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

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 OR 15(d) of
The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): September 27, 2019

UNITED TECHNOLOGIES CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	001-00812	06-0570975
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

**10 Farm Springs Road
Farmington, Connecticut 06032
(Address of principal executive offices, including zip code)**

**(Registrant's telephone number, including area code)
(860) 728-7000**

**N/A
(Former name or former address, if changed since last report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☒ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock ($1 par value) (CUSIP 913017 10 9)	**UTX**	**New York Stock Exchange**
1.125% Notes due 2021 (CUSIP 913017 CD9)	**UTX 21D**	**New York Stock Exchange**
1.250% Notes due 2023 (CUSIP U91301 AD0)	**UTX 23**	**New York Stock Exchange**
1.150% Notes due 2024 (CUSIP 913017 CU1)	**UTX 24A**	**New York Stock Exchange**
1.875% Notes due 2026	**UTX 26**	**New York Stock Exchange**

(CUSIP 913017 CE7)		
2.150% Notes due 2030 (CUSIP 913017 CV9)	**UTX 30**	**New York Stock Exchange**
Floating Rate Notes due 2019 (CUSIP 913017 CS6)	**UTX 19C**	**New York Stock Exchange**
Floating Rate Notes due 2020 (CUSIP 913017 CT4)	**UTX 20B**	**New York Stock Exchange**

Item 8.01. Other Events.

As previously announced, on June 9, 2019, United Technologies Corporation, a Delaware corporation ("United Technologies" or "UTC"), Light Merger Sub Corp., a Delaware corporation and wholly owned subsidiary of United Technologies ("Merger Sub"), and Raytheon Company, a Delaware corporation ("Raytheon"), entered into an Agreement and Plan of Merger (the "Merger Agreement"). The Merger Agreement provides for, among other things and subject to the satisfaction or waiver of specified conditions, the merger of Merger Sub with and into Raytheon (the "Merger"), with Raytheon surviving the Merger as a wholly owned subsidiary of United Technologies.

United Technologies is filing (i) as Exhibit 99.1 to this Current Report on Form 8-K, Raytheon's audited consolidated financial statements as of December 31, 2018 and 2017 and for each of the years ended December 31, 2018, 2017 and 2016, (ii) as Exhibit 99.2, Raytheon's interim unaudited financial information for the three-month periods ended March 31, 2019 and April 1, 2018 and six month-periods ended June 30, 2019 and July 1, 2018, and (iii) as Exhibit 23.1, the consent of PricewaterhouseCoopers LLP, independent registered public accounting firm of Raytheon.

This Current Report on Form 8-K does not modify or update the consolidated financial statements of United Technologies included in the 2018 Annual Report to Shareowners, which is incorporated by reference in United Technologies' Annual Report on Form 10-K for the year ended December 31, 2018, nor does it reflect any subsequent information or events. The information referenced in items (i)-(ii) above was previously disclosed by Raytheon in its reports filed with the U.S. Securities and Exchange Commission (the "SEC"), including its Annual Report on Form 10-K for the year ended December 31, 2018 and its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2019 and June 30, 2019.

Cautionary Statement Regarding Forward-Looking Statements

This communication contains statements which, to the extent they are not statements of historical or present fact, constitute "forward-looking statements" under the securities laws. From time to time, oral or written forward-looking statements may also be included in other information released to the public. These forward-looking statements are intended to provide Raytheon's and United Technologies' respective management's current expectations or plans for our future operating and financial performance, based on assumptions currently believed to be valid. Forward-looking statements can be identified by the use of words such as "believe," "expect," "expectations," "plans," "strategy," "prospects," "estimate," "project," "target," "anticipate," "will," "should," "see," "guidance," "outlook," "confident," "on track" and other words of similar meaning. Forward-looking statements may include, among other things, statements relating to future sales, earnings, cash flow, results of operations, uses of cash, share repurchases, tax rates, R&D spend, other measures of financial performance, potential future plans, strategies or transactions, credit ratings and net indebtedness, other anticipated benefits of the Rockwell Collins acquisition, the proposed merger or the spin-offs by UTC of Otis and Carrier into separate independent companies (the "separation transactions"), including estimated synergies and customer cost savings resulting from the proposed merger, the expected timing of completion of the proposed merger and the separation transactions, estimated costs associated with such transactions and other statements that are not historical facts. All forward-looking statements involve risks, uncertainties and other factors that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the U.S. Private Securities Litigation Reform Act of 1995. Such risks, uncertainties and other factors include, without limitation: (1) the effect of economic conditions in the industries and markets in which UTC and Raytheon operate in the U.S. and globally and any changes therein, including financial market conditions, fluctuations in commodity prices, interest rates and foreign currency exchange rates, levels of end market demand in construction and in both the commercial and defense segments of the aerospace industry, levels of air travel, financial condition of commercial airlines, the impact of weather conditions and natural disasters, the financial condition of our customers and suppliers, and the risks associated with U.S. government sales (including changes or shifts in defense spending due to budgetary constraints, spending cuts resulting from sequestration, a government shutdown, or otherwise, and uncertain funding of programs); (2) challenges in the development, production, delivery, support, performance and realization of the anticipated benefits (including our expected returns under customer contracts) of advanced technologies and new products and services; (3) the scope, nature, impact or timing of the proposed merger and the separation transactions and other merger, acquisition and divestiture activity, including among other things the integration of or with other businesses and realization of synergies and opportunities for growth and innovation and incurrence of related costs and expenses; (4) future levels of indebtedness, including indebtedness that may be incurred in connection with the proposed merger and the separation transactions, and capital spending and research and development spending; (5) future availability of credit and factors that may affect such availability, including credit market conditions and our capital structure; (6) the timing and scope of future repurchases by the combined company of its common stock, which may be suspended at any time due to various factors, including market conditions and the level of other investing activities and uses of cash; (7) delays and disruption in delivery of materials and services from suppliers; (8) company and customer-directed cost reduction efforts and restructuring costs and savings and other consequences thereof (including the potential termination of U.S. government contracts and performance under undefinitized contract awards and the potential inability to recover termination costs); (9) new business and investment opportunities; (10) the ability to realize the intended benefits of organizational changes; (11) the anticipated benefits of diversification and balance of operations across product lines, regions and industries; (12) the outcome of legal proceedings, investigations and other contingencies; (13) pension plan assumptions and future contributions; (14) the impact of the negotiation of collective bargaining agreements and labor disputes; (15) the effect of changes in political conditions in the U.S. and other countries in which UTC, Raytheon and the businesses of each operate, including the effect of changes in U.S. trade policies or the U.K.'s pending withdrawal from the European Union, on general market conditions, global trade policies and currency exchange rates in the near term and beyond; (16) the effect of changes in tax (including U.S. tax reform enacted on December 22, 2017, which is commonly referred to as the Tax Cuts and Jobs Act of 2017), environmental, regulatory and other laws and regulations (including, among other things, export and import requirements such as the International Traffic in Arms Regulations and the Export Administration Regulations, anti-bribery and anti-corruption requirements, including the Foreign Corrupt Practices Act, industrial cooperation agreement obligations, and procurement and other regulations) in the U.S. and other countries in which UTC, Raytheon and the businesses of each operate; (17) negative effects of the announcement or pendency of the proposed merger or the separation transactions on the market price of UTC's and/or Raytheon's respective common stock and/or on their respective financial performance; (18) the ability of the parties to receive the required regulatory approvals for the proposed merger (and the risk that such approvals may result in the imposition of conditions that could adversely affect the combined company or the expected benefits of the transaction) and approvals of UTC's shareowners and Raytheon's stockholders and to satisfy the other conditions to the closing of the merger on a timely basis or at all; (19) the occurrence of events that may give rise to a right of one or both of the parties to terminate the merger agreement; (20) risks relating to the value of the UTC shares to be issued in the proposed merger, significant transaction costs and/or unknown liabilities; (21) the possibility that the anticipated benefits from the proposed merger cannot be realized in full or at all or may take longer to realize than expected, including risks associated with third party contracts containing consent and/or other provisions that may be triggered by the proposed transaction; (22) risks associated with transaction-related litigation; (23) the possibility that costs or difficulties related to the integration of UTC's and Raytheon's operations will be greater than expected; (24) risks relating to completed merger, acquisition and divestiture activity, including UTC's integration of Rockwell Collins, including the risk that the integration may be more difficult, time-consuming or costly than expected or may not result in the achievement of estimated synergies within the contemplated time frame or at all; (25) the ability of each of Raytheon, UTC, the companies resulting from the separation transactions and the combined company to retain and hire key personnel; (26) the expected benefits and timing of the separation transactions, and the risk that conditions to the separation transactions will not be satisfied and/or that the separation transactions will not be completed within the expected time frame, on the expected terms or at all; (27) the intended qualification of (i) the merger as a tax-free reorganization and (ii) the separation transactions as tax-free to UTC and UTC's shareowners, in each case, for U.S. federal income tax purposes; (28) the possibility that any opinions, consents, approvals or rulings required in connection with the separation transactions will not be received or obtained within the expected time frame, on the expected terms or at all; (29) expected financing transactions undertaken in connection with the proposed merger and the separation transactions and risks associated with additional indebtedness; (30) the risk that dissynergy costs, costs of restructuring transactions and other costs incurred in connection with the separation transactions will exceed UTC's estimates; and (31) the impact of the proposed merger and the separation transactions on the respective businesses of Raytheon and UTC and the risk that the separation transactions may be more difficult, time-consuming or costly than expected, including the impact on UTC's resources, systems, procedures and controls, diversion of its management's attention and the impact on relationships with customers, suppliers, employees and other business counterparties. There can be no assurance that the proposed merger, the separation transactions or any other transaction described above will in fact be consummated in the manner described or at all. For additional information on identifying factors that may cause actual results to vary materially from those stated in forward-looking statements, see the joint proxy statement/prospectus (defined below) and the reports of UTC and Raytheon on Forms 10-K, 10-Q and 8-K filed with or furnished to the Securities and Exchange Commission (the "SEC") from time to time. Any forward-looking statement speaks only as of the date on which it is made, and UTC and Raytheon assume no obligation to update or revise such statement, whether as a result of new information, future events or otherwise, except as required by applicable law.

Additional Information and Where to Find It

In connection with the proposed merger, on September 4, 2019, UTC filed with the SEC an amendment to the registration statement on Form S-4 originally filed on July 17, 2019, which includes a joint proxy statement of UTC and Raytheon that also constitutes a prospectus of UTC (the "joint proxy statement/prospectus"). The registration statement was declared effective by the SEC on September 9, 2019, and UTC and Raytheon commenced mailing the joint proxy statement/prospectus to shareowners of UTC and stockholders of Raytheon on or about September 10, 2019. Each party will file other documents regarding the proposed merger with the SEC. In addition, in connection with the separation transactions, subsidiaries of UTC will file registration statements on Form 10 or Form S-1. INVESTORS AND SECURITY HOLDERS ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS AND OTHER RELEVANT DOCUMENTS FILED OR THAT WILL BE FILED WITH THE SEC WHEN THEY BECOME AVAILABLE, BECAUSE THEY CONTAIN OR WILL CONTAIN IMPORTANT INFORMATION. Investors and security holders may obtain copies of the registration statements and the joint proxy statement/prospectus free of charge from the SEC's website or from UTC or Raytheon. The documents filed by UTC with the SEC may be obtained free of charge at UTC's website at www.utc.com or at the SEC's website at www.sec.gov. These documents may also be obtained free of charge from UTC by requesting them by mail at UTC Corporate Secretary, 10 Farm Springs Road, Farmington, CT, 06032, by telephone at 1-860-728-7870 or by email at corpsec@corphq.utc.com. The documents filed by Raytheon with the SEC may be obtained free of charge at Raytheon's website at www.raytheon.com or at the SEC's website at www.sec.gov. These documents may also be obtained free of charge from Raytheon by requesting them by mail at Raytheon Company, Investor Relations, 870 Winter Street, Waltham, MA, 02541, by telephone at 1-781-522-5123 or by email at invest@raytheon.com.

Participants in the Solicitation

UTC and Raytheon and their respective directors and executive officers and other members of management and employees may be deemed to be participants in the solicitation of proxies in respect of the proposed merger. Information about UTC's directors and executive officers is available in UTC's proxy statement dated March 18, 2019, for its 2019 Annual Meeting of Shareowners. Information about Raytheon's directors and executive officers is available in Raytheon's proxy statement dated April 16, 2019, for its 2019 Annual Meeting of Shareholders. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, are contained in the joint proxy statement/prospectus and other relevant materials to be filed with the SEC regarding the transaction when they become available. Investors should carefully read the joint proxy statement/prospectus before making any voting or investment decisions. You may obtain free copies of these documents from UTC or Raytheon as indicated above.

No Offer or Solicitation

This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the U.S. Securities Act of 1933, as amended.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
15.1	Awareness letter of PricewaterhouseCoopers LLP (with respect to Raytheon Company).
23.1	Consent of PricewaterhouseCoopers LLP (with respect to Raytheon Company).
99.1	Management's Report on Internal Control over Financial Reporting. Audited consolidated financial statements of Raytheon Company as of December 31, 2018 and 2017 and for each of the years ended December 31, 2018, 2017 and 2016.
99.2	Interim unaudited financial information of Raytheon Company for the three-month periods ended March 31, 2019 and April 1, 2018 and six month-periods ended June 30, 2019 and July 1, 2018.
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

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 hereunto duly authorized.

UNITED TECHNOLOGIES CORPORATION
(Registrant)

Date: September 27, 2019	By:	/s/ AKHIL JOHRI
		Akhil Johri
		Executive Vice President &Chief Financial Officer

Exhibit 15.1

September 27, 2019

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

Commissioners:

We are aware that our reports dated April 25, 2019 and July 25, 2019 on our reviews of interim financial information of Raytheon Company (the "Company"), which appear in this Current Report on Form 8-K, are incorporated by reference in the Registration Statements on Form S-8 (Nos. 333-228649, 333-225839, 333-207193, 333-197704, 333-183123, 333-177517, 333-175781, 333-150643, 333-125293, 333-110020, 333-100724, 333-100723, 333-100718 and 033-51385) of United Technologies Corporation.

Very truly yours,

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Boston, Massachusetts
September 27, 2019

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-228649, 333-225839, 333-207193, 333-197704, 333-183123, 333-177517, 333-175781, 333-150643, 333-125293, 333-110020, 333-100724, 333-100723, 333-100718 and 033-51385) of United Technologies Corporation of our report dated February 13, 2019 relating to the financial statements and the effectiveness of internal control over financial reporting of Raytheon Company, which appears in this Current Report on Form 8-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Boston, Massachusetts
September 27, 2019

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. The Company's system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on its assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2018, based on criteria in Internal Control – Integrated Framework, issued by the COSO in 2013. The effectiveness of the Company's internal control over financial reporting as of December 31, 2018, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included below.

/s/ Thomas A. Kennedy	/s/ Anthony F. O'Brien
Thomas A. Kennedy	Anthony F. O'Brien
Chairman and Chief Executive Officer	Vice President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Raytheon Company

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Raytheon Company and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, of comprehensive income, of equity and of cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principles

As discussed in Note 1 to the consolidated financial statements, in 2018 the Company changed the manner in which it accounts for certain stranded tax effects impacting accumulated other comprehensive income and the manner in which it presents and discloses certain net periodic pension and postretirement benefit costs in the Company's statements of operations.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
February 13, 2019

We have served as the Company's auditor since 1961.

RAYTHEON COMPANY

CONSOLIDATED BALANCE SHEETS

(In millions, except per share amount) December 31:		2018		2017
Assets				
Current assets				
Cash and cash equivalents	**$**	**3,608**	$	3,103
Short-term investments		**—**		297
Receivables, net		**1,648**		1,324
Contract assets		**5,594**		5,247
Inventories		**758**		594
Prepaid expenses and other current assets		**528**		761
Total current assets		**12,136**		11,326
Property, plant and equipment, net		**2,840**		2,439
Goodwill		**14,864**		14,871
Other assets, net		**2,024**		2,224
Total assets	**$**	**31,864**	$	30,860
Liabilities, Redeemable Noncontrolling Interest and Equity				
Current liabilities				
Commercial paper	**$**	**300**	$	300
Contract liabilities		**3,309**		2,927
Accounts payable		**1,964**		1,519
Accrued employee compensation		**1,509**		1,342
Other current liabilities		**1,206**		1,260
Total current liabilities		**8,288**		7,348
Accrued retiree benefits and other long-term liabilities		**6,938**		8,287
Long-term debt		**4,755**		4,750
Commitments and contingencies (Note 10)				
Redeemable noncontrolling interest (Note 11)		**411**		512
Equity				
Raytheon Company stockholders' equity				
Common stock, par value, $0.01 per share, 1,450 shares authorized, 282 and 288 shares outstanding at December 31, 2018 and 2017, respectively		**3**		3
Additional paid-in capital		**—**		—
Accumulated other comprehensive loss		**(8,618)**		(7,935)
Retained earnings		**20,087**		17,895
Total Raytheon Company stockholders' equity		**11,472**		9,963
Noncontrolling interests in subsidiaries		**—**		—
Total equity		**11,472**		9,963
Total liabilities, redeemable noncontrolling interest and equity	**$**	**31,864**	$	30,860

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

RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts) Years Ended December 31:	2018	2017	2016
Net sales			
Products	$ 22,633	$ 21,416	$ 20,309
Services	4,425	3,932	3,815
Total net sales	27,058	25,348	24,124
Operating expenses			
Cost of sales—products	16,108	15,252	14,462
Cost of sales—services	3,465	3,088	3,045
General and administrative expenses	2,947	2,777	2,721
Total operating expenses	22,520	21,117	20,228
Operating income	4,538	4,231	3,896
Non-operating (income) expense, net			
Retirement benefits non-service expense	1,230	913	601
Interest expense	184	205	232
Interest income	(31)	(21)	(16)
Other (income) expense, net	8	21	(6)
Total non-operating (income) expense, net	1,391	1,118	811
Income from continuing operations before taxes	3,147	3,113	3,085
Federal and foreign income taxes	264	1,114	873
Income from continuing operations	2,883	1,999	2,212
Income (loss) from discontinued operations, net of tax	(1)	2	1
Net income	2,882	2,001	2,213
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	(27)	(23)	(31)
Net income attributable to Raytheon Company	$ 2,909	$ 2,024	$ 2,244
Basic earnings per share attributable to Raytheon Company common stockholders:			
Income from continuing operations	$ 10.16	$ 6.95	$ 7.55
Income (loss) from discontinued operations, net of tax	—	0.01	—
Net income	10.16	6.96	7.56
Diluted earnings per share attributable to Raytheon Company common stockholders:			
Income from continuing operations	$ 10.15	$ 6.94	$ 7.55
Income (loss) from discontinued operations, net of tax	—	0.01	—
Net income	10.15	6.95	7.55
Amounts attributable to Raytheon Company common stockholders:			
Income from continuing operations	$ 2,910	$ 2,022	$ 2,243
Income (loss) from discontinued operations, net of tax	(1)	2	1
Net income	$ 2,909	$ 2,024	$ 2,244

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

RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions) Years Ended December 31:	2018	2017	2016
Net income	**$ 2,882**	$ 2,001	$ 2,213
Other comprehensive income (loss), before tax:			
Pension and other postretirement benefit plans, net:			
Prior service (cost) credit arising during period	**(10)**	(15)	(1)
Amortization of prior service cost (credit) included in net income	**6**	4	4
Actuarial gain (loss) arising during period	**(626)**	(1,816)	(1,238)
Amortization of net actuarial (gain) loss	**1,362**	1,187	1,002
Loss recognized due to settlements/curtailments	**287**	3	5
Effect of exchange rates	**9**	(14)	25
Pension and other postretirement benefit plans, net	**1,028**	(651)	(203)
Foreign exchange translation	**(36)**	80	(115)
Cash flow hedges	**(12)**	10	25
Unrealized gains (losses) on investments and other, net	**1**	(1)	15
Other comprehensive income (loss), before tax	**981**	(562)	(278)
Income tax benefit (expense) related to items of other comprehensive income (loss)	**(213)**	38	43
Other comprehensive income (loss), net of tax	**768**	(524)	(235)
Reclassification of stranded tax effects	**(1,451)**	—	—
Total comprehensive income (loss)	**2,199**	1,477	1,978
Less: Comprehensive income (loss) attributable to noncontrolling interests in subsidiaries	**(27)**	(23)	(31)
Comprehensive income (loss) attributable to Raytheon Company	**$ 2,226**	$ 1,500	$ 2,009

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

RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF EQUITY

(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)	$ 16,956	$ 10,181	$ 202	$ 10,383
Net income (loss)				2,244	2,244	(15)	2,229
Other comprehensive income (loss), net of tax			(235)		(235)		(235)
Adjustment of redeemable noncontrolling interest to redemption value				(138)	(138)		(138)
Distributions and other activity related to noncontrolling interests				(195)	(195)	(187)	(382)
Dividends declared		3		(867)	(864)		(864)
Common stock plans activity		160			160		160
Share repurchases		(561)		(435)	(996)		(996)
Balance at December 31, 2016	3	—	(7,411)	17,565	10,157	—	10,157
Net income (loss)				2,024	2,024	—	2,024
Other comprehensive income (loss), net of tax			(524)		(524)		(524)
Adjustment of redeemable noncontrolling interest to redemption value				(41)	(41)		(41)
Dividends declared		2		(929)	(927)		(927)
Common stock plans activity		159			159		159
Share repurchases		(161)		(724)	(885)		(885)
Balance at December 31, 2017	3	—	(7,935)	17,895	9,963	—	9,963
Net income (loss)				**2,909**	**2,909**	**—**	**2,909**
Other comprehensive income (loss), net of tax			**768**		**768**		**768**
Reclassification of stranded tax effects			**(1,451)**	**1,451**	**—**		**—**
Adjustment of redeemable noncontrolling interest to redemption value				**73**	**73**		**73**
Dividends declared		**2**		**(991)**	**(989)**		**(989)**
Common stock plans activity		**166**			**166**		**166**
Share repurchases		**(168)**		**(1,250)**	**(1,418)**		**(1,418)**
Balance at December 31, 2018	**$ 3**	**$ —**	**$ (8,618)**	**$ 20,087**	**$ 11,472**	**$ —**	**$ 11,472**

(1) Excludes redeemable noncontrolling interest which is not considered equity. See “Note 11: Forcepoint Joint Venture” for additional information.

