RAYTHEON CO/
Form 10-Q
April 28, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended April 3, 2016

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

For the transition period from to
Commission File Number 1-13699

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Number of shares of common stock outstanding as of April 25, 2016 was 296,980,000.

Table of Contents

RAYTHEON COMPANY
TABLE OF CONTENTS

		Page
PART I	FINANCIAL INFORMATION	
Item 1.	Consolidated Financial Statements	
	Consolidated Balance Sheets (Unaudited) at April 3, 2016 and December 31, 2015	4
	Consolidated Statements of Operations (Unaudited) for the Three Months Ended April 3, 2016 and March 29, 2015	5
	Consolidated Statements of Comprehensive Income (Unaudited) for the Three Months Ended April 3, 2016 and March 29, 2015	6
	Consolidated Statements of Equity (Unaudited) for the Three Months Ended April 3, 2016 and March 29, 2015	7
	Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended April 3, 2016 and March 29, 2015	8
	Notes to Consolidated Financial Statements (Unaudited)	9
	Report of Independent Registered Public Accounting Firm	22
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	44
Item 4.	Controls and Procedures	45
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	45
Item 1A.	Risk Factors	45
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	46
Item 6.	Exhibits	47
Signatures		48

Table of Contents

Cautionary Note Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of federal securities laws, including information regarding our financial outlook, future plans, objectives, business prospects, trends and anticipated financial performance, including with respect to our liquidity and capital resources, our capital expenditures, the ability of certain affiliates to meet certain obligations, negotiations on a contract for which certain milestones have not been met, our bookings and backlog, our cash tax payments and tax reserves, our pension expense and funding, the impact of new accounting pronouncements, our unrecognized tax benefits, our expectations regarding customer contracts, the impact of acquisitions and other business arrangements, and the impact and outcome of audits and legal and administrative proceedings, claims, investigations, and commitments and contingencies. You can identify these statements by the fact that they include words such as “will,” “believe,” “anticipate,” “expect,” “estimate,” “intend,” “plan,” or variations of these words, or similar expressions. These forward-looking statements are not statements of historical facts and represent only our current expectations regarding such matters. These statements inherently involve a wide range of known and unknown uncertainties. Our actual actions and results could differ materially from what is expressed or implied by these statements. Specific factors that could cause such a difference include, but are not limited to, those set forth under Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015 and other important factors disclosed previously and from time to time in our other filings with the Securities and Exchange Commission. Given these factors, as well as other variables that may affect our operating results, you should not rely on forward-looking statements, assume that past financial performance will be a reliable indicator of future performance, or use historical trends to anticipate results or trends in future periods. We expressly disclaim any obligation or intention to provide updates to the forward-looking statements and the estimates and assumptions associated with them.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
RAYTHEON COMPANY
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In millions, except per share amounts)	Apr 3, 2016		Dec 31, 2015	
Assets				
Current assets				
Cash and cash equivalents	$	1,934	$	2,328
Short-term investments	711		872	
Contracts in process, net	5,882		5,564	
Inventories	637		635	
Prepaid expenses and other current assets	195		413	
Total current assets	9,359		9,812	
Property, plant and equipment, net	2,018		2,005	
Goodwill	14,791		14,731	
Other assets, net	2,661		2,733	
Total assets	$	28,829	$	29,281
Liabilities, Redeemable Noncontrolling Interest and Equity				
Current liabilities				
Advance payments and billings in excess of costs incurred	$	2,136	$	2,193
Accounts payable	1,304		1,402	
Accrued employee compensation	803		1,154	
Other current liabilities	1,506		1,377	
Total current liabilities	5,749		6,126	
Accrued retiree benefits and other long-term liabilities	7,108		7,140	
Long-term debt	5,332		5,330	
Commitments and contingencies (Note 9)				
Redeemable noncontrolling interest (Note 7)	330		355	
Equity				
Raytheon Company stockholders’ equity				

Common stock, par value, $0.01 per share, 1,450 shares authorized, 297 and 299 shares outstanding at April 3, 2016 and December 31, 2015, respectively	3	3
Additional paid-in capital	30	398
Accumulated other comprehensive loss	(7,050)	(7,176)
Retained earnings	17,141	16,903
Total Raytheon Company stockholders' equity	10,124	10,128
Noncontrolling interests in subsidiaries	186	202
Total equity	10,310	10,330
Total liabilities, redeemable noncontrolling interest and equity	$ 28,829	$ 29,281

