net EAC adjustments typically relate to the current period impact of revisions to total estimated revenues and costs at completion. These changes reflect improved or deteriorated operating performance or award fee rates. We have a Company-

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

| | Three Months Ended | |
|---|---|---|
| EAC Adjustments (in millions) | Mar 30, 2014 | Mar 31, 2013 |
| Gross favorable | $251 | $273 |
| Gross unfavorable | (129) | (134) |
| Total net EAC adjustments | $122 | $139 |

There were no significant individual EAC adjustments in the first quarters of 2014 and 2013.

The net decrease in EAC adjustments in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to the decrease in net EAC adjustments at IDS, partially offset by an increase in net EAC adjustments at MS. Refer to the individual segment results for further information.

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

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

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Operating income by segment was as follows:

| Operating Income (in millions) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 |
|---|---|---|
| Integrated Defense Systems | $226 | $262 |
| Intelligence, Information and Services | 125 | 124 |
| Missile Systems | 208 | 214 |
| Space and Airborne Systems | 190 | 227 |
| FAS/CAS Adjustment | 87 | (71) |
| Corporate and Eliminations | (48) | (50) |
| Total | $788 | $706 |

Integrated Defense Systems

| (In millions, except percentages) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 | % Change |
|---|---|---|---|
| Total Net Sales | $1,481 | $1,596 | (7.2)% |
| Total Operating Expenses | | | |
| Cost of sales—labor | 548 | 583 | (6.0)% |
| Cost of sales—materials and subcontractors | 466 | 526 | (11.4)% |
| Other cost of sales and other operating expenses | 241 | 225 | 7.1% |
| Total Operating Expenses | 1,255 | 1,334 | (5.9)% |
| Operating Income | $226 | $262 | (13.7)% |
| Operating Margin | 15.3% | 16.4% | |

| Change in Operating Income (in millions) | Three Months Ended Mar 30, 2014 Versus Three Months Ended Mar 31, 2013 |
|---|---|
| Volume | $(14) |
| Net change in EAC adjustments | (34) |
| Mix and other performance | 12 |
| Total Change in Operating Income | $(36) |

| (In millions, except percentages) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 | % Change |
|---|---|---|---|
| Bookings | $1,180 | $926 | 27.4% |

Total Net Sales—The decrease in total net sales of $115 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to lower net sales of $59 million on an international Patriot program awarded in the second quarter of 2011 driven by the scheduled completion of certain production phases, $57 million from the scheduled completion of certain production phases on an international Patriot program awarded in the first quarter of 2008, and $52 million on a close combat tactical radar program due to planned decreases in production. The decrease was partially offset by $48 million of higher net sales from various other international air and missile defense programs, driven principally by new awards.

Total Operating Expenses—The decrease in total operating expenses of $79 million in the first quarter of 2014 compared to the first quarter of 2013 was due to a decrease in materials and subcontractors costs of $60 million and a decrease in labor costs of $35 million, partially offset by an increase in other cost of sales and other operating expenses of $16 million. The decrease in materials and subcontractors costs was primarily driven by the activity on the close combat tactical radar program described above in Total Net Sales. The decrease in labor costs was primarily due to the activity on the international Patriot program awarded in the first quarter of 2008 described above. The increase in other cost of sales and other operating expenses was primarily due to a change in previously deferred precontract costs based on contract awards or funding.

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Operating Income and Margin—The decrease in operating income of $36 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to a net change in EAC adjustments of $34 million. The lower net amount of EAC adjustments was principally driven by lower net adjustments on integrated air and missile defense programs, about half of which was driven by a program where estimated costs have increased due to higher expected effort than previously planned. The decrease in operating margin in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to the net change in EAC adjustments.

Backlog and Bookings—Backlog was $10,596 million at March 30, 2014 compared to $10,916 million at December 31, 2013. The decrease in backlog of $320 million or 3% at March 30, 2014 compared to December 31, 2013 was primarily due to sales in excess of bookings in the first three months of 2014, principally across our Global Integrated Sensors product line. Bookings increased by $254 million in the first quarter of 2014 compared to the first quarter of 2013. In the first quarter of 2014, IDS booked $515 million to provide advanced Patriot air and missile defense capability for Kuwait. IDS also booked $98 million to provide Patriot engineering services support for U.S. and international customers. In the first quarter of 2013, IDS booked $208 million to provide advanced Patriot air and missile defense capability for an international customer, $160 million to provide Patriot engineering services support for U.S. and international customers, and $126 million for the Wide Area Augmentation System - Geostationary Earth Orbit program for the Federal Aviation Administration (FAA).

Intelligence, Information and Services

| | Three Months Ended | | |
|---|---|---|---|
| (In millions, except percentages) | Mar 30, 2014 | Mar 31, 2013 | % Change |
| Total Net Sales | $1,450 | $1,521 | (4.7)% |
| Total Operating Expenses | | | |
| Cost of sales—labor | 557 | 616 | (9.6)% |
| Cost of sales—materials and subcontractors | 584 | 606 | (3.6)% |
| Other cost of sales and other operating expenses | 184 | 175 | 5.1% |
| Total Operating Expenses | 1,325 | 1,397 | (5.2)% |
| Operating Income | $125 | $124 | 0.8% |
| Operating Margin | 8.6% | 8.2% | |

| Change in Operating Income (in millions) | Three Months Ended Mar 30, 2014 Versus Three Months Ended Mar 31, 2013 |
|---|---|
| Volume | $(7) |
| Net change in EAC adjustments | 5 |
| Mix and other performance | 3 |
| Total Change in Operating Income | $1 |

| | Three Months Ended | | |
|---|---|---|---|
| (In millions, except percentages) | Mar 30, 2014 | Mar 31, 2013 | % Change |
| Bookings | $1,011 | $830 | 21.8% |

Total Net Sales—The decrease in total net sales of $71 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to lower net sales of $37 million on training programs supporting the U.S. Army's Warfighter FOCUS activities due to a decrease in customer-determined activity levels and lower net sales of $29 million on various classified programs. The decrease in total net sales was partially offset by higher net sales of $41 million on a classified cyber program for an international customer. The remaining change in total net sales was spread across numerous programs primarily driven by the domestic budget environment.