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

RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions) Years Ended December 31:	2018	2017	2016
Cash flows from operating activities			
Net income	$ 2,882	$ 2,001	$ 2,213
(Income) loss from discontinued operations, net of tax	1	(2)	(1)
Income from continuing operations	2,883	1,999	2,212
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	568	550	515
Stock-based compensation	165	173	151
Gain on sale of equity method investment	—	—	(158)
Loss on repayment of long-term debt	—	39	—
Deferred income taxes	(24)	252	133
Changes in assets and liabilities			
Receivables, net	(327)	(157)	18
Contract assets and contract liabilities	28	88	(645)
Inventories	(166)	14	(10)
Prepaid expenses and other current assets	73	204	205
Income taxes receivable/payable	174	(193)	(185)
Accounts payable	406	(94)	152
Accrued employee compensation	165	111	77
Other current liabilities	(108)	106	(41)
Accrued retiree benefits	(421)	(250)	419
Other, net	12	(95)	9
Net cash provided by (used in) operating activities from continuing operations	3,428	2,747	2,852
Net cash provided by (used in) operating activities from discontinued operations	—	(2)	—
Net cash provided by (used in) operating activities	3,428	2,745	2,852
Cash flows from investing activities			
Additions to property, plant and equipment	(763)	(543)	(561)
Proceeds from sales of property, plant and equipment	2	46	34
Additions to capitalized internal use software	(58)	(68)	(64)
Purchases of short-term investments	—	(696)	(472)
Maturities of short-term investments	309	517	1,184
Payments for purchases of acquired companies, net of cash received	—	(93)	(57)
Proceeds from sale of business, net of transaction costs	11	—	—
Other	(22)	20	(11)
Net cash provided by (used in) investing activities	(521)	(817)	53
Cash flows from financing activities			
Dividends paid	(975)	(910)	(850)
Net borrowings (payments) on commercial paper	—	300	—
Repayments of long-term debt	—	(591)	—
Loss on repayment of long-term debt	—	(38)	—
Repurchases of common stock under share repurchase programs	(1,325)	(800)	(900)
Repurchases of common stock to satisfy tax withholding obligations	(93)	(85)	(96)
Acquisition of noncontrolling interest in RCCS LLC	—	—	(90)
Contribution from noncontrolling interest in Forcepoint	—	8	11
Other	(5)	—	(5)
Net cash provided by (used in) financing activities	(2,398)	(2,116)	(1,930)
Net increase (decrease) in cash, cash equivalents and restricted cash	509	(188)	975
Cash, cash equivalents and restricted cash at beginning of year	3,115	3,303	2,328
Cash, cash equivalents and restricted cash at end of year	$ 3,624	$ 3,115	$ 3,303

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Consolidation and Classification—The consolidated financial statements include the accounts of Raytheon Company, and all wholly-owned, majority-owned and otherwise controlled domestic and foreign subsidiaries. All intercompany transactions have been eliminated. For classification of certain current assets and liabilities, we use the duration of the related contract or program as our operating cycle, which is generally longer than one year. In addition, we reclassified certain amounts to conform to our current period presentation. See Accounting Standards, below, for additional information on reclassifications. As used in these notes, the terms "we," "us," "our," "Raytheon" and the "Company" mean Raytheon Company and its subsidiaries, unless the context indicates another meaning.

Use of Estimates—Our consolidated financial statements are based on the application of U.S. Generally Accepted Accounting Principles (GAAP), which require us to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and the accompanying notes. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such differences may be material to our consolidated financial statements.

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

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

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

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

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

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

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

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

We have a companywide standard and disciplined quarterly Estimate at Completion (EAC) process in which management reviews the progress and execution of our performance obligations. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities and the related changes in estimates of revenues and costs. The risks and opportunities include management’s judgment about the ability and cost to achieve the schedule (e.g., the number and type of milestone events), technical requirements (e.g., a newly-developed product versus a mature product) and other contract requirements. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the performance obligation (e.g., to estimate increases in wages and prices for materials and related support cost allocations), execution by our subcontractors, the availability and timing of funding from our customer, and overhead cost rates, among other variables. These estimates also include the estimated cost of satisfying our industrial cooperation agreements, sometimes in the form of either offset obligations or in-country industrial participation (ICIP) agreements, required under certain contracts. These obligations may or may not be distinct depending on their nature.

Based on this analysis, any quarterly adjustments to net sales, cost of sales and the related impact to operating income are recognized as necessary in the period they become known. These adjustments may result from positive program performance, and may result in an increase in operating income during the performance of individual performance obligations, if we determine we will be successful in mitigating risks surrounding the technical, schedule and cost aspects of those performance obligations or realizing related opportunities. Likewise, these adjustments may result in a decrease in operating income if we determine we will not be successful in mitigating these risks or realizing related opportunities. Changes in estimates of net sales, cost of sales and the related impact to operating income are recognized quarterly on a cumulative catch-up basis, which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a performance obligation's percentage of completion. A significant change in one or more of these estimates could affect the profitability of one or more of our performance obligations. When estimates of total costs to be incurred exceed total estimates of revenue to be earned on a performance obligation related to complex aerospace or defense equipment or related services, or product maintenance or separately priced extended warranty, a provision for the entire loss on the performance obligation is recognized in the period the loss is identified.

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

(In millions, except per share amounts)		**2018(1)**		2017		2016
Operating income	**$**	**492**	$	442	$	418
Income from continuing operations attributable to Raytheon Company		**389**		287		283
Diluted EPS from continuing operations attributable to Raytheon Company	**$**	**1.36**	$	0.98	$	0.95

(1) 2018 amounts reflect a U.S. statutory tax rate of 21%, which became effective in 2018 with the adoption of the Tax Cuts and Jobs Act of 2017 (2017 Act).

In addition, net revenue recognized from our performance obligations satisfied in previous periods was $636 million, $520 million and $509 million in 2018, 2017 and 2016, respectively. This primarily relates to EAC adjustments that impacted revenue.

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

Recent events have caused increased attention on U.S. defense sales to the Kingdom of Saudi Arabia (KSA). KSA represents nearly 5% of our sales and $2.2 billion of our remaining performance obligations at December 31, 2018. Although we currently do not expect to be prevented from doing business in KSA, if government action impairs our ability to fulfill our contractual obligations or otherwise to continue to do business in KSA, it would have a material adverse effect on our financial results.

Research and Development Expenses—Research and development expenses are included in general and administrative expenses in our consolidated statements of operations and have primarily been for product development for the U.S. government. Expenditures for Company-sponsored research and development projects are expensed as incurred, and were $841 million, $700 million and $725 million in 2018, 2017 and 2016, respectively. Customer-sponsored research and development projects performed under contracts are accounted for as contract costs as the work is performed and included in receivables, net or contract assets in our consolidated balance sheets, depending on whether costs have been billed or not.

Federal, Foreign and State Income Taxes—The Company and its domestic subsidiaries provide for federal income taxes on pretax accounting income at rates in effect under existing tax law. Foreign subsidiaries record provisions for income taxes at applicable foreign tax rates in a similar manner. Such provisions differ from the amounts currently payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. The Company provides for a U.S. tax liability on outside basis differences in our foreign subsidiaries related to amounts which have been previously taxed in the U.S. and undistributed earnings generated after December 31, 2017. This deferred tax liability generally relates to foreign currency movement and foreign withholding taxes. The Company continues to assert indefinite reinvestment on outside basis differences related to all other items, such as acquisition accounting adjustments. With the exception of Forcepoint, payments made for state income taxes are included in administrative and selling expenses as these costs can generally be recovered through the pricing of products and services to the U.S. government in the period in which the tax is payable. Accordingly, the state income tax provision (benefit) is allocated to contracts when it is paid (recovered) or otherwise agreed as allocable with the U.S. government. Payments made for state income taxes related to Forcepoint are included in federal and foreign income tax expense.

Other (Income) Expense, Net—Other (income) expense, net, consists primarily of gains and losses from our investments held in trusts used to fund certain of our non-qualified deferred compensation and employee benefit plans, gains and losses on the early repurchase of long-term debt and certain financing fees. Periodically we enter into equity method or other investments that are not related to our core operations, including investments in early stage technology companies. We record the income or loss from these investments as a component of other (income) expense, net. We record losses beyond the carrying amount of the investment only when we guarantee obligations of the investee or commit to provide the investee further financial support.

Cash and Cash Equivalents—Cash and cash equivalents consist of cash and highly liquid investments with original maturities of 90 days or less at the date of purchase. The estimated fair value of cash and cash equivalents approximates the carrying value due to their short maturities. Cash and cash equivalents excludes $16 million and $12 million of restricted cash at December 31, 2018 and December 31, 2017, respectively, which for purposes of our consolidated statements of cash flows, is included in cash, cash equivalents and restricted cash.

Short-term Investments—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 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 December 31, 2018, we had no short-term investments as all short-term investments outstanding at December 31, 2017 matured in the first quarter of 2018. At December 31, 2017, we had short-term investments of $297 million consisting of highly rated bank certificates of deposit with a minimum long-term debt rating of A or A2 and a minimum short-term debt rating of A-1 or P-1. The amortized cost of these securities closely approximated their fair value. In 2017, we recorded unrealized losses 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 2018 or 2017. For purposes of computing realized gains and losses on available-for-sale securities, we determine cost on a specific identification basis.

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

Contract Assets—Contract assets include unbilled amounts typically resulting from sales under long-term contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer, and right to payment is not just subject to the passage of time. Amounts may not exceed their net realizable value. Contract assets are generally classified as current.

Inventories—Inventories are stated at the lower of its cost (first-in, first-out or average cost) or net realizable value. An impairment for excess or inactive inventory is recorded based upon an analysis that considers current inventory levels, historical usage patterns, future sales expectations and salvage value.

Inventories consisted of the following at December 31:

(In millions)		2018		2017
Materials and purchased parts	$	75	$	69
Work in process		662		504
Finished goods		21		21
Total	$	758	$	594

Precontract costs are costs incurred to fulfill a contract prior to contract award. Precontract costs, including general and administrative expenses that are specifically chargeable to the customer, are deferred in inventories if we determine that the costs are probable of recovery under a specific anticipated contract. All other precontract costs, including start-up costs, are expensed as incurred. Costs that are deferred are recognized as contract costs upon the receipt of the anticipated contract. We included deferred precontract costs of $163 million and $101 million in inventories as work in process at December 31, 2018 and December 31, 2017, respectively.

Deferred Commissions—Our incremental direct costs of obtaining a contract, which consist of sales commissions primarily for our security software sales at Forcepoint, are deferred and amortized over the period of contract performance or a longer period, generally the estimated life of the customer relationship, if renewals are expected and the renewal commission is not commensurate with the initial commission. We classify deferred commissions as current or noncurrent based on the timing of when we expect to recognize the expense. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets, and other assets, net, respectively, in our consolidated balance sheets. At December 31, 2018 and December 31, 2017, we had deferred commissions of $55 million and $37 million, respectively. Amortization expense related to deferred commissions was $45 million, $28 million and $12 million in 2018, 2017 and 2016, respectively.

Property, Plant and Equipment, Net—Property, plant and equipment, net, are stated at cost less accumulated depreciation. Major improvements are capitalized while expenditures for maintenance, repairs and minor improvements are expensed. We include gains and losses on the sales of plant and equipment that are allocable to our contracts in overhead as we generally can recover these costs through the pricing of products and services to the U.S. government. For all other sales or asset retirements, the assets and related accumulated depreciation and amortization are eliminated from the accounts, and any resulting gain or loss is reflected in operating income.

Provisions for depreciation generally are computed using a combination of accelerated and straight-line methods and are based on estimated useful lives as follows:

	Years
Machinery and equipment	3–10
Buildings	20–45

Leasehold improvements are amortized over the lesser of the remaining lease term or the estimated useful life of the improvement.

Impairment of Goodwill and Long-lived Assets—We evaluate our goodwill for impairment annually or whenever events or circumstances indicate that the carrying value of goodwill may not be recoverable. We perform our annual impairment test as of the first day of the fourth quarter utilizing a two-step methodology that requires us to first identify potential goodwill impairment and then measure the amount of the related goodwill impairment loss, if any. We have identified our operating segments as reporting units under the impairment test assessment criteria outlined in U.S. GAAP. In performing our annual impairment test in the fourth quarters of 2018, 2017 and 2016 we did not identify any goodwill impairment.

We determine whether long-lived assets are to be held for use or disposal. Upon indication of possible impairment of long-lived assets held for use, we evaluate the recoverability of such assets by measuring the carrying amount of the assets against the related estimated undiscounted future cash flows. When an evaluation indicates that the future undiscounted cash flows are not sufficient to recover the carrying value of the asset group, the asset group is adjusted to its estimated fair value. In order for long-lived assets to be considered held for disposal, we must have committed to a plan to dispose of the assets. Once deemed held for disposal, the assets are stated at the lower of the carrying amount or fair value.

Computer Software, Net—Internal use computer software, net, included in other assets, net, which consists primarily of our enterprisewide software solutions, is stated at cost less accumulated amortization and is amortized using the straight-line method over its estimated useful life, generally 10 years. Computer software development costs related to software products developed for external use are capitalized, when significant, after establishment of technological feasibility and marketability. There have been no such costs capitalized to date as the costs incurred during the period between technological feasibility to general release have not been significant.

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

In order to determine revenue recognized in the period from contract liabilities, we first allocate revenue to the individual contract liability balance outstanding at the beginning of the period until the revenue exceeds that balance. If additional advances are received on those contracts in subsequent periods, we assume all revenue recognized in the reporting period first applies to the beginning contract liability as opposed to a portion applying to the new advances for the period.

Redeemable Noncontrolling Interest—Redeemable noncontrolling interest is recognized at the greater of the estimated redemption value as of the balance sheet date or the initial value adjusted for the noncontrolling interest holder’s share of the cumulative impact of net income (loss), other changes in accumulated other comprehensive income (loss) and additional contributions. Adjustments to the redemption value over the period from the date of acquisition to the redemption date are immediately recorded to retained earnings. We reflect the redemption value adjustments in the earnings per share (EPS) calculation if redemption value is in excess of the fair value of noncontrolling interest which resulted in a $0.01 favorable impact to both basic and diluted EPS in 2018 and a $0.01 unfavorable impact to both basic and diluted EPS in 2016. There was no impact to basic or diluted EPS in 2017 related to the redemption value adjustments.

Other Comprehensive Income (Loss)—Other comprehensive income (loss) includes gains and losses associated with pension and PRB, foreign exchange translation adjustments, the effective portion of gains and losses on derivative instruments qualified as cash flow hedges, and unrealized gains (losses) on available-for-sale investments. The computation of other comprehensive income (loss) and its components are presented in the consolidated statements of comprehensive income.

A rollforward of accumulated other comprehensive income (loss) was as follows:

(In millions)	Pension and PRB plans, net(1)	Foreign exchange translation	Cash flow hedges(2)	Unrealized gains (losses) on investments and other, net(3)	Total
Balance at December 31, 2015	$ (7,088)	$ (60)	$ (16)	$ (12)	$ (7,176)
Before tax amount	(203)	(115)	25	15	(278)
Tax (expense) benefit	57	—	(9)	(5)	43
Net of tax amount	(146)	(115)	16	10	(235)
Balance at December 31, 2016	(7,234)	(175)	—	(2)	(7,411)
Before tax amount	(651)	80	10	(1)	(562)
Tax (expense) benefit	42	—	(4)	—	38
Net of tax amount	(609)	80	6	(1)	(524)
Balance at December 31, 2017	(7,843)	(95)	6	(3)	(7,935)
Before tax amount	**1,028**	**(36)**	**(12)**	**1**	**981**
Tax (expense) benefit	**(216)**	**—**	**3**	**—**	**(213)**
Net of tax amount	**812**	**(36)**	**(9)**	**1**	**768**
Reclassification of stranded tax effects	**(1,452)**	**—**	**1**	**—**	**(1,451)**
Balance at December 31, 2018	**$ (8,483)**	**$ (131)**	**$ (2)**	**$ (2)**	**$ (8,618)**

(1) Pension and PRB plans, net, is shown net of cumulative tax benefits of $2,255 million and $3,923 million at December 31, 2018 and December 31, 2017, respectively.
(2) Cash flow hedges are shown net of cumulative tax benefit of $1 million and tax expense of $3 million at December 31, 2018 and December 31, 2017, respectively.
(3) Unrealized gains (losses) on investments and other, net, are shown net of cumulative tax expense of $1 million at both December 31, 2018 and December 31, 2017.

On December 22, 2017, the President signed the 2017 Act, which reduced the U.S. corporate statutory federal tax rate to 21% for 2018. At December 31, 2017 the deferred tax amounts recorded through other comprehensive income prior to the enactment date using the prior 35% statutory tax rate remained in other comprehensive income despite the fact that the related deferred tax assets and liabilities were remeasured to reflect the newly enacted tax rate of 21%. These are referred to as stranded tax effects. Under Accounting Standards Update (ASU) 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, we elected to reclassify these stranded tax effects from AOCL to retained earnings in the first quarter of 2018. See Accounting Standards, below, for additional details. After the enactment date, any deferred tax amounts recorded to other comprehensive income are recorded at the 21% tax rate. The income tax effects remaining in AOCL will be released into earnings as the related before tax amounts are reclassified to earnings.

Other material amounts reclassified out of AOCL related to the amortization of net actuarial loss associated with our pension plans were $1,351 million, $1,177 million and $999 million before tax in 2018, 2017 and 2016, respectively. This component of AOCL is included in the calculation of net periodic pension expense (income). See "Note 14: Pension and Other Employee Benefits" for additional details.

We expect $3 million net of tax of net unrealized losses on our cash flow hedges at December 31, 2018 to be reclassified into earnings at then-current values over the next 12 months as the underlying hedged transactions occur.

Translation of Foreign Currencies—Assets and liabilities of foreign subsidiaries are translated at current exchange rates and the effects of these translation adjustments are reported as a component of AOCL in equity. Prior to the enactment of the 2017 Act, deferred taxes were not recognized for translation-related temporary differences of foreign subsidiaries as their undistributed earnings were considered to be indefinitely reinvested. After the enactment of the 2017 Act, we no longer assert indefinite reinvestment on our foreign subsidiaries outside basis differences generated after December 31, 2017. Unrealized foreign currency gains and losses associated with the subsidiary's net assets, including unremitted earnings, represent translation gains and losses that are reported as part of other comprehensive income (loss). Therefore, the deferred tax effect of the translation gains and losses are also recorded through other comprehensive income (loss) after December 31, 2017. At December 31, 2018, we had a cumulative translation loss on the unremitted earnings, and therefore, have not recorded a deferred tax asset as it is not likely that the asset will be realized in the future. Income and expenses in foreign currencies are translated at the average exchange rate during the period.