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

Table of Contents

RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In millions, except per share amounts)	Three Months Ended Apr 3, 2016	Mar 29, 2015
Net sales		
Products	$4,789	$4,387
Services	974	901
Total net sales	5,763	5,288
Operating expenses		
Cost of sales—products	3,598	3,096
Cost of sales—services	802	737
General and administrative expenses	751	615
Total operating expenses	5,151	4,448
Operating income	612	840
Non-operating (income) expense, net		
Interest expense	58	58
Interest income	(4)	(4)
Other (income) expense, net	(2)	(2)
Total non-operating (income) expense, net	52	52
Income from continuing operations before taxes	560	788
Federal and foreign income taxes	156	234
Income from continuing operations	404	554
Income (loss) from discontinued operations, net of tax	1	—
Net income	405	554
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	(24)	3
Net income attributable to Raytheon Company	$429	$551
Basic earnings per share attributable to Raytheon Company common stockholders:		
Income from continuing operations	$1.43	$1.79
Income (loss) from discontinued operations, net of tax	—	—
Net income	1.43	1.79
Diluted earnings per share attributable to Raytheon Company common stockholders:		
Income from continuing operations	$1.43	$1.78
Income (loss) from discontinued operations, net of tax	—	—
Net income	1.43	1.79
Amounts attributable to Raytheon Company common stockholders:		
Income from continuing operations	$428	$551
Income (loss) from discontinued operations, net of tax	1	—
Net income	$429	$551

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

Table of Contents

RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In millions)	Three Months Ended Apr 3, 2016	Three Months Ended Mar 29, 2015
Net income	$405	$ 554
Other comprehensive income (loss), before tax:		
Pension and other postretirement benefit plans, net:		
Amortization of prior service cost included in net periodic cost	1	2
Amortization of net actuarial loss included in net income	246	283
Pension and other postretirement benefit plans, net	247	285
Foreign exchange translation	(33)	(69)
Cash flow hedges	4	(7)
Unrealized gains (losses) on investments and other, net	2	(6)
Other comprehensive income (loss), before tax	220	203
Income tax benefit (expense) related to items of other comprehensive income (loss)	(94)	(98)
Other comprehensive income (loss), net of tax	126	105
Total comprehensive income	531	659
Less: Comprehensive income (loss) attributable to noncontrolling interests in subsidiaries	(24)	3
Comprehensive income attributable to Raytheon Company	$555	$ 656

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

6

Table of Contents

RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

Three Months Ended April 3, 2016 and March 29, 2015 (in millions)	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total Raytheon Company stockholders' equity	Noncontrolling interests in subsidiaries[(1)]	Total equity
Balance at December 31, 2015	$ 3	$ 398	$ (7,176)	$ 16,903	$ 10,128	$ 202	$ 10,330
Net income				429	429	(17)	412
Other comprehensive income (loss), net of tax			126		126		126
Adjustment of redeemable noncontrolling interest to carrying value				29	29		29
Distributions and other activity related to noncontrolling interests					—	1	1
Dividends declared		2		(220)	(218)		(218)
Common stock plans activity		64			64		64
Share repurchases		(434)			(434)		(434)
Balance at April 3, 2016	$ 3	$ 30	$ (7,050)	$ 17,141	$ 10,124	$ 186	$ 10,310
Balance at December 31, 2014	$ 3	$ 1,309	$ (7,458)	$ 15,671	$ 9,525	$ 196	$ 9,721
Net income				551	551	3	554
Other comprehensive income (loss), net of tax			105		105		105
Dividends declared				(205)	(205)		(205)
Common stock plans activity		71			71		71
Share repurchases		(340)			(340)		(340)
Balance at March 29, 2015	$ 3	$ 1,040	$ (7,353)	$ 16,017	$ 9,707	$ 199	$ 9,906

(1) Excludes redeemable noncontrolling interest which is not considered equity. See "Note 7: Forcepoint Joint Venture" for additional information.