Total Operating Expenses—The decrease in total operating expenses of $72 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to a decrease in labor costs of $59 million, which was spread across numerous programs primarily driven by the domestic budget environment.

Operating Income and Margin—Operating income and operating margin in the first quarter of 2014 were relatively consistent with the first quarter of 2013. Operating income in the first quarter of 2014 was reduced by approximately $6 million of certain cybersecurity-related acquisition costs and investments compared to $4 million in the first quarter of 2013. Mix and other performance in the first quarter of 2014 included less than $1 million of legal and other period expenses in connection with the

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UKBA program dispute and arbitration, compared to $7 million in the first quarter of 2013. Mix and other performance in the first quarter of 2014 had no insurance recovery for legal expenses, compared to $7 million in the first quarter of 2013.

Backlog and Bookings—Backlog was $5,579 million at March 30, 2014 compared to $5,856 million at December 31, 2013. The decrease in backlog of $277 million or 5% at March 30, 2014 compared to December 31, 2013 was primarily due to sales in excess of bookings in the first three months of 2014, driven primarily by the Warfighter FOCUS program and the Global Positioning System Next Generation Operational Control System (GPS-OCX) program. Bookings increased by $181 million in the first quarter of 2014 compared to the first quarter of 2013. In the first quarter of 2014, IIS booked $111 million on the Joint Polar Satellite System (JPSS) program for NASA. IIS also booked $59 million on domestic training programs and $45 million on foreign training programs in support of Warfighter FOCUS activities, and $535 million on a number of classified contracts, including a $195 million award for international cyber. In the first quarter of 2013, IIS booked $135 million on foreign training programs and $64 million on domestic training programs in support of Warfighter FOCUS activities, and $276 million on a number of classified contracts.

Missile Systems

| | Three Months Ended | | |
|---|---|---|---|
| (In millions, except percentages) | Mar 30, 2014 | Mar 31, 2013 | % Change |
| Total Net Sales | $1,574 | $1,636 | (3.8)% |
| Total Operating Expenses | | | |
| Cost of sales—labor | 497 | 514 | (3.3)% |
| Cost of sales—materials and subcontractors | 656 | 700 | (6.3)% |
| Other cost of sales and other operating expenses | 213 | 208 | 2.4% |
| Total Operating Expenses | 1,366 | 1,422 | (3.9)% |
| Operating Income | $208 | $214 | (2.8)% |
| Operating Margin | 13.2% | 13.1% | |

| Change in Operating Income (in millions) | Three Months Ended Mar 30, 2014 Versus Three Months Ended Mar 31, 2013 |
|---|---|
| Volume | $(7) |
| Net change in EAC adjustments | 16 |
| Mix and other performance | (15) |
| Total Change in Operating Income | $(6) |

| | Three Months Ended | | |
|---|---|---|---|
| (In millions, except percentages) | Mar 30, 2014 | Mar 31, 2013 | % Change |
| Bookings | $1,083 | $811 | 33.5% |

Total Net Sales—The decrease in total net sales of $62 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to $89 million of lower net sales on land warfare systems programs driven principally by planned declines in production due to the U.S. Army budget environment.

Total Operating Expenses—The decrease in total operating expenses of $56 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to a decrease in materials and subcontractors costs of $44 million, principally driven by the land warfare systems programs described above in Total Net Sales and the Rolling Airframe Missile (RAM) program due to planned declines in production as certain contracts near completion.

Operating Income and Margin—The decrease in operating income of $6 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to a change in mix and other performance of $15 million and decreased volume of $7 million, partially offset by a net change in EAC adjustments of $16 million. The change in mix and other performance was spread across numerous programs with no individual or common significant driver. The decrease in volume was principally driven by the land warfare systems programs described above in Total Net Sales. The net change in EAC adjustments was principally driven by a reduction in estimated costs due to program performance on an air and missile defense systems program and a decrease in estimated labor and materials costs to fulfill requirements on a land weapons systems program. Operating margin in the first quarter of 2014 was relatively consistent with the first quarter of 2013.

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Backlog and Bookings—Backlog was $8,667 million at March 30, 2014 compared to $9,162 million at December 31, 2013. The decrease in backlog of $495 million or 5% at March 30, 2014 compared to December 31, 2013 was primarily due to sales in excess of bookings in the first three months of 2014, principally within our Air Warfare Systems and Land Warfare Systems product lines. Bookings increased by $272 million in the first quarter of 2014 compared to the first quarter of 2013. In the first quarter of 2014, MS booked $479 million for Standard Missile-3 (SM-3™) for the Missile Defense Agency, $164 million for Paveway™ for international customers, and $86 million for Maverick missiles for international customers. In the first quarter of 2013, MS booked $156 million for the production of RAM™ for the German Navy and $85 million on Miniature Air-Launch Decoy (MALD®) for the U.S. Air Force.

Space and Airborne Systems

| | Three Months Ended | | |
|---|---|---|---|
| (In millions, except percentages) | Mar 30, 2014 | Mar 31, 2013 | % Change |
| Total Net Sales | $1,398 | $1,582 | (11.6)% |
| Total Operating Expenses | | | |
| Cost of sales—labor | 548 | 654 | (16.2)% |
| Cost of sales—materials and subcontractors | 463 | 509 | (9.0)% |
| Other cost of sales and other operating expenses | 197 | 192 | 2.6% |
| Total Operating Expenses | 1,208 | 1,355 | (10.8)% |
| Operating Income | $190 | $227 | (16.3)% |
| Operating Margin | 13.6% | 14.3% | |

| Change in Operating Income (in millions) | Three Months Ended Mar 30, 2014 Versus Three Months Ended Mar 31, 2013 |
|---|---|
| Volume | $(18) |
| Net change in EAC adjustments | (4) |
| Mix and other performance | (15) |
| Total Change in Operating Income | $(37) |

| | Three Months Ended | | |
|---|---|---|---|
| (In millions, except percentages) | Mar 30, 2014 | Mar 31, 2013 | % Change |
| Bookings | $1,019 | $1,039 | (1.9)% |

Total Net Sales—The decrease in total net sales of $184 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to lower intersegment sales of $68 million principally driven by lower volume on contracts supporting U.S. Army ground sensor systems, including a close combat tactical radar program at IDS, lower net sales of $64 million on classified programs, and lower net sales of $54 million on integrated communications systems programs principally driven by lower U.S Army and U.S. Air Force customer requirements on tactical communications systems.