Foreign exchange transaction gains and losses in 2018, 2017 and 2016 were not material.

Treasury Stock—Repurchased shares are retired immediately upon repurchase. We account for treasury stock under the cost method. Upon retirement the excess over par value is charged against additional paid-in capital until reduced to zero, with the remainder recorded as a reduction to retained earnings.

Pension and Other Postretirement Benefits (PRB) Costs—We have pension plans covering the majority of our employees hired before January 1, 2007, including certain employees in foreign countries. We calculate our pension costs as required under U.S. GAAP, and the calculations and assumptions utilized require judgment. U.S. GAAP outlines the methodology used to determine pension expense or income for financial reporting purposes. Pension and PRB expense is split between operating income and non-operating income, where only the service cost component is included in operating income and the non-service components are included in retirement benefits non-service expense. For purposes of determining retirement benefits non-service expense under U.S. GAAP, a calculated "market-related value" of our plan assets is used to develop the amount of deferred asset gains or losses to be amortized. The market-related value of assets is determined using actual asset gains or losses over a three-year period. Under U.S. GAAP, a "corridor" approach may be elected and applied in the recognition of asset and liability gains or losses which limits expense recognition to the net outstanding gains and losses in excess of the greater of 10% of the projected benefit obligation (PBO) or the calculated "market-related value" of assets. We do not use a "corridor" approach in the calculation of Financial Accounting Standards (FAS) pension expense.

We recognize the funded status of a postretirement benefit plan (defined benefit pension and other benefits) as an asset or liability in our consolidated balance sheets. Funded status represents the difference between the PBO of the plan and the market value of the plan's assets. Previously unrecognized deferred amounts such as demographic or asset gains or losses and the impact of historical plan changes are included in AOCL. Changes in these amounts in future years will be reflected through AOCL and amortized in future pension expense generally over the estimated average remaining employee service period.

Derivative Financial Instruments—We enter into foreign currency forward contracts with commercial banks to fix the foreign currency exchange rates on specific commitments, payments and receipts denominated in foreign currencies. Our foreign currency forward contracts are transaction driven and relate directly to a particular asset, liability or transaction for which commitments are in place. We execute these instruments with financial institutions that we judge to be credit-worthy. 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.

We designate most foreign currency forward contracts as cash flow hedges of forecasted purchases and sales denominated in foreign currencies. For foreign currency forward contracts designated and qualified for cash flow hedge accounting, we record the effective portion of the gain or loss on the derivative in AOCL, 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. Realized gains and losses resulting from these cash flow hedges offset the foreign exchange gains and losses on the underlying transactions being hedged. We classify the cash flows from these instruments in the same category as the cash flows from the hedged items. To a lesser extent, we have gains and losses on derivatives not designated for hedge accounting or representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, which are recognized currently in net sales or cost of sales.

The aggregate notional amount of the outstanding foreign currency forward contracts was $1,772 million and $1,354 million at December 31, 2018 and December 31, 2017, respectively. The net notional exposure of these contracts was $840 million and $525 million at December 31, 2018 and December 31, 2017, respectively. The foreign currency forward contracts at December 31, 2018 have maturities at various dates through 2030 as follows: $1,145 million in 2019; $254 million in 2020; $189 million in 2021; and $184 million thereafter.

We recognize all derivative financial instruments as either assets or liabilities at fair value in our consolidated balance sheets. 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 forward contracts were $26 million and $34 million, respectively at December 31, 2018 and $28 million and $17 million, respectively at December 31, 2017. The fair value of these derivatives is Level 2 in the fair value hierarchy because they are determined based on a market approach utilizing externally quoted forward rates for similar contracts. 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. We measure and record the impact of counterparty credit risk into our valuation and at December 31, 2018 and December 31, 2017, the fair value of our counterparty default exposure was less than $1 million and was spread across numerous highly rated counterparties.

We may also enter into pay-variable, receive-fixed interest rate swaps to manage interest rate risk associated with our fixed-rate financing obligations. We account for our interest rate swaps as fair value hedges of a portion of our fixed-rate financing obligations, and accordingly record gains and losses from changes in the fair value of these swaps in interest expense, along with the offsetting gains and losses on the fair value adjustment of the hedged portion of our fixed-rate financing obligations. We also record in interest expense the net amount paid or received under the swap for the period and the amortization of gain or loss from the early termination of interest rate swaps. There were no interest rate swaps outstanding at December 31, 2018 or December 31, 2017.

Fair Values—Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or that we corroborate with observable market data for substantially the full term of the related assets or liabilities.

Level 3: Unobservable inputs supported by little or no market activity that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value on a recurring basis consisted of marketable securities held in trust, short-term investments and foreign currency forward contracts as of December 31, 2018 and 2017. Fair value information for those assets and liabilities, including their classification in the fair value hierarchy, is included in “Note 14: Pension and Other Employee Benefits” (for marketable securities held in trust), Short-term Investments, above (for short-term investments) and Derivative Financial Instruments, below (for foreign currency forward contracts). Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. We did not have any significant nonfinancial assets or nonfinancial liabilities that would be recognized or disclosed at fair value on a recurring basis as of December 31, 2018 and 2017. We did not have any material amounts of Level 3 assets or liabilities at December 31, 2018 and 2017.

Earnings per Share (EPS)—We compute basic EPS attributable to Raytheon Company common stockholders by dividing income from continuing operations attributable to Raytheon Company common stockholders, income (loss) from discontinued operations attributable to Raytheon Company common stockholders, and net income attributable to Raytheon Company, by our weighted-average common shares outstanding, including participating securities outstanding, as described below, during the period. Diluted EPS reflects the potential dilution beyond shares for basic EPS that could occur if securities or other contracts to issue common stock were exercised, converted into common stock, or resulted in the issuance of common stock that would have shared in our earnings. 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 and net income attributable to Raytheon Company, and our actual weighted-average shares outstanding rather than the numbers presented within our 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 consolidated financial statements. Furthermore, it may not be possible to recalculate EPS attributable to Raytheon Company common stockholders by adjusting EPS from continuing operations by EPS from discontinued operations.

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

As described in “Note 11: Forcepoint Joint Venture,” we record redeemable noncontrolling interest related to Vista Equity Partners’ interest in Forcepoint. We reflect the redemption value adjustments for redeemable noncontrolling interest in both the basic and diluted EPS calculation for the portion of redemption value that is in excess of the fair value of noncontrolling interest.

Employee Stock Plans—Stock-based compensation cost is measured at the grant date based on the calculated fair value of the award. The expense is recognized over the employees’ requisite service period, generally the vesting period of the award. The expense is amortized over the service period using the graded vesting method for our restricted stock and RSUs and the straight-line amortization method for our LTPP. The expense related to our Forcepoint long-term incentive plans is recognized over the requisite service period when achievement of the performance conditions is considered probable. We account for forfeitures when they occur, consistent with our government recovery accounting practice. The gross excess tax benefit received upon exercise of stock options or vesting of a stock-based award, if any, is reflected in the consolidated statements of cash flows as an operating activity.

Risks and Uncertainties—We provide a wide range of technologically advanced products, services and solutions for principally governmental customers in the U.S. and abroad, and are subject to certain business risks specific to that industry. Total sales to the U.S. government, excluding foreign military sales, were 68% of total net sales in 2018 and 67% of total net sales in 2017 and 2016. Total sales to customers outside the U.S., including foreign military sales through the U.S. government, were 30% of total net sales in 2018 and 32% of total net sales in 2017 and 2016. Sales to the U.S. government may be affected by changes in procurement policies, budget considerations, changing concepts of national defense, political developments abroad and other factors. Sales to international customers may be affected by changes in the priorities and budgets of international customers and geopolitical uncertainties, which may be driven by changes in threat environments, volatility in worldwide economic conditions, regional and local economic and political factors, U.S. foreign policy and other risks and uncertainties.

Remaining Performance Obligations—Remaining performance obligations represents the transaction price of firm orders for which work has not been performed and excludes unexercised contract options and potential orders under ordering-type contracts (e.g., indefinite-delivery, indefinite-quantity (IDIQ)). As of December 31, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was $42,420 million. We expect to recognize revenue on approximately half and three-quarters of the remaining performance obligations over the next 12 and 24 months, respectively, with the remainder recognized thereafter.

Accounting Standards—In February 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows companies to reclassify stranded tax effects resulting from the 2017 Act, from accumulated other comprehensive income to retained earnings. These stranded tax effects refer to the tax amounts included in accumulated other comprehensive income at the previous 35% U.S. statutory tax rate, for which the related deferred tax asset or liability was remeasured to the new 21% U.S. corporate statutory federal tax rate in the period of the 2017 Act enactment. The new standard is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, and can be applied either in the period of adoption or retrospectively to each period impacted by the 2017 Act. We elected to early adopt the new standard in the first quarter of 2018 and we elected to reclassify the stranded income tax effects of the 2017 Act from accumulated other comprehensive income to retained earnings in the period of adoption. This resulted in an increase to AOCL of $1,451 million and an increase in retained earnings of $1,451 million in the first quarter of 2018, almost all of which related to our pension and PRB plans, net. The standard did not have an impact on our results of operations or liquidity. Income tax effects remaining in accumulated other comprehensive income will be released into earnings as the related before tax amounts are reclassified to earnings.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which changed certain presentation and disclosure requirements for employers that sponsor defined benefit pension and PRB plans. The new standard required the service cost component of the net benefit cost to be in the same line item as other compensation in operating income and the other components of net benefit cost to be presented outside of operating income on a retrospective basis. The new standard was effective for fiscal years beginning after December 15, 2017. We adopted the requirements of the new standard in the first quarter of 2018 on a retrospective basis for the presentation of only the service cost component in operating expenses, and the reclassification of the other components of the net benefit cost to retirement benefits non-service expense within non-operating (income) expense, net. The impact to our fiscal quarters and year-ended 2017 and year-ended 2016 financial results was as follows:

	Three Months Ended				Twelve Months Ended	
(In millions)	Dec 31, 2017	Oct 1, 2017	Jul 2, 2017	Apr 2, 2017	Dec 31, 2017	Dec 31, 2016
Cost of sales	$ (186)	$ (222)	$ (164)	$ (164)	$ (736)	$ (458)
General and administrative expenses	(44)	(48)	(42)	(43)	(177)	(143)
Total operating expenses	(230)	(270)	(206)	(207)	(913)	(601)
Operating income	230	270	206	207	913	601
Total non-operating (income) expense, net	230	270	206	207	913	601
Income from continuing operations	—	—	—	—	—	—
Net income	$ —	$ —	$ —	$ —	$ —	$ —

The remaining provisions of ASU 2017-07 did not have a material impact on our financial position, results of operations or liquidity.

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 fiscal years beginning after December 15, 2018, with early adoption permitted. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which allows for an additional transition method under the modified retrospective approach for the adoption of Topic 842. The two permitted transition methods are now: (1) to apply the new lease requirements at the beginning of the earliest period presented, and (2) to apply the new lease requirements at the effective date. Under both transition methods there is a cumulative effect adjustment. We intend to adopt the standard on the effective date of January 1, 2019 by applying the new lease requirements at the beginning of the earliest period presented. We also intend to elect the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allows us to carry forward the historical lease classification. We have evaluated the changes from this ASU to our future financial reporting and disclosures, and have designed and implemented related processes and controls to address these changes. We expect the standard will result in the recognition of right-of-use assets of $0.8 billion and lease liabilities of $0.8 billion as of December 31, 2018, with immaterial changes to other balance sheet accounts. The standard will have no impact on our results of operations or liquidity. In addition, new disclosures will be provided to enable users to assess the amount, timing and uncertainty of cash flows arising from leases.

Other new pronouncements issued but not effective until after December 31, 2018 are not expected to have a material impact on our financial position, results of operations or liquidity.

Note 2: Earnings Per Share (EPS)

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

		2018		2017		2016
Basic EPS attributable to Raytheon Company common stockholders:						
Distributed earnings	**$**	**3.46**	$	3.18	$	2.92
Undistributed earnings		**6.70**		3.77		4.63
Total	**$**	**10.16**	$	6.95	$	7.55
Diluted EPS attributable to Raytheon Company common stockholders:						
Distributed earnings	**$**	**3.45**	$	3.18	$	2.92
Undistributed earnings		**6.70**		3.76		4.63
Total	**$**	**10.15**	$	6.94	$	7.55

Income attributable to participating securities was as follows:

(In millions)		2018		2017		2016
Income from continuing operations attributable to participating securities	**$**	**30**	$	24	$	30
Income (loss) from discontinued operations, net of tax attributable to participating securities		**—**		—		—
Net income attributable to participating securities	**$**	**30**	$	24	$	30

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

(In millions)	2018	2017	2016
Shares for basic EPS(1)	**286.5**	291.1	296.5
Effect of dilutive securities	**0.3**	0.3	0.3
Shares for diluted EPS	**286.8**	291.4	296.8

(1) Includes participating securities of 2.9 million, 3.5 million and 4.0 million for 2018, 2017 and 2016, respectively.

Our Board of Directors is authorized to issue up to 200 million shares of preferred stock, $0.01 par value per share, in multiple series with terms as determined by them. There were no shares of preferred stock outstanding at December 31, 2018 or December 31, 2017.

Note 3: Acquisitions, Divestitures and Goodwill

In pursuing our business strategies, we acquire and make investments in certain businesses that meet strategic and financial criteria, and divest of certain non-core businesses, investments and assets when appropriate.

In May 2018, we completed the sale of our commercial cloud-based call center analytics solutions business for $11 million in cash, net of transaction-related costs. This business was part of our Space and Airborne Systems (SAS) segment. The Company recognized a gain of $8 million before tax, $5 million net of tax, which was recorded as a reduction to cost of sales at our SAS segment in the second quarter of 2018.

In 2017, our Forcepoint business completed the acquisitions of RedOwl Analytics Inc., a security analytics business, and the Skyfence cloud access security broker (CASB) business for total consideration of $93 million, net of cash received, and exclusive of retention payments. Vista Equity Partners contributed 19.7% of the purchase price for the Skyfence acquisition. Both acquisitions expand and enhance Forcepoint’s strategy to deliver cybersecurity systems that help customers understand people’s behaviors and intent as they interact with data and intellectual property wherever it may reside. In connection with these acquisitions, we recorded $77 million of goodwill, primarily related to expected synergies from combining operations and the value of the existing workforce, and $12 million of intangible assets, primarily related to technology and customer relationships.

In 2016, our Forcepoint business acquired the Stonesoft next-generation firewall (NGFW) business, including the Sidewinder proxy firewall technology, and Vista Equity Partners contributed 19.7% of the purchase price. Stonesoft expands the cloud and hybrid capabilities of Forcepoint. In connection with this acquisition, we recorded $51 million of goodwill, primarily related to expected synergies from combining operations and the value of the existing workforce, and $23 million of intangible assets, primarily related to technology and customer relationships.

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

We funded each of the above acquisitions using cash on hand. The operating results of these businesses have been included in our consolidated results as of the respective closing dates of the acquisitions. The purchase price of these businesses has been allocated to the estimated fair value of net tangible and intangible assets acquired, with any excess purchase price recorded as goodwill. The total amount of goodwill that is expected to be deductible for tax purposes related to these acquisitions was $62 million at December 31, 2018.

A rollforward of goodwill by segment was as follows:

(In millions)	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint[1]	Total
Balance at December 31, 2016	$ 1,702	$ 2,966	$ 4,154	$ 4,106	$ 1,860	$ 14,788
Acquisitions and divestitures	—	—	—	—	77	77
Effect of foreign exchange rates and other	4	1	—	—	1	6
Balance at December 31, 2017	1,706	2,967	4,154	4,106	1,938	14,871
Acquisitions and divestitures	**—**	**—**	**—**	**(3)**	**—**	**(3)**
Effect of foreign exchange rates and other	**(2)**	**(2)**	**—**	**—**	**—**	**(4)**
Balance at December 31, 2018	**$ 1,704**	**$ 2,965**	**$ 4,154**	**$ 4,103**	**$ 1,938**	**$ 14,864**

(1) At December 31, 2018, Forcepoint's fair value was estimated to exceed its net book value by approximately $1 billion. As discussed in "Note 11: 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.

For information on our intangible assets, see "Note 8: Other Assets, Net."

Note 4: Thales-Raytheon Systems Co. Ltd. (TRS) Joint Venture

In 2001, we formed the TRS joint venture with Thales S.A. through our Integrated Defense Systems (IDS) segment. The TRS joint venture involved three operating companies, one of which, Raytheon Command and Control Solutions LLC (RCCS LLC), we controlled and consolidated, and the other two, Thales-Raytheon Systems Company S.A.S. (TRS SAS) and Thales-Raytheon Systems Air and Missile Defense Command and Control S.A.S. (TRS AMDC2), we accounted for using the equity method through our investment in TRS.

In 2016, Thales S.A. and Raytheon amended and restated the TRS joint venture agreement to reduce the arrangement to TRS AMDC2 only and limit its scope to NATO-only business opportunities involving air command and control systems, theatre missile defense and ballistic missile defense. As a result, we acquired Thales S.A.'s noncontrolling interest in RCCS LLC and sold our equity method investment in TRS SAS for a net cash payment to Thales S.A. of $90 million, which was classified as a financing activity in our consolidated statements of cash flows. We recorded our acquisition of RCCS LLC at fair value, which resulted in a reduction to equity of $167 million before tax, $197 million after tax, and the sale of TRS SAS at fair value, which resulted in a tax-free gain of $158 million that was recorded in operating income through a reduction in cost of sales at our IDS segment. TRS AMDC2 continues to be a joint venture between Thales S.A. and Raytheon that is accounted for using the equity method.

Note 5: Receivables, Net

Receivables, net, consisted of the following at December 31:

(In millions)	2018	2017
U.S. government contracts (including foreign military sales)	$ 1,121	$ 881
Other customers	539	451
Allowance for doubtful accounts	(12)	(8)
Total receivables, net	$ 1,648	$ 1,324

Note 6: Contract Assets and Contract Liabilities

Net contract assets (liabilities) consisted of the following at December 31:

(In millions)	2018	2017	$ Change	% Change
Contract assets	$ 5,594	$ 5,247	$ 347	6.6%
Contract liabilities—current	(3,309)	(2,927)	(382)	13.1%
Contract liabilities—noncurrent	(150)	(127)	(23)	18.1%
Net contract assets (liabilities)	$ 2,135	$ 2,193	$ (58)	(2.6)%

Total net contract assets (liabilities) was relatively consistent from December 31, 2017 to December 31, 2018. Included in the change in total net contract assets (liabilities) was a $382 million increase in our current contract liabilities driven principally by billings in excess of revenue recognized on certain international programs with milestone payments, partially offset by a $347 million increase in our contract assets, principally due to the timing of pending approvals on direct commercial sales contracts for precision guided munitions to certain Middle Eastern customers. For direct commercial sales contracts for which we are required to obtain regulatory approvals, we recognize revenue based on the likelihood of obtaining such approvals. At December 31, 2018, we had approximately $2.3 billion of total contract value, recognized approximately $1 billion of sales for work performed to date and received approximately $850 million in advances on contracts for precision guided munitions to certain Middle Eastern customers for which U.S. government approval is pending. On a contract by contract basis, and excluding advances billed but not received, we had $500 million and $350 million of net contract assets and net contract liabilities, respectively, related to these contracts.

Impairment losses recognized on our receivables and contract assets were de minimis in 2018, 2017 and 2016.

Contract assets consisted of the following at December 31:

(In millions)	2018	2017
U.S. government contracts (including foreign military sales):		
Unbilled	$ 10,651	$ 10,748
Progress payments	(6,338)	(6,637)
	4,313	4,111
Other customers:		
Unbilled	1,407	1,368
Progress payments	(126)	(232)
	1,281	1,136
Total contract assets	$ 5,594	$ 5,247

The U.S. government has title to the assets related to unbilled amounts on contracts that provide progress payments. Included in contract assets at December 31, 2018 was $13 million which is expected to be collected outside of one year.

Contract assets include retentions arising from contractual provisions. At December 31, 2018, retentions were $103 million. We anticipate collecting $20 million of these retentions in 2019 and the balance thereafter.