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

Table of Contents

RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)	Three Months Ended Apr 3, 2016	Mar 29, 2015
Cash flows from operating activities		
Net income	$405	$554
(Income) loss from discontinued operations, net of tax	(1)	—
Income from continuing operations	404	554
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	124	107
Stock-based compensation	54	51
Deferred income taxes	(38)	(94)
Tax benefit from stock-based awards	—	(18)
Changes in assets and liabilities		
Contracts in process, net and advance payments and billings in excess of costs incurred	(362)	(586)
Inventories	—	(93)
Prepaid expenses and other current assets	149	(190)
Income taxes receivable/payable	189	326
Accounts payable	(43)	(112)
Accrued employee compensation	(351)	(157)
Other current liabilities	(37)	8
Accrued retiree benefits	221	267
Other, net	15	(8)
Net cash provided by (used in) operating activities from continuing operations	325	55
Net cash provided by (used in) operating activities from discontinued operations	1	1
Net cash provided by (used in) operating activities	326	56
Cash flows from investing activities		
Additions to property, plant and equipment	(150)	(55)
Proceeds from sales of property, plant and equipment	1	4
Additions to capitalized internal use software	(12)	(13)
Purchases of short-term investments	—	(148)
Sales of short-term investments	—	135
Maturities of short-term investments	127	250
Payments for purchases of acquired companies, net of cash received	(57)	(6)
Other	—	(31)
Net cash provided by (used in) investing activities	(91)	136
Cash flows from financing activities		
Dividends paid	(201)	(186)
Repurchases of common stock under share repurchase programs	(400)	(300)
Repurchases of common stock to satisfy tax withholding obligations	(34)	(40)
Contribution from noncontrolling interests	11	—
Tax benefit from stock-based awards	—	18
Other	(5)	—
Net cash provided by (used in) financing activities	(629)	(508)
Net increase (decrease) in cash and cash equivalents	(394)	(316)
Cash and cash equivalents at beginning of the year	2,328	3,222

Cash and cash equivalents at end of period	$1,934	$2,906

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

Table of Contents

RAYTHEON COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Presentation
We prepared the accompanying unaudited consolidated financial statements of Raytheon Company and all wholly-owned, majority-owned or otherwise controlled subsidiaries on the same basis as our annual audited financial statements. We condensed or omitted certain information and footnote disclosures normally included in our annual audited financial statements, which we prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Our quarterly financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015. As used in this report, the terms “we,” “us,” “our,” “Raytheon” and the “Company” mean Raytheon Company and its subsidiaries, unless the context indicates another meaning.

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

As previously announced, effective January 1, 2016, we reorganized certain product areas of our Integrated Defense Systems (IDS) and Intelligence, Information and Services (IIS) businesses to more efficiently leverage our capabilities. Additionally, also effective January 1, 2016, we reclassified, with respect to our IDS, IIS, Missile Systems (MS) and Space and Airborne Systems (SAS) businesses, acquisition accounting adjustments related to the amortization of acquired intangibles and adjustments to record acquired deferred revenue at fair value, such that they are no longer reported within the business segments and are instead reported in the Acquisition Accounting Adjustments line item. Prior to January 1, 2016, only those acquisition accounting adjustments associated with our Forcepoint™ business were reported in the Acquisition Accounting Adjustments line item. The amounts and presentation of our business segments, including corporate and eliminations for intersegment activity, set forth in this Form 10-Q reflect these changes. None of the changes impact our previously reported consolidated balance sheets, statements of operations or statements of cash flows. See "Note 13: Business Segment Reporting" for additional information.

Note 2: Accounting Standards
In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which amends the accounting for employee share-based payment transactions to require recognition of the tax effects resulting from the settlement of stock-based awards as income tax expense or benefit in the income statement in the reporting period in which they occur. In addition, the ASU requires that all tax-related cash flows resulting from share-based payments, including the excess tax benefits related to the settlement of stock-based awards, be classified as cash flows from operating activities in the statement of cash flows. The ASU also requires that cash paid by directly withholding shares for tax withholding purposes be classified as a financing activity in the statement of cash flows. In addition, the ASU also allows companies to make an accounting policy election to either estimate the number of awards that are expected to vest, consistent with current U.S. GAAP, or account for forfeitures when they occur. The new standard is effective for annual reporting periods beginning after December 15, 2016 with early adoption permitted. We have elected to early adopt the requirements of the amended standard in the current period. In accordance with U.S. GAAP, we have adopted the amendment requiring recognition of excess tax benefits and tax deficiencies in the income statement prospectively beginning in the quarter ended April 3, 2016, which could result in fluctuations in our effective tax rate period over period depending on how many awards vest in a quarter. In addition,