Total Operating Expenses—The decrease in total operating expenses of $147 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to decreases in labor costs of $106 million and materials and subcontractors costs of $46 million, both principally driven by the activity on the programs described above in Total Net Sales.

Operating Income and Margin—The decrease in operating income of $37 million in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to a decrease in volume of $18 million, principally driven by the programs described above in Total Net Sales, and a change in mix and other performance of $15 million, primarily due to $3 million of income in the first quarter of 2014 from certain license royalties based on third-party usage compared to $14 million in the first quarter of 2013. Included in mix and other performance in the first quarters of

2014 and 2013 was $10 million and $12 million, respectively, of acquisition-related costs. The decrease in operating margin in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to the change in mix and other performance.

Backlog and Bookings—Backlog was $7,341 million at March 30, 2014 compared to $7,751 million at December 31, 2013. The decrease in backlog of $410 million or 5% at March 30, 2014 compared to December 31, 2013 was primarily due to sales in excess of bookings in the first three months of 2014, which was principally within our Intelligence, Surveillance and Reconnaissance Systems product line. Bookings decreased by $20 million in the first quarter of 2014 compared to the first quarter of 2013. In the first quarter of 2014, SAS booked $116 million to provide radar spares for an international customer and

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$81 million for software enhancements for the Active Electronically Scanned Array (AESA) radars for the U.S. Air Force. SAS also booked $216 million on a number of classified contracts. In the first quarter of 2013, SAS booked $90 million for the production of AESA radars for the U.S. Air Force and $183 million on a number of classified contracts.

FAS/CAS Adjustment
The FAS/CAS Adjustment represents the difference between our pension and other postretirement benefit (PRB) expense or income under Financial Accounting Standards (FAS) requirements under GAAP and our pension and PRB expense under U.S. Government cost accounting standards (CAS). The results of each segment only include pension and PRB expense under CAS that we generally recover through the pricing of our products and services to the U.S. Government.

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

| | Three Months Ended | |
|---|---|---|
| (In millions) | Mar 30, 2014 | Mar 31, 2013 |
| FAS/CAS Pension Adjustment | $86 | $(72) |
| FAS/CAS PRB Adjustment | 1 | 1 |
| FAS/CAS Adjustment | $87 | $(71) |

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

| | Three Months Ended | |
|---|---|---|
| (In millions) | Mar 30, 2014 | Mar 31, 2013 |
| FAS expense | $(221) | $(318) |
| CAS expense | 307 | 246 |
| FAS/CAS Pension Adjustment | $86 | $(72) |

On December 27, 2011, the CAS Pension Harmonization Rule (CAS Harmonization) was published in the Federal Register. The rule impacted pension costs on contracts beginning in 2013 and has been included for forward pricing purposes since February 2012. The rule intends to improve the alignment of the pension cost recovered through contract pricing under CAS and the pension funding requirements under the PPA. The rule 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. While the change in amortization period was applicable in 2013, there is a transition period for the impact of the change in liability measurement method of 0% in 2013, 25% in 2014, 50% in 2015, 75% in 2016 and 100% in 2017. CAS Harmonization increases pension costs under CAS and decreases our FAS/CAS expense in 2014 and beyond primarily due to the liability measurement transition period included in the rule.
The key drivers of the difference between FAS and CAS expense (and consequently, the FAS/CAS Pension Adjustment) are the pattern of earnings and expense recognition for gains and losses that arise when our asset and liability experience differ from our assumptions under each set of requirements and the calculation of funded status under CAS Harmonization. In accordance with both FAS and CAS, a “calculated market-related value” of our plan assets is used to calculate 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). Generally, gains or losses are amortized under FAS over the average future working lifetime of the eligible employee population of approximately 10 years. As described above, beginning in 2013, CAS Harmonization reduced this amortization period from 15 to 10 years, as well as changed the liability measurement method. 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.

The change in our FAS/CAS Pension Adjustment of $158 million in the first quarter of 2014 compared to the first quarter of 2013 was driven by a $97 million decrease in our FAS expense and by a $61 million increase in our CAS expense. The decrease in our FAS expense in the first quarter of 2014 was primarily due to the higher discount rate at December 31, 2013 compared to the discount rate as of December 31, 2012, and the favorable 2013 asset performance. The increase in our CAS expense in the first quarter of 2014 was primarily due to the first year of the CAS Harmonization phased transition to the use of a discount rate based on high quality corporate bonds, consistent with PPA, to measure liabilities in determining the CAS pension expense. The change in the discount rate used to measure liabilities for purposes of determining CAS pension expenses has been included in our contracts through our overhead forward pricing rates.

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Our FAS/CAS PRB Adjustment was $1 million of income in the first quarters of 2014 and 2013.

Corporate and Eliminations

Corporate and Eliminations includes corporate expenses and intersegment sales and profit eliminations. Corporate expenses represent unallocated costs and certain other corporate costs not considered part of management's evaluation of reportable segment operating performance.

The components of total net sales and operating income related to Corporate and Eliminations were as follows:

| | Three Months Ended | |
|---|---|---|
| Total Net Sales (in millions) | Mar 30, 2014 | Mar 31, 2013 |
| Intersegment sales eliminations | $395 | $456 |
| Corporate | — | — |
| Total | $395 | $456 |

| | Three Months Ended | |
|---|---|---|
| Operating Income (in millions) | Mar 30, 2014 | Mar 31, 2013 |
| Intersegment profit eliminations | $(39) | $(42) |
| Corporate | (9) | (8) |
| Total | $(48) | $(50) |

Discontinued Operations

In pursuing our business strategies we have divested certain non-core businesses, investments, and assets when appropriate. All residual activity relating to our previously disposed businesses appears in discontinued operations.