In 2018, 2017 and 2016, we recognized revenue of $1,453 million, $1,434 million and $1,403 million related to our contract liabilities at January 1, 2018, January 1, 2017 and January 1, 2016, respectively.

Note 7: Property, Plant and Equipment, Net

Property, plant and equipment, net, consisted of the following at December 31:

(In millions)	2018	2017
Land	**$ 84**	$ 85
Buildings and improvements	**2,835**	2,567
Machinery and equipment	**4,844**	4,621
Property, plant and equipment, gross	**7,763**	7,273
Accumulated depreciation and amortization	**(4,923)**	(4,834)
Total	**$ 2,840**	$ 2,439

Depreciation and amortization expense of property, plant and equipment, net, was $374 million, $350 million and $316 million in 2018, 2017 and 2016, respectively.

Note 8: Other Assets, Net

Other assets, net, consisted of the following at December 31:

(In millions)	2018	2017
Marketable securities held in trust(1)	**$ 642**	$ 633
Computer software, net of accumulated amortization of $1,201 and $1,150 at December 31, 2018 and 2017, respectively	**261**	288
Other intangible assets, net of accumulated amortization of $760 and $652 at December 31, 2018 and 2017, respectively	**361**	481
Deferred tax asset(2)	**331**	537
Other noncurrent assets, net	**429**	285
Total	**$ 2,024**	$ 2,224

(1) For further details, refer to "Note 14: Pension and Other Employee Benefits."
(2) For further details, refer to "Note 15: Income Taxes."

Computer software amortization expense was $75 million, $71 million and $68 million in 2018, 2017 and 2016, respectively.

Other intangible assets, net, consisted primarily of completed technology, intellectual property and acquired customer relationships. These intangible assets are being amortized over their estimated useful lives which range from 1 to 15 years using either a straight-line or accelerated amortization method based on the pattern of economic benefits we expect to realize from such assets. Amortization expense for other intangible assets was $119 million, $129 million and $131 million in 2018, 2017 and 2016, respectively.

Computer software and other intangible asset amortization expense is expected to be approximately $174 million in 2019, $135 million in 2020, $99 million in 2021, $59 million in 2022 and $27 million in 2023.

Note 9: Commercial Paper and Long-term Debt

Commercial Paper—At December 31, 2018, short-term commercial paper borrowings outstanding were $300 million, which had a weighted-average interest rate and original maturity period of 2.954% and 16 days, respectively. At December 31, 2017, short-term commercial paper borrowings outstanding were $300 million, which had a weighted-average interest rate and original maturity period of 1.583% and 20 days, respectively. The commercial paper notes outstanding have original maturities of not more than 90 days from the date of issuance.

Long-term Debt—Long-term debt consisted of the following at December 31:

(In millions, except percentages)		**2018**		2017
$500 notes due 2020, 4.40%	**$**	**499**	$	499
$1,000 notes due 2020, 3.125%		**998**		996
$1,100 notes due 2022, 2.50%		**1,096**		1,095
$300 notes due 2024, 3.15%		**298**		297
$382 notes due 2027, 7.20%		**373**		372
$185 notes due 2028, 7.00%		**185**		185
$600 notes due 2040, 4.875%		**592**		592
$425 notes due 2041, 4.70%		**419**		419
$300 notes due 2044, 4.20%		**295**		295
Total debt issued and outstanding	**$**	**4,755**	$	4,750

The notes are redeemable by us at any time at redemption prices based on U.S. Treasury rates. In the second quarter of 2017, we exercised our call rights to repurchase, at prices based on fixed spreads to the U.S. Treasury rates, $591 million of our long-term debt due March and December 2018 at a loss of $39 million before tax, $25 million net of tax, which is included in other (income) expense, net.

The carrying value of long-term debt is recorded at amortized cost. The fair value of long-term debt is determined using quoted prices in inactive markets, which falls within Level 2 of the fair value hierarchy. The estimated fair value of long-term debt was the following at December 31:

(In millions)		**2018**		2017
Fair value of long-term debt	**$**	**5,063**	$	5,293

The adjustments to the principal amounts of long-term debt were as follows at December 31:

(In millions)		**2018**		2017
Principal	**$**	**4,792**	$	4,792
Unamortized issue discounts		**(30)**		(34)
Unamortized interest rate lock costs		**(7)**		(8)
Total	**$**	**4,755**	$	4,750

The aggregate amounts of principal payments due on long-term debt for the next five years are:

(In millions)		
2019	$	—
2020		1,500
2021		—
2022		1,100
2023		—
Thereafter		2,192

In November 2015, we entered into a $1.25 billion revolving credit facility maturing in November 2020. Under the $1.25 billion credit facility, we can borrow, issue letters of credit and backstop commercial paper. Borrowings under this facility bear interest at various rate options, including LIBOR plus a margin based on our credit ratings. Based on our credit ratings at December 31, 2018, borrowings would generally bear interest at LIBOR plus 80.5 basis points. The credit facility is composed of commitments from 20 separate highly rated lenders, each committing no more than 10% of the facility. As of December 31, 2018 and December 31, 2017 there were no borrowings or letters of credit outstanding under this credit facility. The $300 million of commercial paper outstanding at December 31, 2018 reduced the amount available under our credit facility to $950 million.

Under the $1.25 billion credit facility we must comply with certain covenants, including a ratio of total debt to total capitalization of no more than 60%. We were in compliance with the credit facility covenants as of December 31, 2018 and December 31, 2017. Our ratio of total debt to total capitalization, as those terms are defined in the credit facility, was 30.6% at December 31, 2018. We are providing this ratio as this metric is used by our lenders to monitor our leverage and is also a threshold that could limit our ability to utilize this facility.

Total cash paid for interest on commercial paper and long-term debt was $194 million, $214 million and $231 million in 2018, 2017 and 2016, respectively.

Note 10: Commitments and Contingencies

Leases—At December 31, 2018, we had commitments under long-term leases requiring annual rentals on a net lease basis as follows:

(In millions)		
2019	$	215
2020		181
2021		157
2022		121
2023		85
Thereafter		200

Rent expense was $232 million, $229 million and $239 million in 2018, 2017 and 2016, respectively. In the normal course of business, we lease equipment, office buildings and other facilities under leases that include standard escalation clauses for adjusting rent payments to reflect changes in price indices, as well as renewal options.

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 regularly assess the probability of recovery of these costs, which requires us to make assumptions about the extent of cost recovery under our contracts and the amount of future contract activity. We consider such recovery probable based on government contracting regulations and our long history of receiving reimbursement for such costs, and accordingly have recorded the estimated future recovery of these costs from the U.S. government within prepaid expenses and other current assets, in our consolidated balance sheets. Our estimates regarding remediation costs to be incurred were as follows at December 31:

(In millions, except percentages)		**2018**		2017
Total remediation costs—undiscounted	**$**	**193**	$	206
Weighted-average discount rate		**5.1%**		5.2%
Total remediation costs—discounted	**$**	**128**	$	142
Recoverable portion		**82**		92

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

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

Environmental remediation costs expected to be incurred are:

(In millions)		
2019	$	31
2020		15
2021		12
2022		11
2023		11
Thereafter		113

Financing Arrangements and Other—We issue guarantees, and banks and surety companies issue, on our behalf, letters of credit and surety bonds to meet various bid, performance, warranty, retention and advance payment obligations for us or our affiliates. These instruments expire on various dates through 2028. Additional guarantees of project performance for which there is no stated value also remain outstanding. The stated values outstanding consisted of the following at December 31:

(In millions)		**2018**		2017
Guarantees	**$**	**201**	$	216
Letters of credit		**2,503**		2,416
Surety bonds		**166**		166

All guarantees at December 31, 2018 and December 31, 2017 related to our joint venture in TRS AMDC2. We provide these guarantees, as well as letters of credit, to TRS AMDC2 and other affiliates to assist these entities in obtaining financing on more favorable terms, making bids on contracts and performing their contractual obligations. While we expect these entities to satisfy their loans and meet their project performance and other contractual obligations, their failure to do so may result in a future obligation to us. We periodically evaluate the risk of TRS AMDC2 and other affiliates failing to meet their obligations described above. At December 31, 2018, we believe the risk that TRS AMDC2 and other affiliates will not be able to meet their obligations is minimal for the foreseeable future based on their current financial condition. All obligations were current at December 31, 2018. At December 31, 2018 and December 31, 2017, we had an estimated liability of $3 million and $2 million, respectively, related to these guarantees.

As discussed in “Note 11: Forcepoint Joint Venture,” under the joint venture agreement between Raytheon Company and Vista Equity Partners, Raytheon may be required to purchase Vista Equity Partners’ interest in Forcepoint.

We have entered into industrial cooperation agreements, sometimes in the form of either offset agreements or ICIP agreements, as a condition to obtaining orders for our products and services from certain customers in foreign countries. At December 31, 2018, the aggregate amount of our offset agreements, both agreed to and anticipated to be agreed to, had an outstanding notional value of approximately $9.7 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. Historically, we have not been required to pay any penalties of significance.

As a U.S. government contractor, we are subject to many levels of audit and investigation by the U.S. government relating to our contract performance and compliance with applicable rules and regulations. Agencies that oversee contract performance include: the Defense Contract Audit Agency (DCAA); the Defense Contract Management Agency (DCMA); the Inspectors General of the U.S. Department of Defense (DoD) and other departments and agencies; the Government Accountability Office (GAO); the Department of Justice (DOJ); and Congressional Committees. Other areas of our business operations may also be subject to audit and investigation by these and/or other agencies. From time to time, agencies investigate or conduct audits to determine whether our operations are being conducted in accordance with applicable requirements. Such investigations and audits may be initiated due to a number of reasons, including as a result of a whistleblower complaint. Such investigations and audits could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, the suspension of government export licenses or the suspension or debarment from future U.S. government contracting. U.S. government investigations often take years to complete and many result in no adverse action against us. Our final allowable incurred costs for each year are also subject to audit and have, from time to time, resulted in disputes between us and the U.S. government, with litigation resulting at the Court of Federal Claims (COFC) or the Armed Services Board of Contract Appeals (ASBCA) or their related courts of appeals. In addition, the DOJ has, from time to time, convened grand juries to investigate possible irregularities by us. We also provide products and services to customers outside of the U.S., and those sales are subject to local government laws, regulations and procurement policies and practices. Our compliance with such local government regulations or any applicable U.S. government regulations (e.g., the Foreign Corrupt Practices Act (FCPA) and International Traffic in Arms Regulations (ITAR)) may also be investigated or audited. Other than as specifically disclosed herein, we do not expect these audits, investigations or disputes to have a material effect on our financial position, results of operations or liquidity, either individually or in the aggregate.

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

Note 11: Forcepoint Joint Venture

Forcepoint is a cybersecurity joint venture company with Vista Equity Partners. The joint venture agreement between Raytheon and Vista Equity Partners provides Vista Equity Partners with certain rights to require Forcepoint to pursue an initial public offering at any time after four years and three months following the closing date of May 29, 2015, or pursue a sale of the company at any time after five years following the closing date. In either of these events, Raytheon has the option to purchase all, but not less than all, of Vista Equity Partners’ interest in Forcepoint for cash at a price equal to fair value as determined under the joint venture agreement. Additionally, Vista Equity Partners has the ability to liquidate its ownership through a put option, which became exercisable on May 29, 2017. The put option allows Vista Equity Partners to require Raytheon to purchase all, but not less than all, of Vista Equity Partners’ interest in Forcepoint for cash at a price equal to fair value as determined under the joint venture agreement. Lastly, Raytheon has the option, which became exercisable on May 29, 2018, to purchase all, but not less than all, of Vista Equity Partners’ interest in Forcepoint at a price equal to fair value as determined under the joint venture agreement. The joint venture agreement provides for the process under which the parties would determine the fair value of the interest and could result in a payment by Raytheon shortly after the exercise of Vista Equity Partners’ put option or Raytheon’s purchase option; however, the ultimate timing will depend on the actions of the parties and other factors. The estimate of fair value for purposes of presenting the redeemable noncontrolling interest in our consolidated balance sheets could differ from the parties’ determination of fair value for the interest under the joint venture agreement.

Vista Equity Partners’ adjusted equity interest in the Forcepoint joint venture was 19.5% at December 31, 2018. 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 $411 million at December 31, 2018, or the carrying value, which was $281 million at December 31, 2018.

A rollforward of redeemable noncontrolling interest was as follows:

(In millions)		2018		2017
Beginning balance	$	512	$	449
Net income (loss)		(27)		(23)
Other comprehensive income (loss), net of tax[1]		(1)		—
Contribution from noncontrolling interest		—		8
Adjustment of noncontrolling interest to redemption value		(73)		78
Ending balance	$	411	$	512

(1) Other comprehensive income (loss), net of tax, was income of less than $1 million in 2017.

Note 12: Stockholders' Equity

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

(In millions)	2018	2017	2016
Beginning balance	288.4	292.8	299.0
Stock plans activity	0.9	1.1	1.5
Share repurchases	(7.2)	(5.5)	(7.7)
Ending balance	282.1	288.4	292.8

From time to time, our Board of Directors authorizes the repurchase of shares of our common stock. In November 2015, our Board authorized the repurchase of up to $2.0 billion of our outstanding common stock. In November 2017, our Board also authorized the repurchase of up to $2.0 billion of our outstanding common stock. At December 31, 2018, we had approximately $1.5 billion available under the 2017 repurchase program. Share repurchases will take place from time to time at management's discretion depending on market conditions.

Share repurchases also include shares surrendered by employees to satisfy tax withholding obligations in connection with restricted stock, RSUs and LTPP awards issued to employees.

Due to the volume of repurchases made under our share repurchase program, additional paid-in capital was reduced to zero in both 2018 and 2017, with the remainder of the excess purchase price over par value of $1,250 million and $724 million recorded as a reduction to retained earnings in 2018 and 2017, respectively.

Our share repurchases were as follows:

	2018			2017			2016		
(In millions)	$		Shares	$		Shares	$		Shares
Shares repurchased under our share repurchase programs	$	1,325	6.7	$	800	4.9	$	900	6.9
Shares repurchased to satisfy tax withholding obligations		93	0.5		85	0.6		96	0.8
Total share repurchases	$	1,418	7.2	$	885	5.5	$	996	7.7

In March 2018, our Board of Directors authorized an 8.8% increase to our annual dividend payout rate from $3.19 to $3.47 per share. Our Board of Directors declared dividends of $3.47, $3.19 and $2.93 per share in 2018, 2017 and 2016, respectively. Dividends are subject to quarterly approval by our Board of Directors.

As further discussed in "Note 4: Thales-Raytheon Systems Co. Ltd. (TRS) Joint Venture," in 2016, we recorded our acquisition of Thales S.A.'s noncontrolling interest in RCCS LLC at fair value, which resulted in a reduction to retained earnings of $167 million before tax, $197 million after tax. The $30 million of deferred tax is due to the change in outside basis difference in RCCS LLC.

Note 13: Stock-based Compensation Plans

The Raytheon 2010 Stock Plan provides for stock-based awards to be issued as stock options, stock appreciation rights, restricted stock, RSUs or stock grants, including awards based on performance criteria. The plan authorizes the issuance of 7.5 million shares in addition to shares available under certain prior plans of the Company to fulfill the stock-based awards. The total maximum number of shares originally authorized for issuance under the 2010 Stock Plan and those certain prior plans is 41.8 million. The 2010 Stock Plan provides that awards to our employees, officers and consultants are generally made by the Management Development and Compensation Committee (MDCC) of our Board of Directors and are compensatory in nature, while awards to our non-employee directors are made by the Board's Governance and Nominating Committee. Shares issued to fulfill the stock-based awards will be funded through the issuance of shares under the 2010 Stock Plan. At December 31, 2018, there were 6.0 million shares available for new awards and 3.1 million shares outstanding.

Stock-based compensation expense and the associated tax benefit recognized were as follows:

(In millions)	**2018**	2017	2016
Stock-based compensation expense			
Restricted stock expense	**$ 98**	$ 94	$ 96
RSU expense	**32**	28	26
LTPP expense	**36**	38	29
Total stock-based compensation expense	**$ 166**	$ 160	$ 151
Stock-based tax benefit recognized	**29**	30	46

At December 31, 2018, there was $179 million of compensation expense related to nonvested awards not yet recognized which is expected to be recognized over a weighted-average period of 1.5 years.

Restricted Stock and Restricted Stock Units

Shares of restricted stock vest over a specified period of time as determined by the MDCC, generally four years for employee awards and one year for non-employee directors. Recipients of restricted stock are entitled to full dividend and voting rights beginning on the date of grant. Non-vested shares of restricted stock are subject to forfeiture under certain circumstances and restricted as to disposition until vested. At the date of grant, each share of restricted stock is credited to common stock at par value. The fair value of restricted stock is calculated under the intrinsic value method at the date of grant and is charged to income as compensation expense generally over the vesting period with a corresponding credit to additional paid-in capital.

RSUs also vest over a specified period of time as determined by the MDCC, are compensatory in nature and are primarily awarded to retirement eligible employees. Retirement eligible recipients of RSUs are entitled to full dividend rights beginning on the date of grant. In addition, RSUs granted to retirement eligible employees continue to vest, but do not accelerate, on the scheduled vesting dates into retirement subject to the recipient's compliance with certain post-employment covenants. Since recipients of RSUs with continued vesting provisions have satisfied the service requirement of the award at the date of grant, the Company recognizes all of the stock-based compensation expense associated with the RSUs awarded to retirement eligible employees in the period the award is granted. The expense is based on the fair value of the RSUs, calculated under the intrinsic value method at the date of grant.

Restricted stock and RSU activity was as follows:

	Shares/units (in thousands)		Weighted-average grant date fair value per share
Outstanding at December 31, 2015	3,740	$	87.57
Granted	1,128		124.08
Vested	(1,407)		71.09
Forfeited	(167)		98.61
Outstanding at December 31, 2016	3,294		106.56
Granted	1,025		152.93
Vested	(1,194)		91.77
Forfeited	(229)		120.33
Outstanding at December 31, 2017	2,896		127.98
Granted	**774**		**212.96**
Vested	**(977)**		**112.54**
Forfeited	**(215)**		**150.67**
Outstanding at December 31, 2018	**2,478**	**$**	**158.66**

The total fair value of restricted stock and RSUs vested and the related tax benefit realized were as follows:

(In millions)		**2018**		2017		2016
Fair value of restricted stock and RSUs vested	**$**	**206**	$	193	$	183
Tax benefit realized related to vested restricted stock/RSUs(1)		**39**		63		64

(1) Includes $18 million, $29 million and $32 million of excess tax benefits realized in 2018, 2017 and 2016, respectively.

Long-term Performance Plan

In 2004, we established the LTPP, which provides for restricted stock unit awards granted from our stock plans to our senior leadership. Recipients of LTPP awards have no voting rights and receive dividend equivalent units. The vesting of LTPP awards and related dividend equivalent units is based upon the achievement of specific pre-established levels of performance at the end of a three-year performance cycle. In the event of a retirement, vesting for LTPP awards will not accelerate and instead will vest in accordance with the original vesting conditions on a pro-rated basis.

The performance goals for the three outstanding performance cycles at December 31, 2018 are independent of each other and based on three metrics, as defined in the LTPP 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.

Compensation expense for the LTPP awards is recognized on a straight-line basis from the grant date through the end of the performance period based upon the value determined under the intrinsic value method for the CFCF and ROIC portions of the LTPP award and the Monte Carlo simulation method for the TSR portion of the LTPP award. Compensation expense for the CFCF and ROIC portions of the awards will be adjusted based upon the expected achievement of those performance goals.

The assumptions used in the Monte Carlo model for the TSR portion of the LTPP awards granted during each year were as follows:

	2018	2017	2016
Expected stock price volatility	**16.87%**	18.74%	18.60%
Peer group stock price volatility	**18.41%**	20.01%	20.06%
Correlations of returns	**52.49%**	56.55%	58.05%
Risk free interest rate	**2.21%**	1.53%	1.08%

LTPP award activity was as follows[1]:

	Units (in thousands)	Weighted-average grant date fair value per share
Outstanding at December 31, 2015	915	$ 80.83
Granted	167	123.31
Increase due to expected performance	205	89.62
Vested	(590)	61.38
Forfeited	(32)	105.52
Outstanding at December 31, 2016	665	110.32
Granted	142	152.29
Increase due to expected performance	193	125.14
Vested	(273)	97.59
Forfeited	(4)	137.57
Outstanding at December 31, 2017	723	127.16
Granted	**117**	**205.76**
Increase due to expected performance	**71**	**135.27**
Vested	**(303)**	**112.15**
Forfeited	**(24)**	**164.58**
Outstanding at December 31, 2018	**584**	**$ 150.15**

(1) This table excludes dividend equivalent units outstanding of 33 thousand at December 31, 2018 and 28 thousand at both December 31, 2017 and December 31, 2016, based on expected performance at each reporting date.