we elected to adopt the amendment related to the presentation of excess tax benefits within operating activities on the statement of cash flows prospectively beginning in the quarter ended April 3, 2016. We have previously classified cash paid for tax withholding purposes as a financing activity in the statement of cash flows, therefore there is no change related to this requirement. Furthermore, we have elected to change our accounting policy to account for forfeitures when they occur for consistency with our government recovery accounting practices on a modified retrospective basis.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize a right-of-use asset and lease liability for most lease arrangements. The new standard is effective for annual reporting periods beginning after December 15, 2018 with early adoption permitted. We are currently evaluating the potential changes from this ASU to our future financial reporting and disclosures. We expect the standard to have a material impact on our assets and liabilities for the addition of right-of-use assets and lease liabilities, but we do not expect it to have a material impact to our results of operations or liquidity.

Table of Contents

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Under the new standard, we expect to continue using the cost-to-cost percentage of completion method to recognize revenue for most of our long-term contracts. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. We have not yet selected a transition method. We are currently evaluating the potential changes from this ASU to our future financial reporting and disclosures. On July 9, 2015, the FASB approved the deferral of the new standard's effective date by one year. The new standard is effective for annual reporting periods beginning after December 15, 2017. The FASB will permit companies to adopt the new standard early, but not before the original effective date of annual reporting periods beginning after December 15, 2016.

Other new pronouncements issued but not effective until after April 3, 2016 are not expected to have a material impact on our financial position, results of operations or liquidity.

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

We have a companywide standard and disciplined quarterly Estimate at Completion (EAC) process in which management reviews the progress and performance of our contracts. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress toward 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 in 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 in 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)	

	Apr 3, 2016	Mar 29, 2015
Operating income	$21	$ 121
Income from continuing operations attributable to Raytheon Company	25	79
Diluted earnings per share (EPS) from continuing operations attributable to Raytheon Company	$0.08	$ 0.26

Note 4: Earnings Per Share (EPS)

We compute basic and diluted EPS using actual income from continuing operations attributable to Raytheon Company common stockholders, income (loss) from discontinued operations attributable to Raytheon Company common stockholders, net income attributable to Raytheon Company, and our actual weighted-average shares 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.

Table of Contents

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 they are considered participating securities. As a result, we have included all of our outstanding unvested restricted stock awards (RSAs), as well as restricted stock units (RSUs) and Long-term Performance Plan (LTPP) awards that meet the retirement eligible criteria in our calculation of basic and diluted EPS. We disclose EPS for common stock and unvested stock-based payment awards, and separately disclose distributed and undistributed earnings. Distributed earnings represent common stock dividends and dividends earned on unvested RSAs and stock-based payment awards of retirement eligible employees. Undistributed earnings represent earnings that were available for distribution but were not distributed. Common stock and unvested stock-based payment awards earn dividends equally. We reflect the redemption value adjustments for redeemable noncontrolling interests in the EPS calculation if redemption value is in excess of the fair value of noncontrolling interest.

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

	Three Months Ended	
	Apr 3, 2016	Mar 29, 2015
Basic EPS attributable to Raytheon Company common stockholders:		
Distributed earnings	$0.73	$ 0.67
Undistributed earnings	0.70	1.12
Total	$1.43	$ 1.79
Diluted EPS attributable to Raytheon Company common stockholders:		
Distributed earnings	$0.73	$ 0.67
Undistributed earnings	0.70	1.11
Total	$1.43	$ 1.78

Basic and diluted EPS from discontinued operations attributable to Raytheon Company common stockholders and unvested stock-based payment awards was earnings of less than $0.01 for the first quarters of 2016 and 2015.

Income attributable to participating securities was as follows:

(In millions)	Three Months Ended	
	Apr 3, 2016	Mar 29, 2015
Income from continuing operations attributable to participating securities	$7	$ 11
Income (loss) from discontinued operations, net of tax attributable to participating securities[1]	—	—
Net income attributable to participating securities	$7	$ 11

(1) Income (loss) from discontinued operations, net of tax attributable to participating securities was income of less than $1 million for the first quarters of 2016 and 2015.