We retained certain assets and liabilities of our previously-disposed businesses. At March 30, 2014 and December 31, 2013, we had $52 million and $56 million, respectively, of assets primarily related to the receivable associated with the Flight Options excise tax settlement, and our retained interest in general aviation finance receivables previously sold by Raytheon Aircraft. At March 30, 2014 and December 31, 2013, we had $17 million and $16 million, respectively, of liabilities primarily related to certain environmental and product liabilities, non-income tax obligations, various contract obligations and aircraft lease obligations. We also retained certain pension assets and obligations, which we include in our pension disclosures.

FINANCIAL CONDITION AND LIQUIDITY

Overview

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

In addition, the following table highlights selected measures of our liquidity and capital resources at March 30, 2014 and December 31, 2013:

| (In millions) | Mar 30, 2014 | Dec 31, 2013 |
|---|---|---|
| Cash and cash equivalents | $3,036 | $3,296 |
| Short-term investments | 1,495 | 1,001 |
| Working capital | 4,460 | 4,006 |
| Amount available under credit facilities | 1,398 | 1,398 |

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Operating Activities

| (In millions) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 |
|---|---|---|
| Net cash provided by (used in) operating activities from continuing operations | $659 | $422 |
| Net cash provided by (used in) operating activities | 671 | 423 |

The $237 million net increase in cash from operating activities from continuing operations in the first three months of 2014 compared to the first three months of 2013 was primarily due to customer advances received in the first three months of 2014.

Pension Plan Contributions—We may make both required and discretionary contributions to our pension plans. Required contributions are primarily determined in accordance with the Pension Protection Act (PPA), which amended the Employee Retirement Income Security Act of 1974 (ERISA) rules and are affected by the actual return on plan assets and plan funded status. The funding requirements under the PPA require us 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 the year. The PPA funded status is based on actual asset performance, averaged over three years and PPA discount rates, which are based on a 24-month average of high quality corporate bond rates, as published by the IRS. In July 2012, the Surface Transportation Extension act, which is also referred to as the Moving Ahead for Progress in the 21st Century Act (STE Act), was passed by Congress and signed by the President. The STE Act includes a provision for temporary pension funding relief due to the low interest rate environment. The provision adjusts the 24-month average high quality 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 2012, interest rates must be between 90% and 110% of the 25-year rate, with a 5% increase in this corridor for each year from 2013–2016, resulting in a gradual phase-out of the provision. As a result of the STE Act, at January 1, 2012, the approximate PPA funding status for most of our plan increased from 80–90% funded to 90–100% funded and reduced our cash funding requirements primarily in 2012 and 2013. Funding requirements for future periods will be based on actual asset performance and future interest rates. Pension assets and liabilities are valued annually at December 31 for purposes of determining funded status and future year FAS expense, CAS expense and cash funding requirements.

We made the following contributions to our pension and PRB plans during the first three months of 2014 and 2013:

| (In millions) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 |
|---|---|---|
| Required pension contributions | $39 | $25 |
| PRB contributions | 4 | 4 |

Tax Payments and Refunds—We made (received) the following net tax payments (refunds) during the first three months of 2014 and 2013:

| (In millions) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 |
|---|---|---|
| Federal | $(130) | $(98) |
| Foreign | 4 | 6 |
| State | 4 | (2) |

We expect full-year net federal, foreign and state tax payments to be approximately $727 million in 2014.

Interest Payments—We made interest payments on our outstanding debt of $33 million in the first three months of 2014 and 2013.

Investing Activities

| (In millions) | Three Months Ended Mar 30, 2014 | Three Months Ended Mar 31, 2013 |
|---|---|---|
| Net cash provided by (used in) investing activities | $(539) | $(105) |

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The change in net cash used in investing activities of $434 million in the first three months of 2014 compared to the first three months of 2013 was primarily due to the short-term investments activity as described below.

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

| | Three Months Ended | |
|---|---|---|
| (In millions) | Mar 30, 2014 | Mar 31, 2013 |
| Additions to property, plant and equipment | $39 | $49 |
| Additions to capitalized internal use software | 12 | 9 |

We expect our property, plant and equipment and internal use software expenditures to be approximately $390 million and $60 million, respectively, in 2014, consistent with the anticipated needs of our business and for specific investments including capital assets and facility improvements.

Short-term Investments Activity—We invest in marketable securities in accordance with our short-term investment policy and cash management strategy. These marketable securities are classified as available-for-sale and are recorded at fair value as short-term investments in our consolidated balance sheets. Activity related to short-term investments was as follows:

| | Three Months Ended | |
|---|---|---|
| (In millions) | Mar 30, 2014 | Mar 31, 2013 |
| Purchases of short-term investments | $(1,345) | $(201) |
| Sales of short-term investments | 457 | — |
| Maturities of short-term investments | 400 | 153 |

Financing Activities

| | Three Months Ended | |
|---|---|---|
| (In millions) | Mar 30, 2014 | Mar 31, 2013 |
| Net cash provided by (used in) financing activities | $(392) | $(381) |

We have used cash provided by operating activities and proceeds from the issuance of new debt as our primary sources for the repayment of debt, payment of dividends, pension contributions and the repurchase of our common stock. Net cash used in financing activities in the first three months of 2014 compared to the first three months of 2013 was relatively consistent.

Stock Repurchases—In September 2011, our Board of Directors authorized the repurchase of up to $2.0 billion of our outstanding common stock. Additionally, in November 2013, our Board of Directors authorized the repurchase of up to an additional $2.0 billion of our outstanding common stock. At March 30, 2014, we had approximately $2.1 billion available under these repurchase programs. Stock repurchases will take place from time to time at management's discretion depending on market conditions.