The total fair value of LTPP awards vested and the related tax benefit realized were as follows:

(In millions)	**2018**	2017	2016
Fair value of LTPP awards vested	**$ 67**	$ 44	$ 77
Tax benefit realized related to vested LTPP awards[1]	**24**	15	27

(1) Includes $13 million, $7 million and $15 million of excess tax benefits realized in 2018, 2017 and 2016, respectively.

Forcepoint Plans

In 2015, Forcepoint established long-term incentive plans that provide for awards of unit appreciation rights and profits interests in the joint venture to Forcepoint management and key employees. Awards are approved by the Board of Forcepoint. These awards vest over a specified period of time and settlement is subject to a liquidity event defined as either a change in control or an initial public offering of the joint venture. In 2018, Forcepoint issued 8 thousand unit appreciation rights, 3 thousand were forfeited, and had 21 thousand outstanding at December 31, 2018. Also in 2018, Forcepoint issued 29 thousand profits interests, 15 thousand were forfeited, and had 116 thousand outstanding at December 31, 2018. At December 31, 2018, there were 174 thousand and 35 thousand combined unit appreciation rights and/or profits interests authorized and available for issuance, respectively, under these plans. The fair value of the awards is determined using the Black-Scholes valuation model and compensation expense is recognized over the requisite service period when achievement of the liquidity event is considered probable. In certain limited circumstances other vesting conditions may apply and the impact attributable to these vesting conditions was income of $1 million in 2018 and expense of $13 million and $10 million in 2017 and 2016, respectively.

The weighted-average assumptions used in the Black-Scholes model and the weighted-average grant date fair value for the Forcepoint awards granted were as follows:

	2018	2017	2016
Unit Price	**$ 1,508.01**	$ 1,101.31	$ 935.28
Expected life (in years)	**3.01**	2.29	4.24
Expected unit price volatility	**43.66%**	49.51%	54.65%
Risk free interest rate	**2.69%**	1.46%	1.12%
Dividend yield	**—%**	—%	—%
Grant date fair value	**$ 486.94**	$ 339.72	$ 402.64

Note 14: Pension and Other Employee Benefits

We have pension plans covering the majority of our employees hired prior to January 1, 2007, including certain employees in foreign countries (Pension Benefits). Our primary pension obligations relate to our domestic Internal Revenue Service (IRS) qualified pension plans. In addition, we provide certain health care and life insurance benefits to retired employees and to eligible employees upon retirement through other postretirement benefit (PRB) plans.

The fair value of plan assets for our domestic and foreign Pension Benefits plans was as follows:

(In millions)	**2018**	2017
Domestic Pension Benefits plan	**$ 18,488**	$ 20,075
Foreign Pension Benefits plan	**833**	927

We maintain a defined contribution plan that includes a 401(k) plan. Covered employees hired or rehired on or after January 1, 2007 are eligible for a Company contribution based on age and service, instead of participating in our pension plans. These and other covered employees are eligible to contribute up to a specific percentage of their pay to the 401(k) plan, subject to IRS compensation and contribution limits. We match the employee contributions. The match is generally 3% or 4% of the employee's pay and is invested in the same way as the employee contributions. Total expense for our contributions was $326 million, $303 million and $286 million in 2018, 2017 and 2016, respectively.

At December 31, 2018 and December 31, 2017, there was $17.0 billion and $18.4 billion invested in our defined contribution plan, respectively. At December 31, 2018 and December 31, 2017, $1.6 billion and $2.1 billion of these amounts were invested in our stock fund, respectively.

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 at December 31:

(In millions)		**2018**		2017
Marketable securities held in trust	**$**	**642**	$	633

Included in marketable securities held in trust in the table above was $420 million and $410 million at December 31, 2018 and December 31, 2017, respectively, related to the nonqualified defined contribution plans. The liabilities related to the nonqualified defined contribution plans were $431 million and $422 million at December 31, 2018 and December 31, 2017, respectively.

We also maintain additional contractual pension benefits agreements for certain executive officers. The liability associated with such agreements was $36 million and $38 million at December 31, 2018 and December 31, 2017, respectively.

Contributions and Benefit Payments

We may make both required and discretionary contributions to our pension plans. Required contributions are primarily determined in accordance with the Pension Protection Act of 2006 (PPA), which amended the Employee Retirement Income Security Act of 1974 (ERISA) rules, and are affected by the actual return on plan assets (ROA) 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.

Due to the low interest rate environment, Congress provided for temporary pension funding relief through a provision in the Surface Transportation Extension Act of 2012 (STE Act). The provision was extended through 2020 by the Highway and Transportation Funding Act of 2014 (HATFA) and the Bipartisan Budget Act (BBA) of 2015. The provision adjusts the 24-month average high quality corporate bond rates used to determine the PPA funded status so that they are within a floor and cap, or “corridor,” based on the 25-year average of corporate bond rates. Beginning after 2020, the provision will be gradually phased out.

We made the following contributions to our pension and PRB plans during the years ended December 31:

(In millions)		**2018**		2017		2016
Required pension contributions	**$**	**889**	$	615	$	145
Discretionary pension contributions		**1,250**		1,000		500
PRB contributions		**22**		27		25
Total	**$**	**2,161**	$	1,642	$	670

We periodically evaluate whether to make additional discretionary contributions. We made a $1.25 billion discretionary pension contribution in third quarter 2018 and have elected to apply approximately $1 billion to partially offset required contributions in 2019 and 2020, roughly split evenly between the two years. We expect to make required contributions of approximately $356 million and $30 million to our pension and PRB plans, respectively, in 2019.

The table below reflects the total Pension Benefits expected to be paid from the plans or from our assets, including both our share of the benefit cost and the participants' share of the cost, which is funded by participant contributions. PRB benefits expected to be paid reflect our portion only.

(In millions)	Pension Benefits	PRB
2019	$ 2,008	$ 61
2020	1,878	60
2021	1,818	58
2022	1,744	55
2023	1,599	53
Thereafter (next 5 years)	7,612	231

Defined Benefit Retirement Plan Summary Financial Information

The tables below outline the components of net periodic benefit expense (income) of our domestic and foreign Pension Benefits and PRB plans.

	Pension Benefits		
Components of Net Periodic Pension Expense (Income) (in millions)	**2018**	2017	2016
Operating expense			
Service cost	**$ 504**	$ 473	$ 482
Non-operating expense			
Interest cost	**1,004**	1,088	1,089
Expected return on plan assets	**(1,435)**	(1,377)	(1,505)
Amortization of prior service cost	**6**	5	5
Amortization of net actuarial loss	**1,351**	1,177	999
Loss recognized due to settlements	**286**	1	3
Total pension non-service expense	**1,212**	894	591
Net periodic pension expense (income)	**$ 1,716**	$ 1,367	$ 1,073

Net periodic pension expense (income) includes income from foreign Pension Benefits plans of $8 million in 2018, expense of $2 million in 2017 and income of $4 million in 2016.

In July 2018, certain Raytheon-sponsored pension plans purchased a group annuity contract from an insurance company to transfer $923 million of our outstanding pension benefit obligations related to certain U.S. retirees and beneficiaries of our previously discontinued operations. As a result of the transaction, the insurance company is now required to pay and administer the retirement benefits owed to the approximately 13,000 U.S. retirees and beneficiaries, with no change to their monthly retirement benefit payment amounts. In connection with this transaction, in the third quarter of 2018 we recognized a non-cash pension settlement charge of $288 million before tax, $228 million net of tax, in non-operating (income) expense, net, primarily related to the accelerated recognition of actuarial losses included in AOCL for those plans.

Components of Net Periodic PRB Expense (Income) (in millions)	PRB 2018	2017	2016
Operating expense			
Service cost	**$ 5**	$ 6	$ 6
Non-operating expense			
Interest cost	**27**	30	31
Expected return on plan assets	**(21)**	(21)	(25)
Amortization of prior service cost	**—**	(1)	(1)
Amortization of net actuarial loss	**11**	10	3
Loss recognized due to settlements	**1**	1	2
Total PRB non-service expense	**18**	19	10
Net periodic PRB expense (income)	**$ 23**	$ 25	$ 16

Funded Status – Amounts Recognized on our Balance Sheets (in millions) December 31:	Pension Benefits 2018	Pension Benefits 2017	PRB 2018	PRB 2017
Noncurrent assets	**$ 126**	$ 112	**$ —**	$ —
Current liabilities	**(150)**	(164)	**(18)**	(19)
Noncurrent liabilities	**(6,111)**	(7,515)	**(354)**	(368)
Net amount recognized on our balance sheets	**$ (6,135)**	$ (7,567)	**$ (372)**	$ (387)

Reconciliation of Amounts Recognized on our Balance Sheets (in millions) December 31:	Pension Benefits 2018	Pension Benefits 2017	PRB 2018	PRB 2017
Accumulated other comprehensive loss:				
Prior service (cost) credit	**$ (27)**	$ (22)	**$ —**	$ —
Net loss	**(10,590)**	(11,607)	**(121)**	(137)
Accumulated other comprehensive loss	**(10,617)**	(11,629)	**(121)**	(137)
Accumulated contributions in excess (below) net periodic benefit or cost	**4,482**	4,062	**(251)**	(250)
Net amount recognized on our balance sheets	**$ (6,135)**	$ (7,567)	**$ (372)**	$ (387)

Sources of Change in Accumulated Other Comprehensive Loss (in millions)	Pension Benefits 2018	Pension Benefits 2017	PRB 2018	PRB 2017
Prior service (cost) credit arising during period	**$ (10)**	$ (15)	**$ —**	$ —
Amortization of prior service cost (credit) included in net income	**6**	5	**—**	(1)
Net change in prior service (cost) credit not recognized in net income during the period	**(4)**	(10)	**—**	(1)
Actuarial gain (loss) arising during period	**(630)**	(1,796)	**4**	(20)
Amortization of net actuarial (gain) loss	**1,351**	1,177	**11**	10
Loss recognized due to settlements	**286**	2	**1**	1
Net change in actuarial gain (loss) not included in net income during the period	**1,007**	(617)	**16**	(9)
Effect of exchange rates	**9**	(14)	**—**	—
Total change in accumulated other comprehensive loss during period	**$ 1,012**	$ (641)	**$ 16**	$ (10)

The amounts in AOCL at December 31, 2018 expected to be recognized as components of net periodic pension or PRB expense in 2019 are as follows:

(In millions)	Pension Benefits	PRB
Amortization of net actuarial gain (loss)	$ (1,092)	$ (10)
Amortization of prior service (cost) credit	(5)	—
Total	$ (1,097)	$ (10)

The projected benefit obligation (PBO) represents the present value of Pension Benefits earned through the end of the year, with an allowance for future salary increases. The accumulated benefit obligation (ABO) is similar to the PBO, but does not provide for future salary increases. The PBO, ABO and asset values for our domestic qualified pension plans were as follows:

(In millions)	**2018**	2017
PBO for domestic qualified pension plans	**$ 23,359**	$ 26,150
ABO for domestic qualified pension plans	**21,595**	24,122
Asset values for domestic qualified pension plans	**18,488**	20,075

The PBO and fair value of plans assets for Pension Benefits plans with PBOs in excess of plan assets were $24,561 million and $18,300 million, respectively, at December 31, 2018 and $27,084 million and $19,405 million, respectively, at December 31, 2017.

The ABO and fair value of plan assets for Pension Benefits plans with ABOs in excess of plan assets were $22,554 million and $18,300 million, respectively, at December 31, 2018 and $24,795 million and $19,405 million, respectively, at December 31, 2017. The ABO for all Pension Benefits plans was $23,447 million and $26,276 million at December 31, 2018 and December 31, 2017, respectively.

The tables below provide a reconciliation of benefit obligations, plan assets and related actuarial assumptions of our domestic and foreign Pension Benefits and PRB plans.

	Pension Benefits		PRB	
Change in Projected Benefit Obligation (in millions)	**2018**	2017	**2018**	2017
PBO at beginning of year	**$ 28,569**	$ 25,787	**$ 745**	$ 737
Service cost	**504**	473	**5**	6
Interest cost	**1,004**	1,088	**27**	30
Plan participants' contributions	**6**	8	**49**	35
Amendments	**10**	15	**—**	—
Plan settlements	**(474)**	(5)	**(10)**	(9)
Actuarial loss (gain)	**(1,580)**	3,085	**(39)**	41
Foreign exchange loss (gain)	**(56)**	78	**—**	—
Benefits paid	**(2,527)**	(1,960)	**(105)**	(95)
PBO at end of year	**$ 25,456**	$ 28,569	**$ 672**	$ 745

The PBO for our domestic and foreign Pension Benefits plans was $24,656 million and $800 million, respectively, at December 31, 2018 and $27,661 million and $908 million, respectively, at December 31, 2017.

Change in Plan Assets (in millions)	Pension Benefits **2018**	Pension Benefits 2017	PRB **2018**	PRB 2017
Fair value of plan assets at beginning of year	**$ 21,002**	$ 18,605	**$ 358**	$ 360
Actual return (loss) on plan assets	**(775)**	2,666	**(14)**	40
Company contributions	**2,139**	1,615	**22**	27
Plan participants' contributions	**6**	8	**49**	35
Plan settlements	**(474)**	(4)	**(10)**	(9)
Foreign exchange gain (loss)	**(50)**	72	**—**	—
Benefits paid	**(2,527)**	(1,960)	**(105)**	(95)
Fair value of plan assets at end of year	**$ 19,321**	$ 21,002	**$ 300**	$ 358

Retirement Plan Assumptions

The tables below outline the actuarial assumptions of our domestic and foreign Pension Benefits and PRB plans.

Weighted-Average Net Periodic Benefit Cost Assumptions	Pension Benefits **2018**	Pension Benefits 2017	Pension Benefits 2016
Discount rate	**3.68%**	4.31%	4.45%
Expected long-term rate of return on plan assets	**7.38%**	7.39%	7.91%
Rate of compensation increase			
Range	**2%–7%**	2%–7%	2%–7%
Average	**4.43%**	4.43%	4.42%

Weighted-Average Net Periodic Benefit Cost Assumptions	PRB **2018**	PRB 2017	PRB 2016
Discount rate	**3.72%**	4.28%	4.42%
Expected long-term rate of return on plan assets	**6.25%**	6.25%	6.99%
Rate of compensation increase			
Range	**2%–7%**	2%–7%	2%–7%
Average	**4.50%**	4.50%	4.50%
Health care trend rate*	**4.00%**	4.00%	4.00%

* Currently at the ultimate trend rate.

Weighted-Average Year-End Benefit Obligation Assumptions	Pension Benefits **2018**	Pension Benefits 2017	PRB **2018**	PRB 2017
Discount rate	**4.28%**	3.68%	**4.31%**	3.72%
Rate of compensation increase				
Range	**2%–7%**	2%–7%	**2%–7%**	2%–7%
Average	**4.40%**	4.40%	**4.50%**	4.50%
Health care trend rate*			**4.00%**	4.00%

* Currently at the ultimate trend rate.

Our long-term return on plan assets (ROA) and discount rate assumptions are the key variables in determining the net periodic benefit cost and the pension benefit obligation of our pension plans under U.S. GAAP. Our long-term ROA assumption only impacts the retirement benefits non-service expense. The discount rate assumption impacts the service cost component of FAS expense and retirement benefits non-service expense, while also impacting the pension benefit obligation.

The discount rate represents the interest rate that should be used to determine the present value of future cash flows currently expected to be required to settle our pension and PRB obligations. The discount rate assumption is determined by using a theoretical bond portfolio model consisting of bonds rated AA or better by Moody's Investors Service for which the timing and amount of cash flows approximate the estimated benefit payments for each of our pension plans. The weighted-average year-end benefit obligation discount rate for our domestic Pension Benefits plans was 4.33% and 3.72% at December 31, 2018 and December 31, 2017, respectively. Our foreign Pension Benefits plan assumptions have been included in the Pension Benefits assumptions in the table above.

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

To establish our long-term ROA assumption we employ a "building block" approach. Under this building block method, the overall expected investment return equals the weighted-average of the individual expected return for each asset class based on the target asset allocation and the long-term capital market assumptions. The expected return for each asset class is composed of inflation plus a risk-free rate of return, plus an expected risk premium for that asset class. The resulting return is then adjusted for administrative, investment management and trading expenses as well as recognition of excess returns, also known as alpha, for active management. We then annually consider whether it is appropriate to change our long-term ROA assumption by reviewing the existing assumption against a statistically determined reasonable range of outcomes. The building block approach and the reasonable range of outcomes are based upon our asset allocation assumptions and long-term capital market assumptions. Such assumptions incorporate the economic outlook for various asset classes over short- and long-term periods and also take into consideration other factors, including historical market performance, inflation and interest rates.

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

The reasonable range of long-term returns that was used to validate the long-term ROA assumption for the calculation of the net periodic benefit cost for 2018, 2017 and 2016 is shown below.

Percentile	**2018**	2017	2016
35th	**5.49%**	5.82%	6.09%
65th	**7.57%**	7.96%	8.16%

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

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

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

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

Our domestic pension plans' actual rates of return were approximately (4)%, 15% and 6% for 2018, 2017 and 2016, respectively. The difference between the actual rate of return and our long-term ROA assumption is included in deferred gains and losses.

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

For purposes of determining pension expense under U.S. GAAP, a "corridor" approach may be elected and applied in the recognition of asset and liability gains or losses which limits expense recognition to the net outstanding gains and losses in excess of the greater of 10% of the projected benefit obligation (PBO) or the calculated "market-related value" of assets. We do not use a "corridor" approach in the calculation of FAS pension expense.

The effect of a 1% increase or decrease in the assumed health care trend rate for each future year for the aggregate of service cost and interest cost is less than $1 million and for the accumulated postretirement benefit obligation is a $4 million increase or decrease.

Plan Assets

Substantially all our domestic Pension Benefits Plan (Plan) assets, which consist of investments in cash and cash equivalents, U.S. and international equities, real assets, private equity funds, private real estate funds, fixed income and other investments such as absolute return funds, insurance contracts and derivatives, are held in a master trust, which was established for the investment of assets of our Company-sponsored retirement plans. The assets of the master trust are overseen by our Investment Committee comprised of members of senior management drawn from appropriate diversified levels of the executive management team.

The Investment Committee is responsible for setting the policy that provides the framework for management of the Plan assets. In accordance with its responsibilities and charter, the Investment Committee meets on a regular basis to review the performance of the Plan assets and compliance with the investment policy. The policy sets forth an investment structure for managing Plan assets, including setting the asset allocation ranges, which are expected to provide an appropriate level of overall diversification and total investment return over the long term while maintaining sufficient liquidity to pay the benefits of the Plan. In developing the asset allocation ranges, third-party asset allocation and liability studies are periodically performed that consider the current and expected positions of the Plan assets and funded status. Based on these studies and other appropriate information, the Investment Committee establishes asset allocation ranges taking into account acceptable risk targets and associated returns.

The investment policy asset allocation ranges for the Plan, as set by the Investment Committee, for the year ended December 31, 2018 were as follows:

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

The Investment Committee appoints the investment fiduciary, who is responsible for making investment decisions within the framework of the Investment Policy, setting the long-term target allocation within the investment policy asset allocation ranges and for supervising the internal pension investment team. The pension investment team is comprised of experienced investment professionals, who are all employees of the Company. The investment fiduciary reports back to the Investment Committee. The investment fiduciary may seek authorization from the Investment Committee to change the investing allocation ranges with a focus on managing the Plan in a prudent manner.

Taking into account the asset allocation ranges, the investment fiduciary determines the specific allocation of the Plan's investments within various asset classes. The Plan utilizes select investment strategies which are executed through separate account or fund structures with external investment managers who demonstrate experience and expertise in the appropriate asset classes and styles. The selection of investment managers is done with careful evaluation of all aspects of performance and risk, due diligence of internal operations and controls, reputation, systems evaluation, fees and a review of investment managers' policies and processes. Investment performance is monitored frequently against appropriate benchmarks and within a compliance framework with the assistance of third-party performance measurement and evaluation tools, analytics and metrics.