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

(In millions)	Three Months Ended	
	Apr 3, 2016	Mar 29, 2015
Shares for basic EPS[1]	299.2	308.2
Dilutive effect of LTPP	0.4	0.4
Shares for diluted EPS	299.6	308.6

(1) Includes 4.8 million and 5.7 million participating securities for the three months ended April 3, 2016 and March 29, 2015, respectively.

Note 5: Inventories

Inventories consisted of the following:

(In millions)	Apr 3, 2016	Dec 31, 2015
Materials and purchased parts	$ 68	$ 69
Work in process	552	551
Finished goods	17	15
Total	$ 637	$ 635

Table of Contents

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 $191 million and $225 million in inventories as work in process at April 3, 2016 and December 31, 2015, respectively.

Note 6: Acquisitions and Goodwill

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

In January 2016, our Forcepoint business acquired the Stonesoft next-generation firewall (NGFW) business, including the Sidewinder proxy firewall technology. Vista Equity Partners contributed 19.7% of the purchase price, which is reflected in contributions from noncontrolling interests in our consolidated statements of cash flows. Stonesoft provides NGFW software and hardware solutions that focus on high-availability, centralized management of large networks and protection from advanced evasion techniques. The Sidewinder product provides proxy-based firewall software and hardware solutions, allowing for clear visibility and control of command filtering, protocol enforcement and application access. Stonesoft will be integrated into our Forcepoint business to expand the cloud and hybrid capabilities of the Forcepoint TRITON® security platform. In connection with this acquisition, we have preliminarily recorded $52 million of goodwill, primarily related to expected synergies from combining operations and the value of the existing workforce, all of which is expected to be deductible for tax purposes, and $21 million of intangible assets, primarily related to technology and customer relationships, with a weighted-average life of 5 years. We expect to complete the purchase price allocation process in the second half of 2016 when we receive final valuation results and complete our review.

Pro-forma financial information has not been provided for this acquisition because it is not material.

A rollforward of goodwill by segment was as follows:

(In millions)	Integrated Defense Systems(1)	Intelligence, Information and Services(1)	Missile Systems	Space and Airborne Systems	Forcepoint(3)	Total
Balance at December 31, 2015	$ 1,704	$ 2,958	$ 4,154	$ 4,106	$ 1,809	$ 14,731
Acquisitions(2)	—	8	—	—	52	60
Balance at April 3, 2016	$ 1,704	$ 2,966	$ 4,154	$ 4,106	$ 1,861	$ 14,791

(1) In connection with the January 1, 2016 reorganization of IDS and IIS, goodwill of $90 million was allocated to the IIS segment on a relative fair value basis and is reflected in the revised balances at December 31, 2015.

(2) In addition to the acquisition of the Stonesoft NGFW business during the first quarter of 2016, we finalized the purchase price allocation for Raytheon Foreground Security at IIS, which resulted in an adjustment to goodwill of $8 million.

(3) At April 3, 2016, Forcepoint's fair value is estimated to exceed its net book value by approximately $100 million. As discussed in "Note 7: Forcepoint Joint Venture", we are required to determine Forcepoint's fair value on a quarterly basis due to the accounting related to the redeemable noncontrolling interest.

Note 7: Forcepoint Joint Venture

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

The joint venture agreement between Raytheon and Vista Equity Partners provides Vista Equity Partners with certain rights to require Forcepoint to pursue an initial public offering at any time after four years and three months following the closing date of May 29, 2015, or pursue a sale of the company at any time after five years following the closing date. In either of these events, Raytheon has the option to purchase all (but not less than all) of Vista Equity Partners' interest in Forcepoint for cash at a price equal to fair value as determined under the joint venture agreement. Additionally, Vista Equity Partners has the ability to liquidate its ownership through a put option any time after two years following the closing date. In the event of a put option, Vista Equity Partners could require Raytheon to purchase all (but not less than all) of Vista Equity Partners' interest in Forcepoint for cash at a price equal to fair value as determined under the joint venture agreement. Lastly, at any time after three years following the closing date, Raytheon has the option to purchase all (but not less than all) of Vista Equity Partners' interest in Forcepoint at a price equal to fair value as determined under the joint venture agreement.