Stock repurchases also include shares surrendered by employees to satisfy tax withholding obligations in connection with restricted stock awards, restricted stock units and stock options issued to employees.

Our stock repurchases were as follows:

| | Three Months Ended | |
|---|---|---|
| (In millions) | Mar 30, 2014 | Mar 31, 2013 |

| | $ | Shares | $ | Shares |
|---|---|---|---|---|
| Stock repurchased under our stock repurchase programs | $200 | 2.1 | $225 | 4.2 |
| Stock repurchased to satisfy tax withholding obligations | 30 | 0.2 | 9 | 0.2 |
| Total stock repurchases | $230 | 2.3 | $234 | 4.4 |

In May 2010, our stockholders approved the Raytheon 2010 Stock Plan. Under the plan, we may grant restricted stock awards, restricted stock units, stock grants, stock options and stock appreciation rights.

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

| | Three Months Ended | |
|---|---|---|
| (In millions, except per share amounts) | Mar 30, 2014 | Mar 31, 2013 |
| Cash dividends declared per share | $0.605 | $0.550 |
| Total dividends paid | 174 | 164 |

In March 2014, our Board of Directors authorized a 10% increase to our annual dividend payout rate from $2.20 to $2.42 per share. Dividends are subject to quarterly approval by our Board of Directors.

CAPITAL RESOURCES

Total debt was $4.7 billion at March 30, 2014 and December 31, 2013. Our outstanding debt bears contractual interest at fixed interest rates ranging from 2.5% to 7.2% and matures at various dates from 2018 through 2041.

Cash and Cash Equivalents and Short-term Investments—Cash and cash equivalents and short-term investments were $4.5 billion at March 30, 2014 and $4.3 billion at December 31, 2013. We may invest in U.S. Treasuries; AAA/Aaa rated money market funds; certificates of deposit, time deposits and commercial paper of banks with a minimum long-term debt rating of A or A2 and minimum short-term debt rating of A-1 and P-1, and commercial paper of corporations with a minimum long-term debt rating of A- or A3 and minimum short-term debt rating of A-2 and P-2. Cash and cash equivalents and short-term investments balances held at our foreign subsidiaries were approximately $689 million and $810 million at March 30, 2014 and December 31, 2013, respectively. Earnings from our foreign subsidiaries are currently deemed to be indefinitely reinvested. We do not expect such reinvestment to affect our liquidity and capital resources, and we continuously evaluate our liquidity needs and ability to meet global cash requirements as a part of our overall capital deployment strategy. Factors that affect our global capital deployment strategy include anticipated cash flows, the ability to repatriate cash in a tax efficient manner, funding requirements for operations and investment activities, acquisitions and divestitures, and capital market conditions. In the first quarter of 2014, a foreign subsidiary authorized and completed a transaction which resulted in a taxable dividend of approximately $115 million. The transaction does not affect our indefinite reinvestment assertion because it generated a net tax benefit of approximately $80 million.

Credit Facilities—In December 2011, we entered into a $1.4 billion revolving credit facility maturing in 2016. Under the $1.4 billion credit facility, we can borrow, issue letters of credit, and backstop commercial paper. Borrowings under this facility bear interest at various rate options, including LIBOR plus a margin based on our credit ratings. Based on our credit ratings at March 30, 2014, borrowings would generally bear interest at LIBOR plus 90 basis points. The credit facility is comprised of commitments from approximately 25 separate highly rated lenders, each committing no more than 10% of the facility. As of March 30, 2014 and December 31, 2013, there were no borrowings outstanding under this credit facility. However, we had $2 million of outstanding letters of credit at March 30, 2014 and December 31, 2013, which effectively reduced our borrowing capacity under this credit facility by those same amounts.

Under the $1.4 billion credit facility we must comply with certain covenants, including a ratio of total debt to total capitalization of no more than 60%. We were in compliance with the credit facility covenants during the three months ended March 30, 2014 and full-year 2013. Our ratio of total debt to total capitalization, as those terms are defined in the credit facility, was 29.0% at March 30, 2014. We are providing this ratio as this metric is used by our lenders to monitor our leverage and is also a threshold that limits our ability to utilize this facility.

Credit Ratings—Three major corporate debt rating organizations, Fitch Ratings (Fitch), Moody's Investors Service (Moody's) and Standard & Poor's (S&P), assign ratings to our short-term and long-term debt. The following chart reflects the current ratings assigned by each of these agencies as of March 30, 2014 to our short and long-term senior unsecured debt:

| Rating Agency | Short-Term Debt Rating | Long-Term Senior Debt Rating | Outlook | Date of Last Action |
|---|---|---|---|---|
| Fitch | F2 | A - | Stable | September 2008 |
| Moody’s | P-2 | A3 | Stable | October 2011 |
| S&P | A-2 | A - | Stable | September 2008 |

Shelf Registrations—We have an effective shelf registration with the SEC, filed in January 2013, which covers the registration of debt securities, common stock, preferred stock and warrants.

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COMMITMENTS AND CONTINGENCIES

Environmental Matters—We are involved in various stages of investigation and cleanup related to remediation of various environmental sites. Our estimate of the liability of total environmental remediation costs includes the use of a discount rate and takes into account that a portion of these costs is eligible for future recovery through the pricing of our products and services to the U.S. Government. We consider such recovery probable based on government contracting regulations and our long history of receiving reimbursement for such costs, and accordingly have recorded the estimated future recovery of these costs from the U.S. Government within contracts in process, net. Our estimates regarding remediation costs to be incurred were as follows:

| (In millions, except percentages) | Mar 30, 2014 | Dec 31, 2013 |
|---|---|---|
| Total remediation costs—undiscounted | $208 | $198 |
| Weighted average discount rate | 5.6 % | 5.6 % |
| Total remediation costs—discounted | $148 | $133 |
| Recoverable portion | 97 | 90 |