Consistent with managing the Plan in a prudent manner, multiple investment strategies are employed to diversify risk such that no single investment or manager holding represents a significant exposure to the total investment portfolio. Plan assets are invested in numerous strategies with the intent to build a diversified portfolio. Plan assets can be invested in funds that track an index and are designed to achieve broad market diversification. The Plan had $2.5 billion invested in such funds across eight indices as of December 31, 2018. Excluding funds that track an index, no individual investment strategy represented more than 5% of the Plan as of December 31, 2018. Further, within each separate account strategy, guidelines are established which set forth the list of authorized investments, the typical portfolio characteristics and diversification required by limiting the amount that can be invested by sector, country and issuer.

The Plan's investments are stated at fair value. Investments in equity securities are valued at the last reported sales price when an active market exists. Investments in fixed income securities are generally valued using methods based upon market transactions for comparable securities and various relationships between securities which are generally recognized by institutional market participants. Investments in funds are estimated at fair market value, which primarily utilizes net asset values reported by the investment manager or fund administrator. We review additional valuation and pricing information from fund managers, including audited financial statements, to evaluate the net asset values.

The fair value of our Plan assets by asset category and by level (as described in "Note 1: Summary of Significant Accounting Policies") at December 31, 2018 and December 31, 2017 were as follows:

December 31, 2018 (in millions)	Total	Level 1	Level 2	Level 3	Not subject to leveling[8]
U.S. equities[1]	**$ 4,701**	**$ 2,189**	**$ —**	**$ —**	**$ 2,512**
International equities[1]	**3,141**	**2,522**	**4**	**—**	**615**
Real assets[2]	**53**	**—**	**—**	**—**	**53**
Fixed income					
U.S. government and agency securities	**1,923**	**1,727**	**196**	**—**	**—**
Corporate debt securities/instruments[3]	**2,907**	**329**	**2,088**	**—**	**490**
Core fixed income[4]	**—**	**—**	**—**	**—**	**—**
Global multi-sector fixed income[5]	**400**	**400**	**—**	**—**	**—**
Securitized and structured credit[6]	**534**	**—**	**—**	**—**	**534**
Cash and cash equivalents[7]	**486**	**39**	**—**	**—**	**447**
Absolute return funds	**1,432**	**—**	**—**	**—**	**1,432**
Private equity funds	**1,419**	**—**	**—**	**—**	**1,419**
Private real estate funds	**1,264**	**—**	**—**	**—**	**1,264**
Insurance contracts	**31**	**—**	**—**	**31**	**—**
Total investments	**18,291**	**7,206**	**2,288**	**31**	**8,766**
Net receivables and payables	**197**	**—**	**—**	**—**	**197**
Total assets	**$ 18,488**	**$ 7,206**	**$ 2,288**	**$ 31**	**$ 8,963**

December 31, 2017 (in millions)	Total	Level 1	Level 2	Level 3	Not subject to leveling[8]
U.S. equities[1]	$ 5,217	$ 2,631	$ —	$ —	$ 2,586
International equities[1]	3,784	2,613	1	—	1,170
Real assets[2]	100	79	—	—	21
Fixed income					
U.S. government and agency securities	1,919	1,814	105	—	—
Corporate debt securities/instruments[3]	2,850	278	2,097	—	475
Core fixed income[4]	102	102	—	—	—
Global multi-sector fixed income[5]	472	472	—	—	—
Securitized and structured credit[6]	571	—	—	—	571
Cash and cash equivalents[7]	655	42	1	—	612
Absolute return funds	1,680	—	—	—	1,680
Private equity funds	1,416	—	—	—	1,416
Private real estate funds	1,203	—	—	—	1,203
Insurance contracts	30	—	—	30	—
Total investments	19,999	8,031	2,204	30	9,734
Net receivables and payables	76	—	—	—	76
Total assets	$ 20,075	$ 8,031	$ 2,204	$ 30	$ 9,810

(1) U.S. and International equities primarily include investments across the spectrum of large, medium and small market capitalization stocks.
(2) Real assets primarily include investments in physical and permanent assets, including infrastructure.
(3) Corporate debt securities/instruments primarily include investments in investment grade and non-investment grade fixed income securities.
(4) Core fixed income primarily includes investments in intermediate-term, high quality domestic securities issued by various governmental or private sector entities.
(5) Global multi-sector fixed income primarily includes investments that invest globally among several sectors including governments, investment grade corporate bonds, high yield corporate bonds and emerging market securities.
(6) Securitized and structured credit primarily includes investments that pool together various cash flow producing financial assets that are structured in a way that can achieve desired targeted credit, maturity or other characteristics and are typically collateralized by residential mortgages, commercial mortgages and other assets, and other fixed income related securities.
(7) Cash and cash equivalents are investments in highly liquid money market funds and bank sponsored collective funds. Included in cash and cash equivalents is excess cash in investment manager accounts. This cash is available for immediate use and is used to fund daily operations and execute the investment policy. This amount is not considered to be part of the cash target allocation set forth in the investment policy.
(8) Receivables, payables and certain investments that are valued using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amount presented for the total domestic pension benefits plan assets.

A reconciliation of investments with significant unobservable inputs (Level 3) has not been provided as the amounts are immaterial.

The Plan limits the use of derivatives through direct or separate account investments such that the derivatives used are liquid and able to be readily valued in the market. Derivative usage in separate account structures is limited to hedging or adjusting market exposure in a non-speculative manner. The fair market value of the Plan's derivatives through direct or separate account investments was approximately $6 million and $3 million as of December 31, 2018 and December 31, 2017, respectively.

In addition, assets are held in trust for non-U.S. Pension Benefits plans, primarily in the U.K. and Canada, which are governed in accordance with specific jurisdictional requirements. Investments in the non-U.S. Pension Benefits plans consist primarily of fixed income and equities and had a fair market value of $833 million and $927 million at December 31, 2018 and December 31, 2017, respectively. Investments with significant unobservable inputs (Level 3) are immaterial in the non-U.S. Pension Benefits plans.

The fair market value of assets related to our PRB Benefits was $300 million and $358 million as of December 31, 2018 and December 31, 2017, respectively. These assets included $141 million and $165 million at December 31, 2018 and December 31, 2017, respectively, which were invested in the master trust described above and are therefore invested in the same assets described above. The remaining investments are held within Voluntary Employees' Beneficiary Association (VEBA) trusts. The assets of the VEBA trusts are also overseen by the Investment Committee and managed by the same investment fiduciary that manages the master trust's investments. These assets are generally invested in mutual funds and are valued primarily using quoted prices in active markets (Level 1). There were no Level 3 investments in the VEBA trusts at December 31, 2018 or December 31, 2017.

The table below details assets by category for our VEBA trusts. These assets consisted primarily of publicly-traded equity securities and publicly-traded fixed income securities.

	% of Plan Assets at Dec 31:	
Asset category	**2018**	2017
Fixed income securities	**42%**	44%
U.S. equities	**36%**	40%
International equities	**10%**	10%
Cash and cash equivalents	**12%**	6%
Total	**100%**	100%

Note 15: Income Taxes

The provision for federal and foreign income taxes consisted of the following:

(In millions)		2018		2017		2016
Current income tax expense (benefit)						
Federal	**$**	**245**	$	822	$	713
Foreign		**43**		40		38
State		**—**		—		(3)
Deferred income tax expense (benefit)						
Federal		**(42)**		235		118
Foreign		**15**		18		6
State		**3**		(1)		1
Total	**$**	**264**	$	1,114	$	873

The expense for income taxes differed from the U.S. statutory rate due to the following:

	2018	2017	2016
Statutory tax rate	**21.0%**	35.0%	35.0%
Foreign derived intangible income (FDII)	**(4.2)**	—	—
Research and development tax credit (R&D tax credit)	**(2.4)**	(1.5)	(1.3)
Equity compensation	**(1.0)**	(1.2)	(1.6)
Foreign income tax rate differential	**1.3**	0.2	—
Prior year true-up	**(1.1)**	0.1	—
Tax benefit related to discretionary pension contributions	**(3.0)**	—	—
R&D tax credit claims related to the 2014-2017 tax years	**(2.1)**	—	—
Irish restructuring	**(2.0)**	—	—
Change in valuation allowance	**2.0**	—	—
Domestic manufacturing deduction benefit	**—**	(2.5)	(2.7)
Remeasurement of deferred taxes	**—**	3.2	—
One-time transition tax on previously undistributed foreign earnings	**—**	2.3	—
TRS SAS tax-free gain	**—**	—	(1.8)
Other items, net	**(0.1)**	0.2	0.7
Effective tax rate	**8.4%**	35.8%	28.3%

In 2017, the Tax Cuts and Jobs Act of 2017 (2017 Act) was enacted, which reduced the U.S. corporate tax rate to 21% effective in 2018. See below for a detailed discussion of the 2017 Act.

In the fourth quarter of 2018, Forcepoint completed an Irish restructuring transaction resulting in a deferred tax asset of approximately $63 million. We have evaluated both the positive and negative evidence to support our ability to realize the deferred tax asset associated with the restructuring. We believe it is more likely than not that the benefit from this restructuring transaction will not be realized. Accordingly, we have provided a valuation allowance of $63 million on the deferred tax asset related to this transaction.

In the third quarter of 2018, the Company recognized a net tax benefit of $110 million related to the completion of the 2017 tax return and additional amended research and development tax credit (R&D tax credit) claims related to the 2014-2016 tax years.

Also in the third quarter of 2018, we made a discretionary contribution to our pension plans of $1.25 billion. In the second quarter of 2018, we determined we would make this contribution and as a result recorded a net tax benefit of $95 million in the second quarter of 2018. This was primarily due to the remeasurement of the related deferred tax asset balance at the 2017 tax rate of 35% versus the 2018 tax rate of 21% since the discretionary contribution was deductible on our 2017 tax return.

In 2016, the Company recorded a tax benefit of approximately $55 million as a result of the tax-free gain from the sale of our equity method investment in TRS SAS as discussed in “Note 4: Thales-Raytheon Systems Co. Ltd. (TRS) Joint Venture.”

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. In August 2018, we received a full acceptance letter from the IRS that finalized their review of the 2016 tax year with no proposed changes. With the exception of one matter related to the 2015 tax year, all IRS examinations related to originally filed returns are closed through the 2016 tax year. In December 2017, we received the IRS Revenue Agent’s Report for the 2015 tax year which proposed approximately $41 million in adjustments related to the Forcepoint transaction and a U.K. share redemption transaction. We disagree and have protested the proposed adjustments with the IRS Appeals division. In the second quarter of 2018, the IRS agreed to withdraw the issue involving the U.K. share redemption transaction, which reduced the proposed adjustment to $32 million. Except for the issue appealed for the 2015 tax year, we have no proposed adjustments for any tax year prior to 2018. No amount related to the remaining proposed IRS adjustment is reflected in unrecognized tax benefits as of December 31, 2018. The amended tax returns for tax years 2014-2016 which reflect refund claims related to the increased R&D tax credits will be subject to audit. The schedule for that audit has yet to be proposed by the IRS. We are also under audit by multiple state and foreign tax authorities.

(In millions)		**2018**		2017		2016
Domestic income from continuing operations before taxes	**$**	**2,937**	$	3,027	$	2,964
Foreign income from continuing operations before taxes		**210**		86		121

The Company will generally be free of additional U.S. federal tax consequences due to a dividends received deduction implemented as part of the move to a territorial tax system on distributed foreign subsidiary earnings. No provision has been made for deferred taxes related to any remaining historical outside basis differences in our non-U.S. subsidiaries. Determination of the amount of unrecognized deferred tax liability on outside basis differences is not practicable because these differences primarily relate to non-earnings and profits (E&P) book tax differences, such as acquisition accounting, and could be recognized upon a sale or other transactions of a subsidiary. The Company continues to assert indefinite reinvestment on these outside basis differences generated on or before December 31, 2017.

We made (received) the following net tax payments (refunds) during the years ended December 31:

(In millions)		**2018**		2017		2016
Federal	**$**	**(69)**	$	765	$	710
Foreign		**63**		77		47
State		**23**		36		22

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 could record adjustments to the amounts for federal, foreign and state tax-related liabilities in the future as we revise estimates or as 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.

The balance of our unrecognized tax benefits, exclusive of interest, was $92 million and $9 million at December 31, 2018 and December 31, 2017, respectively, the majority of which would affect our earnings if recognized.

We accrue interest and penalties related to unrecognized tax benefits in tax expense. Interest and penalties recognized during 2018, 2017 and 2016 and accrued as of December 31, 2018 and December 31, 2017 were immaterial.

A rollforward of our unrecognized tax benefits was as follows:

(In millions)		2018		2017		2016
Unrecognized tax benefits, beginning of year	$	9	$	7	$	7
Additions based on current year tax positions		20		1		2
Additions based on prior year tax positions		68		4		1
Reductions based on prior year tax positions		(5)		(1)		(3)
Settlements based on prior year tax positions		—		(2)		—
Unrecognized tax benefits, end of year	$	92	$	9	$	7

With the exception of Forcepoint, we generally defer our state income tax expense to the extent we can recover this expense through the pricing of our products and services to the U.S. government. We include this deferred amount in prepaid expenses and other current assets until allocated to our contracts, which generally occurs upon payment or when otherwise agreed as allocable with the U.S. government. Current state income tax expense allocated to our contracts was $18 million, $32 million and $26 million in 2018, 2017 and 2016, respectively. We include state income tax expense allocated to our contracts in administrative and selling expenses.

Deferred income taxes consisted of the following at December 31:

(In millions)		2018		2017
Noncurrent deferred tax assets (liabilities)				
Accrued employee compensation and benefits	$	209	$	202
Other accrued expenses and reserves		77		86
Contract balances and inventories		(494)		(537)
Pension benefits		1,306		1,505
Other retiree benefits		67		67
Net operating loss and tax credit carryforwards		83		99
Depreciation and amortization		(827)		(858)
Partnership outside basis difference		(29)		(36)
Other		21		21
Valuation allowance		(84)		(17)
Deferred income taxes—noncurrent	$	329	$	532

As of December 31, 2018, we had U.S. federal and state net operating loss (NOL) carryforwards related to Forcepoint of $110 million and $292 million, respectively, which expire at various dates through 2037. We believe it is more likely than not that the deferred tax asset will be realized to the extent of existing deferred tax liabilities.

We also had foreign NOL carryforwards of $95 million as of December 31, 2018, with the majority generated in the U.K. where NOLs may be carried forward indefinitely. We believe that we will have sufficient taxable income to realize these deferred tax assets.

The Tax Cuts and Jobs Act

On December 22, 2017, the President signed the Tax Cuts and Jobs Act of 2017 (2017 Act) which enacted a wide range of changes to the U.S. corporate income tax system. The 2017 Act reduced the U.S. corporate statutory federal tax rate to 21% effective in 2018, eliminated the domestic manufacturing deduction benefit and introduced other tax base broadening measures, changed rules for expensing and capitalizing business expenditures, established a territorial tax system for foreign earnings as well as a minimum tax on certain foreign earnings, provided for a one-time transition tax on previously undistributed foreign earnings, and introduced new rules for the treatment of certain foreign income, including foreign derived intangible income (FDII).

Also on December 22, 2017, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 118 (SAB 118), which provided companies with additional guidance on how to account for the 2017 Act in their financial statements, allowing companies to use a measurement period. As of December 31, 2017, we made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax on previously undistributed foreign earnings and recognized provisional amounts totaling $171 million in accordance with SAB 118, which was included as a component of income tax expense from continuing operations. As of December 31, 2018, we had finalized our provisional estimates for the remeasurement of our existing U.S. deferred tax balances and the one-time transition tax for which we recorded a $1 million tax benefit in 2018.

Deferred tax assets and liabilities—At the date of enactment, the Company had a net deferred tax asset for the difference between the tax basis and the book basis of the U.S. assets and liabilities. Due to the 2017 Act, the future impact associated with the reversal of the net deferred tax asset will be subject to tax at a lower corporate tax rate. Consequently in 2017, we recorded a tax expense of $100 million to reduce the Company's deferred tax asset due to the remeasurement of the U.S. deferred tax assets and liabilities for the reduction in the corporate tax rate from 35% to 21%. At December 31, 2018, we have finalized our provisional estimate for the remeasurement of our existing deferred tax balances with no additional adjustment.

Transition tax—The one-time transition tax is based on our total post-1986 E&P for which we have previously deferred U.S. income taxes. In 2017, we recorded a provisional amount for our one-time transition tax liability, using an applicable tax rate of 15.5%, resulting in an increase in income tax expense of $71 million after accounting for foreign tax credits. In 2018, we recorded a $1 million tax benefit to finalize our provisional calculation for the one-time transition tax for foreign E&P. This refinement was a result of completing the data gathering and analysis based on the 2017 Act and guidance issued to date in 2018, including IRS Notices 2018-07, 2018-13 and 2018-26. No provision has been made for deferred taxes related to any remaining historical outside basis differences in our non-U.S. subsidiaries as we continue to assert indefinite reinvestment on outside basis differences not related to amounts that have been previously taxed in the U.S. or undistributed earnings generated after December 31, 2017.

In addition to the changes described above, the 2017 Act imposes a U.S. tax on global intangible low taxed income (GILTI) that is earned by certain foreign affiliates owned by a U.S. shareholder. The computation of GILTI is generally intended to impose tax on the earnings of a foreign corporation that are deemed to exceed a certain threshold return relative to the underlying business investment. The Company has made a policy election to treat future taxes related to GILTI as a current period expense in the reporting period in which the tax is incurred.

Note 16: Business Segment Reporting

Our reportable segments, organized based on capabilities and technologies, are: Integrated Defense Systems (IDS); Intelligence, Information and Services (IIS); Missile Systems (MS); Space and Airborne Systems (SAS); and Forcepoint.

IDS is a leader in integrated air and missile defense; large land- and sea-based radar solutions; command, control, communications, computers, cyber and intelligence solutions; naval combat and ship electronic and sensing systems; and undersea sensing and effects solutions. IDS delivers combat-proven performance against the complete spectrum of airborne and ballistic missile threats and is a world leader in the technology, development, and production of sensors and mission systems.

IIS provides a full range of technical and professional services to intelligence, defense, federal and commercial customers worldwide. IIS specializes in global Intelligence, Surveillance and Reconnaissance (ISR); navigation; DoD space and weather solutions; cybersecurity; analytics; training; logistics; mission support; advanced software-based complex systems; automation and sustainment solutions; and international and domestic Air Traffic Management (ATM) systems.

MS designs, develops, integrates and produces missile and combat systems for the armed forces of the U.S. and allied nations. Leveraging its capabilities in advanced airframes, guidance and navigation systems, high-resolution sensors, surveillance, hypersonic systems, targeting and netted systems, MS provides and supports a broad range of advanced weapon systems including missiles, smart munitions, close-in weapon systems, projectiles, kinetic kill vehicles, directed energy effectors and advanced combat sensor solutions.

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

Forcepoint develops cybersecurity products serving commercial and government organizations worldwide. Forcepoint is a joint venture of Raytheon and Vista Equity Partners created in May 2015 that brought together the capabilities of the legacy Raytheon Cyber Products (RCP) and Websense, Inc. (Websense) businesses. Forcepoint delivers a portfolio of human-centric cybersecurity capabilities that incorporate behavior based insights, including risk adaptive data loss prevention; user and entity behavior analytics (UEBA) and cloud access security broker (CASB) capabilities; insider threat solutions; next-generation firewall (NGFW) technology; cloud and on premise web and email security; and cross domain transfer products.

As previously announced, effective January 1, 2018, we adopted the requirements of ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* on a retrospective basis as discussed in “Note 1: Summary of Significant Accounting Policies.” All amounts and disclosures set forth in this Exhibit 99.1 to this Current Report on 8-K reflect these changes.

Segment total net sales and operating income include intersegment sales and profit generally recorded at cost-plus a specified fee, which may differ from what the selling entity would be able to obtain on sales to external customers. Eliminations include intersegment sales and profit eliminations. Corporate operating income includes expenses that represent unallocated costs and certain other corporate costs not considered part of management’s evaluation of reportable segment operating performance. Acquisition Accounting Adjustments include the adjustments to record acquired deferred revenue at fair value as part of our purchase price allocation process and the amortization of acquired intangible assets related to historical acquisitions.