Vista Equity Partners' interest in Forcepoint is presented as redeemable noncontrolling interest, outside of stockholders' equity, in our consolidated balance sheets. The redeemable noncontrolling interest is recognized at the greater of the estimated redemption value as of the balance sheet date, which was $307 million at April 3, 2016, or the carrying value, defined as the initial value adjusted for Vista Equity Partners' share of the cumulative impact of net income (loss) and other changes in accumulated other

Table of Contents

comprehensive income (loss), which was $330 million at April 3, 2016. Adjustments to the redemption value over the period from the date of acquisition to the date the redemption feature becomes puttable are immediately recorded to retained earnings.

A rollforward of redeemable noncontrolling interest was as follows:

(In millions)	Three Months Ended Apr 3, 2016	Mar 29, 2015
Beginning balance	$355	$ —
Net income (loss)	(7)	—
Other comprehensive income (loss), net of tax[1]	—	—
Contribution from noncontrolling interests	11	—
Adjustment of noncontrolling interest to carrying value	(29)	—
Ending balance	$330	$ —

(1) Other comprehensive income (loss), net of tax, was a loss of less than $1 million for the three months ended April 3, 2016.

Note 8: Derivatives and Other Financial Instruments

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

The fair value of asset derivatives included in other assets, net and liability derivatives included in other current liabilities in our consolidated balance sheets related to foreign currency contracts were $27 million and $40 million, respectively, at April 3, 2016 and $9 million and $29 million, respectively, at December 31, 2015. The fair values of these derivatives are Level 2 in the fair value hierarchy at April 3, 2016 and December 31, 2015 because they are determined based on a market approach utilizing externally quoted forward rates for similar contracts.

We use foreign currency forward contracts to fix the functional currency value of specific commitments, payments and receipts. The aggregate notional amount of the outstanding foreign currency forward contracts was $1,193 million and $1,076 million at April 3, 2016 and December 31, 2015, respectively. The net notional exposure of these contracts was approximately $113 million and $117 million at April 3, 2016 and December 31, 2015, respectively.

Our foreign currency forward contracts contain offset or netting provisions to mitigate credit risk in the event of counterparty default, including payment default and cross default. At April 3, 2016 and December 31, 2015, the fair value of our counterparty default exposure was less than $1 million and spread across numerous highly rated counterparties.

There were no interest rate swaps outstanding at April 3, 2016 and December 31, 2015.

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 April 3, 2016 and December 31, 2015, as their fair value is determined under a market approach using valuation models that utilize observable inputs, including maturity date, issue date, settlement date and current rates. At April 3, 2016 and December 31, 2015, we had short-term investments of $711 million and

$872 million, respectively, consisting of highly rated bank certificates of deposit with a minimum long-term debt rating of A or A2 and a minimum short-term debt rating of A-1 and P-1. As of April 3, 2016, our short-term investments had an average maturity of approximately three months. The amortized cost of these securities closely approximated their fair value at April 3, 2016 and December 31, 2015. There were no securities deemed to have other than temporary declines in value for the first quarter of 2016. In the first quarters of 2016 and 2015, we recorded an unrealized gain on short-term investments of less than $1 million, net of tax, in accumulated other comprehensive loss (AOCL). We did not have any sales of short-term investments in the first quarter of 2016. In the first quarter of 2015 we recorded sales of short-term investments of $135 million which resulted in losses 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 was recorded at amortized cost. The estimated fair value of long-term debt was determined based on quoted prices in inactive markets, which falls within Level 2 of the fair value hierarchy. The carrying value and estimated fair value of long-term debt were as follows:

Table of Contents

(In millions)	Apr 3, 2016	Dec 31, 2015
Carrying value of long-term debt	$5,332	$5,330
Fair value of long-term debt	6,046	5,826

In addition, we did not have any transfers of assets or liabilities between levels of the fair value hierarchy during the first quarter of 2016.

Note 9: 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, in our consolidated balance sheets. Our estimates regarding remediation costs to be incurred were as follows:

(In millions, except percentages)	Apr 3, 2016	Dec 31, 2015
Total remediation costs—undiscounted	$225	$224
Weighted average discount rate	5.2 %	5.2 %
Total remediation costs—discounted	$157	$149
Recoverable portion	98	94

We also lease certain government-owned properties and generally are not liable for remediation of preexisting environmental contamination at these sites.