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

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

Financing Arrangements and Other—We issue guarantees and banks and surety companies issue, on our behalf, letters of credit and surety bonds to meet various bid, performance, warranty, retention and advance payment obligations of us or our affiliates. These instruments expire on various dates through 2023. Additional guarantees of project performance for which there is no stated value also remain outstanding. The stated values outstanding consisted of the following:

| (In millions) | Mar 30, 2014 | Dec 31, 2013 |
|---|---|---|
| Guarantees | $348 | $378 |
| Letters of credit | 1,768 | 1,424 |
| Surety bonds | 230 | 238 |

Included in guarantees and letters of credit described above were $203 million and $256 million, respectively, at March 30, 2014, and $233 million and $268 million, respectively, at December 31, 2013, related to our joint venture in Thales-Raytheon Systems Co. Ltd. (TRS). We provide these guarantees and letters of credit to TRS and other affiliates to assist these entities in obtaining financing on more favorable terms, making bids on contracts and performing their contractual obligations. While we expect these entities to satisfy their loans, and meet their project performance and other contractual obligations, their failure to do so may result in a future obligation to us. We periodically evaluate the risk of TRS and other affiliates failing to satisfy their loans, project performance and meet other contractual obligations described above. At March 30, 2014, we believe the risk that TRS and other affiliates will not be able to perform or meet their obligations is minimal for the foreseeable future based on their current financial condition. All obligations were current at March 30, 2014. At March 30, 2014 and December 31, 2013, we had an estimated liability of $7 million and $8 million, respectively, related to these guarantees and letters of credit.

In 1997, we provided a first loss guarantee of $133 million on $1.3 billion of U.S. Export-Import Bank loans (maturing in 2015) to the Brazilian Government related to IDS' System for the Vigilance of the Amazon (SIVAM) program. Loan repayments by the Brazilian Government were current at March 30, 2014.

We have entered into industrial cooperation agreements, sometimes referred to as offset agreements, as a condition to obtaining orders for our products and services from certain customers in foreign countries. At March 30, 2014, the aggregate amount of our offset agreements had an outstanding notional value of approximately $5 billion. These agreements are designed to return economic value to the foreign country by requiring us to engage in activities supporting local defense or commercial industries, promoting a balance of trade, developing in-country technology capabilities, or addressing other local development priorities. Offset agreements may be satisfied through activities that do not require a direct cash payment, including transferring technology, providing manufacturing, training and other consulting support to in-country projects, and the purchase by third parties (e.g., our vendors) of supplies from in-country vendors. These agreements may also be satisfied through our use of cash

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for activities such as subcontracting with local partners, purchasing supplies from in-country vendors, providing financial support for in-country projects, and making investments in local ventures. Such activities may also vary by country depending upon requirements as dictated by their governments. We typically do not commit to offset agreements until orders for our products or services are definitive. The amounts ultimately applied against our offset agreements are based on negotiations with the customers and typically require cash outlays that represent only a fraction of the notional value in the offset agreements. Offset programs usually extend over several or more years and may provide for penalties in the event we fail to perform in accordance with offset requirements. We have historically not been required to pay any such penalties.

As a U.S. Government contractor, we are subject to many levels of audit and investigation by the U.S. Government relating to our contract performance and compliance with applicable rules and regulations. Agencies that oversee contract performance include: the Defense Contract Audit Agency, the Defense Contract Management Agency, the Inspector General of the Department of Defense and other departments and agencies, the Government Accountability Office, the Department of Justice and Congressional Committees. From time to time, these and other agencies investigate or conduct audits to determine whether our operations are being conducted in accordance with applicable requirements. Such investigations and audits could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, the suspension of government export licenses or the suspension or debarment from future U.S. Government contracting. U.S. Government investigations often take years to complete and many result in no adverse action against us. Our final allowable incurred costs for each year are also subject to audit and have from time to time resulted in disputes between us and the U.S. Government with litigation resulting at the Court of Federal Claims (COFC) or the Armed Services Board of Contract Appeals (ASBCA) or their related courts of appeals. In addition, the Department of Justice 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 and the International Traffic in Arms Regulations) may also be investigated or audited. Other than as specifically disclosed herein, we do not expect these audits, investigations or disputes to have a material effect on our financial position, results of operations or liquidity, either individually or in the aggregate.

On July 22, 2010, Raytheon Systems Limited (RSL) was notified by the UK Border Agency (UKBA) that it had been terminated for cause on a program. The termination notice included allegations that RSL had failed to perform on certain key milestones and other matters in addition to claiming entitlement to recovery of certain losses incurred and previous payments made to RSL. We believe that RSL performed well and delivered substantial capabilities to the UKBA under the program, which has been operating successfully and providing actionable information since live operations began in May 2009. As a result of the termination notice, we adjusted our estimated amounts of revenue and cost under the program in the second quarter of 2010. On July 29, 2010, RSL filed a dispute notice on the grounds that the termination by the UKBA was not valid. On August 18, 2010, the UKBA initiated arbitration proceedings on this issue. On March 22, 2011, the UKBA gave notice that it had presented a demand to draw on the approximately $80 million of letters of credit provided by RSL upon the signing of the contract with the UKBA in 2007. On March 23, 2011, the UKBA submitted a detailed claim in the arbitration of approximately £350 million (approximately $582 million based on foreign exchange rates as of March 30, 2014) for damages and clawback of previous payments, plus interest and arbitration costs, excluding any credit for capability delivered or draw on the letters of credit. The UKBA also asserted that additional amounts may be detailed in the claim in the future if estimates of its damages change, and for continuing post-termination losses and any re-procurement costs, which have not been quantified. At RSL's request, on March 29, 2011, the Arbitration Tribunal issued an interim order restraining the UKBA from drawing down on the letters of credit pending a hearing on the issue. Following the hearing, the Tribunal lifted the restraint on the basis that, at this early stage of the proceedings, the Tribunal had not heard the evidence needed to decide the merits of whether the contractual conditions for a drawdown had been established. The Tribunal also concluded that any decision on the UKBA's right to call on the letters of credit is inextricably intertwined with the ultimate decision on the merits in the arbitration. The Tribunal also preserved RSL's right to claim damages should RSL later establish that the drawdown was not valid. As a result, on April 6, 2011, the UKBA drew the $80 million on the letters of credit.