Segment financial results were as follows:

Total Net Sales (in millions)	**2018**	2017	2016
Integrated Defense Systems	**$ 6,180**	$ 5,804	$ 5,529
Intelligence, Information and Services	**6,722**	6,177	6,169
Missile Systems	**8,298**	7,787	7,096
Space and Airborne Systems	**6,748**	6,430	6,182
Forcepoint	**634**	608	586
Eliminations	**(1,514)**	(1,423)	(1,361)
Total business segment sales	**27,068**	25,383	24,201
Acquisition Accounting Adjustments	**(10)**	(35)	(77)
Total	**$ 27,058**	$ 25,348	$ 24,124

Intersegment Sales (in millions)	**2018**	2017	2016
Integrated Defense Systems	**$ 65**	$ 64	$ 69
Intelligence, Information and Services	**666**	666	657
Missile Systems	**161**	132	122
Space and Airborne Systems	**596**	540	493
Forcepoint	**26**	21	20
Total	**$ 1,514**	$ 1,423	$ 1,361

Operating Income (in millions)	2018	2017	2016
Integrated Defense Systems	**$ 1,023**	$ 935	$ 971
Intelligence, Information and Services	**538**	455	467
Missile Systems	**973**	1,010	921
Space and Airborne Systems	**884**	862	808
Forcepoint	**5**	33	90
Eliminations	**(170)**	(148)	(142)
Total business segment operating income	**3,253**	3,147	3,115
Acquisition Accounting Adjustments	**(126)**	(160)	(198)
FAS/CAS Operating Adjustment	**1,428**	1,303	1,036
Corporate	**(17)**	(59)	(57)
Total	**$ 4,538**	$ 4,231	$ 3,896

Intersegment Operating Income (in millions)	2018	2017	2016
Integrated Defense Systems	**$ 6**	$ 5	$ 4
Intelligence, Information and Services	**68**	64	65
Missile Systems	**15**	13	12
Space and Airborne Systems	**60**	51	46
Forcepoint	**21**	15	15
Total	**$ 170**	$ 148	$ 142

We must calculate our pension and PRB costs under both FAS requirements under U.S. GAAP and CAS requirements. U.S. GAAP outlines the methodology used to 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 costs. Our FAS expense is split between operating income and non-operating income where only the service cost component of FAS expense is included in operating income. The FAS/CAS Operating Adjustment, which is reported as a separate line in our segment results above, represents the difference between the service cost component of our pension and PRB expense or income under FAS in accordance with U.S. GAAP and our pension and PRB expense under CAS.

The pension and PRB components of the FAS/CAS Operating Adjustment were as follows:

(In millions)	2018	2017	2016
FAS/CAS Pension Operating Adjustment	**$ 1,415**	$ 1,291	$ 1,026
FAS/CAS PRB Operating Adjustment	**13**	12	10
FAS/CAS Operating Adjustment	**$ 1,428**	$ 1,303	$ 1,036

Capital Expenditures (in millions)		**2018**		2017		2016
Integrated Defense Systems	**$**	**242**	$	200	$	135
Intelligence, Information and Services		**46**		22		59
Missile Systems		**337**		221		135
Space and Airborne Systems		**136**		158		149
Forcepoint		**13**		14		19
Corporate		**24**		19		29
Total[(1)]	**$**	**798**	$	634	$	526

(1) Total capital expenditures may not agree to our consolidated statements of cash flows due to non-cash transactions.

Depreciation and Amortization (in millions)		**2018**		2017		2016
Integrated Defense Systems	**$**	**98**	$	98	$	88
Intelligence, Information and Services		**51**		50		65
Missile Systems		**98**		84		69
Space and Airborne Systems		**140**		132		122
Forcepoint		**17**		17		15
Acquisition Accounting Adjustments		**116**		125		121
Corporate		**48**		44		35
Total	**$**	**568**	$	550	$	515

Total Assets (in millions)		**2018**		2017
Integrated Defense Systems[(1)]	**$**	**4,829**	$	4,679
Intelligence, Information and Services[(1)]		**4,242**		4,230
Missile Systems[(1)]		**8,229**		7,338
Space and Airborne Systems[(1)]		**6,750**		6,696
Forcepoint[(1)]		**2,531**		2,543
Corporate		**5,283**		5,374
Total	**$**	**31,864**	$	30,860

(1) Total assets includes intangible assets. Related amortization expense is included in Acquisition Accounting Adjustments.

Property, Plant and Equipment, Net, by Geographic Area (in millions)		**2018**		2017
United States	**$**	**2,751**	$	2,362
All other (principally Europe)		**89**		77
Total	**$**	**2,840**	$	2,439

We disaggregate our revenue from contracts with customers by geographic location, customer-type and contract-type for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. See details in the tables below.

	2018						
Disaggregation of Total Net Sales (in millions)	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	Total
United States							
Sales to the U.S. government[1]							
Fixed-price contracts	$ 818	$ 1,008	$ 2,953	$ 2,480	$ 118	$ —	$ 7,377
Cost-type contracts	1,706	4,110	2,675	2,565	14	—	11,070
Direct commercial sales and other U.S. sales							
Fixed-price contracts	5	118	41	111	209	—	484
Cost-type contracts	1	18	—	3	—	—	22
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	189	243	450	152	—	—	1,034
Cost-type contracts	79	45	61	22	—	—	207
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	711	198	173	211	70	—	1,363
Cost-type contracts	117	—	1	1	—	—	119
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	849	20	452	237	—	—	1,558
Cost-type contracts	170	5	23	69	—	—	267
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	1,137	15	785	95	33	—	2,065
Cost-type contracts	—	—	96	—	—	—	96
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	151	2	124	56	—	—	333
Cost-type contracts	27	—	70	6	—	—	103
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	145	230	231	144	154	—	904
Cost-type contracts	10	44	2	—	—	—	56
Total net sales	6,115	6,056	8,137	6,152	598	—	27,058
Intersegment sales	65	666	161	596	26	(1,514)	—
Acquisition Accounting Adjustments	—	—	—	—	10	(10)	—
Reconciliation to business segment sales	$ 6,180	$ 6,722	$ 8,298	$ 6,748	$ 634	$ (1,524)	$ 27,058

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

Total Net Sales by Geographic Area (in millions)	2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	$ 2,530	$ 5,254	$ 5,669	$ 5,159	$ 341	$ 18,953
Asia/Pacific	1,096	486	685	386	70	2,723
Middle East and North Africa	2,156	40	1,356	401	33	3,986
All other (principally Europe)	333	276	427	206	154	1,396
Total net sales	$ 6,115	$ 6,056	$ 8,137	$ 6,152	$ 598	$ 27,058

Total Net Sales by Major Customer (in millions)	2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government(1)	$ 2,524	$ 5,118	$ 5,628	$ 5,045	$ 132	$ 18,447
U.S. direct commercial sales and other U.S. sales	6	136	41	114	209	506
Foreign military sales through the U.S. government	1,465	315	1,180	542	—	3,502
Foreign direct commercial sales and other foreign sales(1)	2,120	487	1,288	451	257	4,603
Total net sales	$ 6,115	$ 6,056	$ 8,137	$ 6,152	$ 598	$ 27,058

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

Total Net Sales by Contract Type (in millions)	2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	$ 4,005	$ 1,834	$ 5,209	$ 3,486	$ 584	$ 15,118
Cost-type contracts	2,110	4,222	2,928	2,666	14	11,940
Total net sales	$ 6,115	$ 6,056	$ 8,137	$ 6,152	$ 598	$ 27,058

Disaggregation of Total Net Sales (in millions)	2017 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	Total
United States							
Sales to the U.S. government[(1)]							
Fixed-price contracts	$ 812	$ 1,090	$ 2,914	$ 2,233	$ 111	$ —	$ 7,160
Cost-type contracts	1,507	3,576	1,991	2,614	12	—	9,700
Direct commercial sales and other U.S. sales							
Fixed-price contracts	6	130	1	51	202	—	390
Cost-type contracts	1	9	—	2	1	—	13
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	167	181	410	113	—	—	871
Cost-type contracts	138	51	64	9	—	—	262
Direct commercial sales and other foreign sales[(1)]							
Fixed-price contracts	596	193	309	284	59	—	1,441
Cost-type contracts	145	—	1	1	—	—	147
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	1,066	18	371	191	—	—	1,646
Cost-type contracts	154	1	22	30	—	—	207
Direct commercial sales and other foreign sales[(1)]							
Fixed-price contracts	979	18	1,013	175	25	—	2,210
Cost-type contracts	—	—	—	—	—	—	—
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	7	3	157	51	—	—	218
Cost-type contracts	22	2	78	5	—	—	107
Direct commercial sales and other foreign sales[(1)]							
Fixed-price contracts	128	209	320	131	142	—	930
Cost-type contracts	12	30	4	—	—	—	46
Total net sales	5,740	5,511	7,655	5,890	552	—	25,348
Intersegment sales	64	666	132	540	21	(1,423)	—
Acquisition Accounting Adjustments	—	—	—	—	35	(35)	—
Reconciliation to business segment sales	$ 5,804	$ 6,177	$ 7,787	$ 6,430	$ 608	$ (1,458)	$ 25,348

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

	2017					
Total Net Sales by Geographic Area (in millions)	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	$ 2,326	$ 4,805	$ 4,906	$ 4,900	$ 326	$ 17,263
Asia/Pacific	1,046	425	784	407	59	2,721
Middle East and North Africa	2,199	37	1,406	396	25	4,063
All other (principally Europe)	169	244	559	187	142	1,301
Total net sales	$ 5,740	$ 5,511	$ 7,655	$ 5,890	$ 552	$ 25,348

	2017					
Total Net Sales by Major Customer (in millions)	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government(1)	$ 2,319	$ 4,666	$ 4,905	$ 4,847	$ 123	$ 16,860
U.S. direct commercial sales and other U.S. sales	7	139	1	53	203	403
Foreign military sales through the U.S. government	1,554	256	1,102	399	—	3,311
Foreign direct commercial sales and other foreign sales(1)	1,860	450	1,647	591	226	4,774
Total net sales	$ 5,740	$ 5,511	$ 7,655	$ 5,890	$ 552	$ 25,348

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

	2017					
Total Net Sales by Contract Type (in millions)	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	$ 3,761	$ 1,842	$ 5,495	$ 3,229	$ 539	$ 14,866
Cost-type contracts	1,979	3,669	2,160	2,661	13	10,482
Total net sales	$ 5,740	$ 5,511	$ 7,655	$ 5,890	$ 552	$ 25,348

Disaggregation of Total Net Sales (in millions)	2016 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	Total
United States							
Sales to the U.S. government[1]							
Fixed-price contracts	$ 766	$ 1,170	$ 2,647	$ 2,321	$ 86	$ —	$ 6,990
Cost-type contracts	1,473	3,357	1,902	2,345	16	—	9,093
Direct commercial sales and other U.S. sales							
Fixed-price contracts	13	167	2	20	193	—	395
Cost-type contracts	5	22	—	3	—	—	30
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	136	180	328	107	—	—	751
Cost-type contracts	119	77	70	6	—	—	272
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	502	166	249	288	49	—	1,254
Cost-type contracts	175	—	1	—	—	—	176
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	816	60	387	148	—	—	1,411
Cost-type contracts	153	3	25	1	—	—	182
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	1,086	72	829	272	18	—	2,277
Cost-type contracts	1	—	—	—	—	—	1
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	18	2	108	34	—	—	162
Cost-type contracts	23	—	90	8	—	—	121
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	162	206	333	136	127	—	964
Cost-type contracts	12	30	3	—	—	—	45
Total net sales	5,460	5,512	6,974	5,689	489	—	24,124
Intersegment sales	69	657	122	493	20	(1,361)	—
Acquisition Accounting Adjustments	—	—	—	—	77	(77)	—
Reconciliation to business segment sales	$ 5,529	$ 6,169	$ 7,096	$ 6,182	$ 586	$ (1,438)	$ 24,124

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

	2016					
Total Net Sales by Geographic Area (in millions)	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	$ 2,257	$ 4,716	$ 4,551	$ 4,689	$ 295	$ 16,508
Asia/Pacific	932	423	648	401	49	2,453
Middle East and North Africa	2,056	135	1,241	421	18	3,871
All other (principally Europe)	215	238	534	178	127	1,292
Total net sales	$ 5,460	$ 5,512	$ 6,974	$ 5,689	$ 489	$ 24,124

	2016					
Total Net Sales by Major Customer (in millions)	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government(1)	$ 2,239	$ 4,527	$ 4,549	$ 4,666	$ 102	$ 16,083
U.S. direct commercial sales and other U.S. sales	18	189	2	23	193	425
Foreign military sales through the U.S. government	1,265	322	1,008	304	—	2,899
Foreign direct commercial sales and other foreign sales(1)	1,938	474	1,415	696	194	4,717
Total net sales	$ 5,460	$ 5,512	$ 6,974	$ 5,689	$ 489	$ 24,124

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

	2016					
Total Net Sales by Contract Type (in millions)	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	$ 3,499	$ 2,023	$ 4,883	$ 3,326	$ 473	$ 14,204
Cost-type contracts	1,961	3,489	2,091	2,363	16	9,920
Total net sales	$ 5,460	$ 5,512	$ 6,974	$ 5,689	$ 489	$ 24,124

Note 17: Quarterly Operating Results (Unaudited)

2018 (in millions, except per share amounts and workdays)	**First**	**Second**	**Third(3)**	**Fourth**
Total net sales	**$ 6,267**	**$ 6,625**	**$ 6,806**	**$ 7,360**
Gross margin	**1,735**	**1,848**	**1,935**	**1,967**
Income from continuing operations	**624**	**790**	**641**	**828**
Net income attributable to Raytheon Company	**633**	**800**	**644**	**832**
EPS from continuing operations attributable to Raytheon Company common stockholders(1)				
Basic	**$ 2.20**	**$ 2.78**	**$ 2.25**	**$ 2.93**
Diluted	**2.20**	**2.78**	**2.25**	**2.93**
EPS attributable to Raytheon Company common stockholders(1)				
Basic	**2.20**	**2.78**	**2.25**	**2.93**
Diluted	**2.19**	**2.78**	**2.25**	**2.93**
Workdays(2)	**64**	**64**	**63**	**58**

2017 (in millions, except per share amounts and workdays)	First	Second	Third	Fourth[4]
Total net sales	$ 6,000	$ 6,281	$ 6,284	$ 6,783
Gross margin	1,634	1,760	1,816	1,798
Income from continuing operations	497	547	568	387
Net income attributable to Raytheon Company	506	553	572	393
EPS from continuing operations attributable to Raytheon Company common stockholders[1]				
Basic	$ 1.73	$ 1.90	$ 1.97	$ 1.35
Diluted	1.73	1.89	1.97	1.35
EPS attributable to Raytheon Company common stockholders[1]				
Basic	1.74	1.90	1.97	1.35
Diluted	1.74	1.89	1.97	1.35
Workdays[2]	64	64	62	58

(1) EPS is computed independently for each of the quarters presented; therefore, the sum of the quarterly EPS may not equal the total computed for each year.
(2) Number of workdays per our fiscal calendar, which excludes holidays and weekends.
(3) In the third quarter of 2018, we recognized a non-cash pension settlement charge of $288 million for certain Raytheon-sponsored pension plans that purchased a group annuity contract from an insurance company to transfer some of our outstanding pension benefit obligations.
(4) In the fourth quarter of 2017, we recorded a provisional tax-related expense of $171 million due to the enactment of the 2017 Act.

Exhibit 99.2

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INTERIM UNAUDITED FINANCIAL INFORMATION OF RAYTHEON COMPANY FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2019 AND APRIL 1, 2018 AND SIX MONTH-PERIODS ENDED JUNE 30, 2019 AND JULY 1, 2018

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RAYTHEON COMPANY

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In millions, except per share amounts)	**Mar 31, 2019**	Dec 31, 2018
Assets		
Current assets		
Cash and cash equivalents	**$ 2,093**	$ 3,608
Receivables, net	**1,424**	1,648
Contract assets	**5,971**	5,594
Inventories	**882**	758
Prepaid expenses and other current assets	**586**	529
Total current assets	**10,956**	12,137
Property, plant and equipment, net	**2,899**	2,840
Operating lease right-of-use assets	**816**	805
Goodwill	**14,882**	14,864
Other assets, net	**2,023**	2,024
Total assets	**$ 31,576**	$ 32,670
Liabilities, Redeemable Noncontrolling Interests and Equity		
Current liabilities		
Commercial paper and current portion of long-term debt	**$ 800**	$ 300
Contract liabilities	**2,930**	3,309
Accounts payable	**1,361**	1,964
Accrued employee compensation	**995**	1,509
Other current liabilities	**1,594**	1,381
Total current liabilities	**7,680**	8,463
Accrued retiree benefits and other long-term liabilities	**6,848**	6,922
Long-term debt	**4,256**	4,755
Operating lease liabilities	**652**	647
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests	**432**	411
Equity		
Raytheon Company stockholders' equity		
Common stock, par value, $0.01 per share, 1,450 shares authorized, 280 and 282 shares outstanding at March 31, 2019 and December 31, 2018, respectively	**3**	3
Additional paid-in capital	**—**	—
Accumulated other comprehensive loss	**(8,399)**	(8,618)
Retained earnings	**20,104**	20,087
Total Raytheon Company stockholders' equity	**11,708**	11,472
Noncontrolling interests in subsidiaries	**—**	—
Total equity	**11,708**	11,472
Total liabilities, redeemable noncontrolling interests and equity	**$ 31,576**	$ 32,670

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

RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In millions, except per share amounts)	Three Months Ended Mar 31, 2019	Apr 1, 2018
Net sales		
Products	**$ 5,562**	$ 5,254
Services	**1,167**	1,013
Total net sales	**6,729**	6,267
Operating expenses		
Cost of sales—products	**4,002**	3,737
Cost of sales—services	**875**	795
General and administrative expenses	**739**	694
Total operating expenses	**5,616**	5,226
Operating income	**1,113**	1,041
Non-operating (income) expense, net		
Retirement benefits non-service expense	**181**	239
Interest expense	**44**	47
Interest income	**(13)**	(7)
Other (income) expense, net	**(20)**	5
Total non-operating (income) expense, net	**192**	284
Income from continuing operations before taxes	**921**	757
Federal and foreign income taxes	**146**	133
Income from continuing operations	**775**	624
Income (loss) from discontinued operations, net of tax	**—**	(1)
Net income	**775**	623
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	**(6)**	(10)
Net income attributable to Raytheon Company	**$ 781**	$ 633
Basic earnings per share attributable to Raytheon Company common stockholders:		
Income from continuing operations	**$ 2.77**	$ 2.20
Income (loss) from discontinued operations, net of tax	**—**	—
Net income	**2.77**	2.20
Diluted earnings per share attributable to Raytheon Company common stockholders:		
Income from continuing operations	**$ 2.77**	$ 2.20
Income (loss) from discontinued operations, net of tax	**—**	—
Net income	**2.77**	2.19
Amounts attributable to Raytheon Company common stockholders:		
Income from continuing operations	**$ 781**	$ 634
Income (loss) from discontinued operations, net of tax	**—**	(1)
Net income	**$ 781**	$ 633

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

RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In millions)	Three Months Ended Mar 31, 2019	Apr 1, 2018
Net income	$ 775	$ 623
Other comprehensive income (loss), before tax:		
Pension and other postretirement benefit plans, net:		
Amortization of prior service cost	1	1
Amortization of net actuarial loss	276	347
Pension and other postretirement benefit plans, net	277	348
Foreign exchange translation	8	24
Cash flow hedges	(10)	(10)
Unrealized gains (losses) on investments and other, net	—	—
Other comprehensive income (loss), before tax	275	362
Income tax benefit (expense) related to items of other comprehensive income (loss)	(56)	(71)
Other comprehensive income (loss), net of tax	219	291
Reclassification of stranded tax effects	—	(1,451)
Total comprehensive income (loss)	994	(537)
Less: Comprehensive income (loss) attributable to noncontrolling interests in subsidiaries	(6)	(10)
Comprehensive income (loss) attributable to Raytheon Company	$ 1,000	$ (527)

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

RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

(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, 2018	$ 3	$ —	$ (8,618)	$ 20,087	$ 11,472	—	$ 11,472
Net income (loss)				**781**	**781**	**—**	**781**
Other comprehensive income (loss), net of tax			**219**		**219**		**219**
Adjustment of redeemable noncontrolling interests to redemption value				**5**	**5**		**5**
Dividends declared		**1**		**(265)**	**(264)**		**(264)**
Common stock plans activity		**61**			**61**		**61**
Share repurchases		**(62)**		**(504)**	**(566)**		**(566)**
Balance at March 31, 2019	**$ 3**	**$ —**	**$ (8,399)**	**$ 20,104**	**$ 11,708**	**—**	**$ 11,708**
Balance at December 31, 2017	$ 3	$ —	$ (7,935)	$ 17,895	$ 9,963	$ —	$ 9,963
Net income (loss)				633	633	—	633
Other comprehensive income (loss), net of tax			291		291		291
Reclassification of stranded tax effects			(1,451)	1,451	—		—
Adjustment of redeemable noncontrolling interests to redemption value				11	11		11
Dividends declared		1		(252)	(251)		(251)
Common stock plans activity		62			62		62
Share repurchases		(63)		(409)	(472)		(472)
Balance at April 1, 2018	$ 3	$ —	$ (9,095)	$ 19,329	$ 10,237	$ —	$ 10,237

(1) Excludes redeemable noncontrolling interests which are not considered equity. See “Note 13: Redeemable Noncontrolling Interests” for additional information.