As a result of the Tribunal's decision that the letters of credit are inextricably intertwined with the ultimate decision on the merits in the arbitration, we were no longer able to evaluate, independently from the overall claim, the probability of recovery of any amounts drawn on the letters of credit. We therefore recorded $80 million of costs related to the UKBA drawdown (UKBA LOC Adjustment), which was included in the operating expenses of our Intelligence, Information and Services (IIS) segment in the first quarter of 2011.

In June 2011, RSL submitted in the arbitration its defenses to the UKBA claim as well as substantial counterclaims in the amount of approximately £500 million (approximately $831 million based on foreign exchange rates as of March 30, 2014) against the UKBA for the collection of receivables, damages and interest. On October 3, 2011, the UKBA filed its reply to RSL's counterclaims, and increased its claim amount by approximately £32 million, to include additional civil service and post termination costs, and approximately £33 million for interest, raising the gross amount of the UKBA claim for damages and clawback of previous payments to approximately £415 million (approximately $690 million based on foreign exchange rates as of March 30, 2014). On January 6, 2012, RSL filed its response to the UKBA's reply. RSL is pursuing vigorously the collection of all receivables for the program and damages in connection with the wrongful termination and is mounting a strong defense to the UKBA's alleged claims for losses and previous payments. RSL has also settled substantially all subcontractor claims, novated all key subcontracts to the UKBA and agreed with the UKBA that RSL's exit obligations to operate the previously delivered capability ended in April 2011. Effective April 15, 2011, the UKBA took over responsibility for operating the previously delivered capability. In March 2013, the UKBA updated the total net amount of its claims to approximately £302 million (approximately $502 million based on foreign exchange rates as of March 30, 2014) for damages, clawback of previous payments and interest, and inclusive of a credit for capability delivered by RSL. Arbitration hearings commenced in late 2012 and were completed in 2013. We expect a decision in the first half of 2014.

The receivables and other assets remaining under the program for technology and services delivered were approximately $40 million at March 30, 2014 and December 31, 2013. We believe the remaining receivables and other assets are probable of recovery in litigation or arbitration. We currently do not believe it is probable that RSL is liable for losses, previous payments (which includes the $80 million related to the drawdown on the letters of credit), clawback or other claims asserted by the UKBA either in its March 2011 arbitration filing or its October 2011 reply. Due to the inherent uncertainties in litigation and arbitration, and the complexity and technical nature of actual and potential claims and counterclaims, it is reasonably possible that the ultimate amount of any resolution of the termination could be less or greater than the amounts we have recorded. For the same reasons, at this time, we are unable to estimate a range of the possible loss or recovery, if any, beyond the claim and counterclaim amounts. If we fail to collect the receivable balances or are required to make payments against claims or other losses asserted by the UKBA in excess of the amounts we have recorded, it could have a material adverse effect on our financial position, results of operations or liquidity.

On June 29, 2012 and July 13, 2012, we received a contracting officer’s final decision (COFD) for 2004 and 2005 incurred costs at SAS. The COFDs demand a total payment of $241 million for costs, interest and penalties associated with several issues, the largest of which relates to specific research and development and capital projects undertaken by SAS between 2000 and 2005. To date, no COFDs have been provided for 2000 to 2003 periods at SAS on these issues. The Government alleges that the costs incurred on the projects should have been charged directly to U.S. Government contracts rather than through indirect rates and that these costs should not be recoverable. We strongly disagree with the Government's position. We have requested a deferment of the payment and in February and May 2013, we filed complaints in the U.S. COFC challenging the 2004 and 2005 COFDs, respectively. Due to the inherent uncertainties of litigation, we cannot estimate a range of potential loss. We believe that we appropriately charged the disputed costs based on government accounting standards and applicable precedent and properly disclosed our approach to the Government. We also believe that in many cases, the statute of limitations has run on the issues. Based upon the foregoing, we do not expect the results of the COFDs to have a material impact on our financial position, results of operations or liquidity.

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

Accounting Standards

New pronouncements issued but not effective until after March 30, 2014 are not expected to have a material impact on our financial position, results of operations or liquidity.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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The following tables provide information as of March 30, 2014 and December 31, 2013 about our market risk exposure associated with changing interest rates. For long-term debt obligations, the table presents principal cash flows by maturity date and average interest rates related to outstanding obligations. There were no interest rate swaps outstanding at March 30, 2014 or December 31, 2013.

As of March 30, 2014
Principal Payments and Interest Rate Detail by Contractual Maturity Dates
(In millions, except percentages)

| Long-Term Debt | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter | Total | Fair Value |
|---|---|---|---|---|---|---|---|---|
| Fixed-rate debt | $— | $— | $— | $— | $591 | $4,192 | $4,783 | $5,172 |
| Average interest rate | — % | — % | — % | — % | 6.549 % | 4.065 % | 4.372 % | |

As of December 31, 2013
Principal Payments and Interest Rate Detail by Contractual Maturity Dates
(In millions, except percentages)

| Long-Term Debt | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter | Total | Fair Value |
|---|---|---|---|---|---|---|---|---|
| Fixed-rate debt | $— | $— | $— | $— | $591 | $4,192 | $4,783 | $5,036 |
| Average interest rate | — % | — % | — % | — % | 6.549 % | 4.065 % | 4.372 % | |

In addition, the aggregate notional amount of the outstanding foreign currency forward contracts was $1,400 million and $1,396 million at March 30, 2014 and December 31, 2013, respectively.

For foreign currency forward contracts designated and qualifying for hedge accounting, we record the effective portion of the gain or loss on the derivative in accumulated other comprehensive loss, net of tax, and reclassify it into earnings in the same period or periods during which the hedged revenue or cost of sales transaction affects earnings. Unrealized gains of $26 million and $23 million were included in other assets, net, and unrealized losses of $32 million and $26 million were included in other accrued expenses at March 30, 2014 and December 31, 2013, respectively.

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

At March 30, 2014, we had short-term investments with a fair value of $1,495 million, which are classified as available-for-sale and consist of highly rated bank certificates of deposit with a minimum long-term debt rating of A or A2 and a minimum short-term debt rating of A-1 and P-1. Our exposure due to changes in interest rates is not material due to the nature and amount of our short-term investments (i.e., high quality certificates of deposit).

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a–15(e) and 15d–15(e) of the Securities Exchange Act of 1934) as of March 30, 2014.

Conclusion of Evaluation—Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of March 30, 2014 were effective.

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

Changes in Internal Control Over Financial Reporting—There were no changes in our internal control over financial reporting during the first quarter of 2014 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We primarily engage in providing products and services under contracts with the U.S. Government and, to a lesser degree, under direct foreign sales contracts, some of which the U.S. Government funds. As a U.S. Government contractor, we are subject to many levels of audit and investigation by the U.S. Government relating to our contract performance and compliance with applicable rules and regulations. Agencies that oversee contract performance include: the Defense Contract Audit Agency, the Defense Contract Management Agency, the Inspector General of the Department of Defense and other departments and agencies, the Government Accountability Office, the Department of Justice and Congressional Committees. From time to time, these and other agencies investigate or conduct audits to determine whether our operations are being conducted in accordance with applicable requirements. Such investigations and audits could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, the suspension of government export licenses or the suspension or debarment from future U.S. Government contracting. U.S. Government investigations often take years to complete and many result in no adverse action against us. Our final allowable incurred costs for each year are also subject to audit and have from time to time resulted in disputes between us and the U.S. Government with litigation resulting at the Court of Federal Claims (COFC) or the Armed Services Board of Contract Appeals (ASBCA) or their related courts of appeals. In addition, the Department of Justice 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 and the International Traffic in Arms Regulations) may also be investigated or audited. Other than as specifically disclosed in this Form 10-Q, we do not expect these audits, investigations or disputes to have a material effect on our financial position, results of operations or liquidity, either individually or in the aggregate.

On August 18, 2010, the U.K. Border Agency (UKBA) initiated arbitration proceedings in the London Court of International Arbitration against Raytheon Systems Limited (RSL) in connection with the parties' dispute with respect to the UKBA's termination of RSL for cause on a program. The UKBA claimed that RSL had failed to perform on certain key milestones and other matters and that the UKBA was entitled to recovery of certain losses incurred and previous payments made to RSL. In March 2011, the UKBA gave notice that it had presented a demand to draw on the approximately $80 million of letters of credit provided by RSL upon the signing of the contract with the UKBA in 2007. At RSL's request, the Arbitration Tribunal (Tribunal) initially issued an interim order restraining the drawdown but, following a hearing on the issue, lifted the restraint and concluded that any decision on the UKBA's right to call on the letters of credit is inextricably intertwined with the ultimate decision on the merits in the arbitration. The Tribunal also preserved RSL's right to claim damages should RSL later establish that the drawdown was not valid. To date, the UKBA has submitted total net claims in the arbitration of approximately £302 million (approximately $502 million based on foreign exchange rates as of March 30, 2014) for damages, clawback of previous payments, and interest, and inclusion of a credit for capability delivered by RSL. RSL has submitted in the arbitration its defenses to the UKBA claim as well as substantial counterclaims in the amount of approximately £500 million (approximately $831 million based on foreign exchange rates as of March 30, 2014) against the UKBA for the collection of receivables,

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damages and interest. Arbitration hearings commenced in late 2012 and were completed in 2013. We expect a decision in the first half of 2014.

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

Additional information regarding arbitration with the UKBA is contained in "Note 8: Commitments and Contingencies" within Part I, Item 1 and “Commitments and Contingencies” within Part I, Item 2 of this Form 10-Q.

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

ITEM 1A. RISK FACTORS

You should carefully review and consider the information regarding certain factors which could materially affect our business, financial condition or future results set forth under Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013. There have been no material changes from the factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the Securities and Exchange Commission.

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

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan | Approximate Dollar Value (in billions) of Shares that May Yet Be Purchased Under the Plan (2) |
|---|---|---|---|---|
| January (January 1, 2014 - January 26, 2014) | 733 | $91.52 | — | $ 2.3 |
| February (January 27, 2014 - February 23, 2014) | 815,035 | 93.95 | 814,023 | 2.2 |
| March (February 24, 2014 - March 30, 2014) | 1,254,489 | 98.72 | 1,251,245 | 2.1 |
| Total | 2,070,257 | $96.84 | 2,065,268 | |

(1) Includes shares purchased related to treasury activity under our stock plans. Such activity during the first quarter of 2014 includes the surrender by employees of 4,989 shares to satisfy income tax withholding obligations in connection with the vesting of restricted stock previously issued to employees.

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

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ITEM 6. EXHIBITS

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

| | |
|---|---|
| 10.1 | Form of Restricted Stock Unit Agreement for Certain Retirement Eligible Employees under the Raytheon 2010 Stock Plan.* |
| 10.2 | Form of Restricted Stock Unit Agreement for Certain Retirement Eligible Non U.S. Employees under the Raytheon 2010 Stock Plan.* |
| 15 | PricewaterhouseCoopers LLP Awareness Letter.* |
| 31.1 | Certification of Thomas A. Kennedy pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification of David C. Wajsgras pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification of Thomas A. Kennedy pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.** |
| 32.2 | Certification of David C. Wajsgras pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.** |
| 101 | The following materials from Raytheon Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.** |

* filed electronically herewith

** furnished and not filed herewith

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SIGNATURES

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

RAYTHEON COMPANY

| | |
|---|---|
| By: | /s/ Michael J. Wood |
| | Michael J. Wood |
| | Vice President, Controller and Chief Accounting Officer |
| | Principal Accounting Officer |

April 24, 2014