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 31, 2019	Apr 1, 2018
Cash flows from operating activities		
Net income	$ **775**	$ 623
(Income) loss from discontinued operations, net of tax	**—**	1
Income from continuing operations	**775**	624
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	**140**	135
Stock-based compensation	**59**	63
Deferred income taxes	**(44)**	(77)
Changes in assets and liabilities		
Receivables, net	**236**	(314)
Contract assets and contract liabilities	**(731)**	(174)
Inventories	**(124)**	(46)
Prepaid expenses and other current assets	**(59)**	138
Income taxes receivable/payable	**181**	290
Accounts payable	**(484)**	(167)
Accrued employee compensation	**(523)**	(420)
Other current liabilities	**3**	(60)
Accrued retiree benefits	**219**	306
Other, net	**(59)**	(15)
Net cash provided by (used in) operating activities from continuing operations	**(411)**	283
Net cash provided by (used in) operating activities from discontinued operations	**—**	1
Net cash provided by (used in) operating activities	**(411)**	284
Cash flows from investing activities		
Additions to property, plant and equipment	**(274)**	(219)
Additions to capitalized internal use software	**(10)**	(12)
Maturities of short-term investments	**—**	309
Payments for purchases of acquired companies, net of cash received	**(8)**	—
Other	**—**	(1)
Net cash provided by (used in) investing activities	**(292)**	77
Cash flows from financing activities		
Dividends paid	**(245)**	(230)
Net borrowings (payments) on commercial paper	**—**	—
Repurchases of common stock under share repurchase programs	**(500)**	(400)
Repurchases of common stock to satisfy tax withholding obligations	**(66)**	(72)
Other	**(5)**	(5)
Net cash provided by (used in) financing activities	**(816)**	(707)
Net increase (decrease) in cash, cash equivalents and restricted cash	**(1,519)**	(346)
Cash, cash equivalents and restricted cash at beginning of the year	**3,624**	3,115
Cash, cash equivalents and restricted cash at end of period	$ **2,105**	$ 2,769

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

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). The accompanying unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements. 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 (SEC) 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.

Effective January 1, 2019, we adopted the requirements of Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* using the modified retrospective approach as discussed below in “Note 2: Accounting Standards.” We reclassified certain balance sheet amounts to conform to our current period presentation. All amounts disclosed in this Exhibit 99.2 to this Current Report on 8-K reflect these changes.

Note 2: Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a right-of-use asset and lease liability for most lease arrangements. Effective January 1, 2019, we adopted the requirements of the new lease standard using the modified retrospective approach, applying the new lease requirements at the beginning of the earliest period presented. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allows us to carry forward the historical lease classification. We did not elect the practical expedient to use hindsight in determining the lease term and in assessing impairment of right-of-use assets. The standard resulted in the recognition of operating lease right-of-use assets of $805 million and operating lease liabilities of $841 million, of which $194 million was classified as current and is included in other current liabilities in our consolidated balance sheet as of December 31, 2018, with immaterial changes to other balance sheet accounts. The standard had no impact on our results of operations or cash flows. In addition, new disclosures are provided to enable users to assess the amount, timing and uncertainty of cash flows arising from leases.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement: Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)*, which eliminates the disclosure requirement of the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and modifies certain disclosure requirements related to Level 3 recurring and nonrecurring fair value measurements. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Effective January 1, 2019, we elected to early adopt the requirements of the new standard on a prospective basis. The standard did not have an impact on our financial position, results of operations or liquidity.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-24): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Effective January 1, 2019, we elected to early adopt the requirements of the new standard on a prospective basis. The standard did not have a material impact on our financial position, results of operations or liquidity.

Other new pronouncements adopted and issued but not effective until after March 31, 2019 did not and are not expected to have a material impact on our financial position, results of operations or liquidity.

Note 3: Significant Accounting Policies Update

Our significant accounting policies are detailed in “Note 1: Summary of Significant Accounting Policies” within Exhibit 99.1 to this Current Report on Form 8-K. Significant changes to our accounting policies as a result of adopting Topic 842 are discussed below:

Leases—We determine if an arrangement is a lease or contains an embedded lease at inception. For lease agreements with both lease and nonlease components (e.g., common-area maintenance costs), we account for the nonlease components separately. Consideration is allocated to the lease and nonlease components based on the estimated standalone prices.

All of our leases are operating leases. Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of the future lease payments over the lease term at the commencement date. The current portion of operating lease liabilities is included in other current liabilities in our consolidated balance sheets. For the majority of our leases, the discount rate used to determine the present value of the lease payments is our incremental borrowing rate as of the lease commencement date, as the implicit rate is not readily determinable. The operating lease right-of-use assets also includes any initial direct costs and any lease payments made at or before the commencement date, and is reduced for any unrestricted incentives received at or before the commencement date.

Some of our leases include options to extend or terminate the lease. We include these options in the recognition of our right-of-use assets and lease liabilities when it is reasonably certain that we will exercise the option. Very few of our leases include variable lease-related payments, such as escalation clauses based on consumer price index (CPI) rates, or residual guarantees. Variable payments that are based on an index or a rate are included in the recognition of our right-of-use assets and lease liabilities using the index or rate at lease commencement; however, changes to these lease payments due to rate or index updates are recorded as rent expense in the period incurred. Amounts probable of payment under residual guarantees are also included in the recognition of our right-of-use assets and lease liabilities.

Note 4: 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 execution of our performance obligations. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities and the related changes in estimates of revenues and costs. The risks and opportunities include management’s judgment about the ability and cost to achieve the schedule (e.g., the number and type of milestone events), technical requirements (e.g., a newly-developed product versus a mature product) and other contract requirements. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the performance obligation (e.g., to estimate increases in wages and prices for materials and related support cost allocations), execution by our subcontractors, the availability and timing of funding from our customer, and overhead cost rates, among other variables. These estimates also include the estimated cost of satisfying our industrial cooperation agreements, sometimes in the form of either offset obligations or in-country industrial participation (ICIP) agreements, required under certain contracts. These obligations may or may not be distinct depending on their nature.

Based on this analysis, any quarterly adjustments to net sales, cost of sales and the related impact to operating income are recognized as necessary in the period they become known. These adjustments may result from positive program performance, and may result in an increase in operating income during the performance of individual performance obligations, if we determine we will be successful in mitigating risks surrounding the technical, schedule and cost aspects of those performance obligations or realizing related opportunities. Likewise, these adjustments may result in a decrease in operating income if we determine we will not be successful in mitigating these risks or realizing related opportunities. Changes in estimates of net sales, cost of sales and the related impact to operating income are recognized quarterly on a cumulative catch-up basis, which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a performance obligation’s percentage of completion. A significant change in one or more of these estimates could affect the profitability of one or more of our performance obligations. When estimates of total costs to be incurred exceed total estimates of revenue to be earned on a performance obligation related to complex aerospace or defense equipment or related services, or product maintenance or separately priced extended warranty, a provision for the entire loss on the performance obligation is recognized in the period the loss is identified.

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

(In millions, except per share amounts)	Three Months Ended Mar 31, 2019		Apr 1, 2018	
Operating income	**$**	**123**	$	115
Income from continuing operations attributable to Raytheon Company		**97**		91
Diluted earnings per share (EPS) from continuing operations attributable to Raytheon Company	**$**	**0.34**	$	0.32

In addition, net revenue recognized from our performance obligations satisfied in previous periods was $158 million and $138 million in the first quarters of 2019 and 2018, respectively. This primarily relates to EAC adjustments that impacted revenue.

Note 5: 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 and net income attributable to Raytheon Company, and our actual weighted-average shares outstanding rather than the numbers presented within our unaudited consolidated financial statements, which are rounded to the nearest million. As a result, it may not be possible to recalculate EPS as presented in our unaudited consolidated financial statements. Furthermore, it may not be possible to recalculate EPS attributable to Raytheon Company common stockholders by adjusting EPS from continuing operations by EPS from discontinued operations.

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

As described in “Note 13: Redeemable Noncontrolling Interests,” we record redeemable noncontrolling interest related to Vista Equity Partners’ interest in Forcepoint. We reflect the redemption value adjustments related to this redeemable noncontrolling interest in both the basic and diluted EPS calculation for the portion of redemption value that is in excess of the fair value of noncontrolling interest. There was no impact to basic or diluted EPS in the first quarters of 2019 or 2018.

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

	Three Months Ended Mar 31, 2019		Apr 1, 2018	
Basic EPS attributable to Raytheon Company common stockholders:				
Distributed earnings	**$**	**0.94**	$	0.87
Undistributed earnings		**1.83**		1.33
Total	**$**	**2.77**	$	2.20
Diluted EPS attributable to Raytheon Company common stockholders:				
Distributed earnings	**$**	**0.94**	$	0.87
Undistributed earnings		**1.83**		1.33
Total	**$**	**2.77**	$	2.20

Income attributable to participating securities was as follows:

(In millions)	Three Months Ended Mar 31, 2019	Apr 1, 2018
Income from continuing operations attributable to participating securities	$ 8	$ 7
Income (loss) from discontinued operations, net of tax attributable to participating securities	—	—
Net income attributable to participating securities	$ 8	$ 7

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

(In millions)	Three Months Ended Mar 31, 2019	Apr 1, 2018
Shares for basic EPS(1)	**281.9**	288.5
Effect of dilutive securities	**0.3**	0.3
Shares for diluted EPS	**282.2**	288.8

(1) Includes 2.8 million and 3.2 million participating securities for the first quarters of 2019 and 2018, respectively.

Note 6: Inventories

Inventories consisted of the following:

(In millions)	Mar 31, 2019	Dec 31, 2018
Materials and purchased parts	**$ 74**	$ 75
Work in process	**785**	662
Finished goods	**23**	21
Total	**$ 882**	$ 758

Precontract costs are costs incurred to fulfill a contract prior to contract award. Precontract costs, including general and administrative expenses that are specifically chargeable to the customer, are deferred in inventories if we determine that the costs are probable of recovery under a specific anticipated contract. All other precontract costs, including start-up costs, are expensed as incurred. Costs that are deferred are recognized as contract costs upon the receipt of the anticipated contract. We included deferred precontract costs of $238 million and $163 million in inventories as work in process at March 31, 2019 and December 31, 2018, respectively.

Note 7: Contract Assets and Contract Liabilities

Our contract assets consist of unbilled amounts typically resulting from sales under long-term contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. Our contract liabilities consist of advance payments and billings in excess of costs incurred and deferred revenue. The noncurrent portion of deferred revenue is included in accrued retiree benefits and other long-term liabilities in our consolidated balance sheets.

Net contract assets (liabilities) consisted of the following:

(In millions, except percentages)	Mar 31, 2019	Dec 31, 2018	$ Change	% Change
Contract assets	**$ 5,971**	$ 5,594	$ 377	6.7%
Contract liabilities—current	**(2,930)**	(3,309)	379	(11.5)%
Contract liabilities—noncurrent	**(141)**	(150)	9	(6.0)%
Net contract assets (liabilities)	**$ 2,900**	$ 2,135	$ 765	35.8%

The $765 million increase in our net contract assets (liabilities) from December 31, 2018 to March 31, 2019 was primarily due to a $379 million decrease in our current contract liabilities, primarily driven by revenue recognized on certain international programs with milestone payments or advances, and a $377 million increase in our contract assets, principally due to contractual billing terms on U.S. government and foreign military sales contracts and the timing of pending approvals on direct commercial sales contracts for precision guided munitions to certain Middle Eastern customers. For direct commercial sales contracts for which we are required to obtain regulatory approvals, we recognize revenue based on the likelihood of obtaining such approvals. At March 31, 2019, we had approximately $2.4 billion of total contract value, recognized approximately $1.1 billion of sales for work performed to date and received approximately $850 million in advances on contracts for precision guided munitions to certain Middle Eastern customers for which U.S. government approval is pending. On a contract by contract basis, and excluding advances billed but not received, we had $600 million and $350 million of net contract assets and net contract liabilities, respectively, related to these contracts.

In the first quarters of 2019 and 2018, we recognized revenue of $894 million and $652 million related to our contract liabilities at January 1, 2019 and January 1, 2018, respectively.

Impairment losses recognized on our receivables and contract assets were de minimis in the first quarters of 2019 and 2018.

Note 8: Deferred Commissions

Our incremental direct costs of obtaining a contract, which consist of sales commissions primarily for our security software sales at Forcepoint, are deferred and amortized over the period of contract performance or a longer period, generally the estimated life of the customer relationship, if renewals are expected and the renewal commission is not commensurate with the initial commission. We classify deferred commissions as current or noncurrent based on the timing of when we expect to recognize the expense. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets, and other assets, net, respectively, in our consolidated balance sheets. At March 31, 2019 and December 31, 2018, we had deferred commissions of $51 million and $55 million, respectively. Amortization expense related to deferred commissions was $4 million and $8 million in the first quarters of 2019 and 2018, respectively.

Note 9: Acquisitions, Divestitures and Goodwill

In pursuing our business strategies, we acquire and make investments in certain businesses that meet strategic and financial criteria, and divest of certain non-core businesses, investments and assets when appropriate. We did not have any divestitures in the first quarter of 2019.

In 2013, we formed the Range Generation Next LLC (RGNext) joint venture with General Dynamics Information Technology (GDIT) through our Intelligence, Information and Services (IIS) segment, in which we held a 50% equity ownership that was accounted for using the equity method. On February 8, 2019, we amended and restated the RGNext joint venture agreement and acquired an additional 10% equity ownership in the joint venture, increasing our equity ownership to 60% and giving us control of the operations of RGNext. Effective as of February 8, 2019, we consolidate the results of RGNext in our consolidated financial statements and report its results in our IIS segment. We also remeasured our equity method investment in RGNext to fair value, which resulted in a non-cash gain of $21 million that was recorded in operating income through a reduction to cost of sales at our IIS segment; recognized redeemable noncontrolling interest for GDIT's interest in RGNext at a fair value of $32 million; and recognized $90 million of net assets, including cash acquired, at fair value. As part of our purchase price allocation, we recorded $19 million of goodwill, primarily related to the value of the existing workforce, and $34 million of intangible assets, primarily related to customer relationships with a weighted-average life of 7 years.

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

A rollforward of goodwill by segment was as follows:

(In millions)	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint[(1)]	Total
Balance at December 31, 2018	$ 1,704	$ 2,965	$ 4,154	$ 4,103	$ 1,938	$ 14,864
Acquisitions	**—**	**19**	**—**	**—**	**—**	**19**
Effect of foreign exchange rates and other	**(1)**	**—**	**—**	**—**	**—**	**(1)**
Balance at March 31, 2019	**$ 1,703**	**$ 2,984**	**$ 4,154**	**$ 4,103**	**$ 1,938**	**$ 14,882**

(1) At March 31, 2019, Forcepoint's fair value was estimated to exceed its net book value by approximately $900 million. As discussed in "Note 13: Redeemable Noncontrolling Interests," we are required to determine Forcepoint's fair value on a quarterly basis due to the accounting related to the redeemable noncontrolling interest.

Note 10: 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. 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.

We use foreign currency forward contracts to fix the functional currency value of specific commitments, payments and receipts denominated in foreign currencies. The aggregate notional amount of our outstanding foreign currency forward contracts was $1,843 million and $1,772 million at March 31, 2019 and December 31, 2018, respectively. The net notional exposure of these contracts was $777 million and $840 million at March 31, 2019 and December 31, 2018, respectively.

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 forward contracts were as follows:

(In millions)	Mar 31, 2019	Dec 31, 2018
Asset derivatives	**$ 14**	$ 26
Liability derivatives	**23**	34

The fair value of these derivatives is Level 2 in the fair value hierarchy because they are determined based on a market approach utilizing externally quoted forward rates for similar contracts.

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. We measure and record the impact of counterparty credit risk into our valuation and at March 31, 2019 and December 31, 2018, the fair value of our counterparty default exposure was less than $1 million and was spread across numerous highly rated counterparties.

There were no interest rate swaps outstanding at March 31, 2019 or December 31, 2018.

Other Financial Instruments—We hold financial instruments, including cash and cash equivalents, commercial paper and long-term debt. The carrying amounts for cash and cash equivalents and commercial paper approximated their fair values. The carrying value of long-term debt was recorded at amortized cost. The estimated fair value of long-term debt was determined based on quoted prices in inactive markets, which falls within Level 2 of the fair value hierarchy. The carrying value and estimated fair value of long-term debt were as follows:

(In millions)	Mar 31, 2019	Dec 31, 2018
Carrying value of long-term debt(1)	**$ 4,756**	$ 4,755
Fair value of long-term debt(2)	**5,202**	5,063

(1) Carrying value of long-term debt at March 31, 2019 includes current portion of long-term debt carrying value of $500 million.
(2) Fair value of long-term debt at March 31, 2019 includes current portion of long-term debt fair value of $508 million.

At March 31, 2019, short-term commercial paper borrowings outstanding were $300 million, which had a weighted-average interest rate and original maturity period of 2.551% and 6 days, respectively. At December 31, 2018, short-term commercial paper borrowings outstanding were $300 million, which had a weighted-average interest rate and original maturity period of 2.954% and 16 days, respectively. The commercial paper notes outstanding have original maturities of not more than 90 days from the date of issuance.

Supplemental Cash Flow Information—Cash and cash equivalents reported within our consolidated balance sheets excludes restricted cash of $12 million and $16 million at March 31, 2019 and December 31, 2018, respectively, which for purposes of our consolidated statements of cash flows, is included in cash, cash equivalents and restricted cash.

Note 11: Leases

We enter into operating leases primarily for: real estate, including for manufacturing, engineering, research, administration, sales and warehousing facilities; information technology (IT) equipment; and other equipment. At March 31, 2019 and December 31, 2018, we did not have any finance leases. Approximately 90% of our future lease commitments, and related lease liability, relate to our real estate leases. Some of our leases also include options to extend the lease or terminate the lease. A small portion of our leases include variable escalation clauses, which are typically based on CPI rates, or other variable lease-related payments.

The components of lease expense were as follows:

	Three Months Ended	
(In millions)	Mar 31, 2019	Apr 1, 2018
Operating lease cost	**$ 53**	$ 58
Variable lease cost(1)	**—**	—
Sublease income(1)	**—**	—
Total lease cost	**$ 53**	$ 58

(1) Variable lease cost was expense of less than $1 million and sublease income was income of less than $1 million, in both the first quarters of 2019 and 2018.

Gains and losses on sale and leaseback transactions were de minimis in both the first quarters of 2019 and 2018.

At March 31, 2019, our future lease payments under non-cancellable leases were as follows:

(In millions)		
2019 (excluding the three months ended March 31, 2019)	$	167
2020		189
2021		164
2022		127
2023		90
Thereafter		238
Total future lease payments[1]		975
Imputed interest		(122)
Total lease liabilities	$	853

(1) Total future lease payments excluded $27 million of future lease payments related to leases that were signed but had not yet commenced as of March 31, 2019.

Our lease liabilities recognized in our consolidated balance sheet at March 31, 2019 were as follows:

(In millions)		
Operating lease liabilities—current	$	201
Operating lease liabilities—noncurrent		652
Total lease liabilities	$	853

The weighted-average remaining lease term related to our operating leases was 8 years and 7 years as of March 31, 2019 and December 31, 2018, respectively. The weighted-average discount rate related to our operating leases was 3.1% as of March 31, 2019 and December 31, 2018.

Other information related to leases was as follows:

	Three Months Ended	
(In millions)	**Mar 31, 2019**	Apr 1, 2018
Cash paid for amounts included in the measurement of operating lease liabilities	**$ 61**	$ 62
Right-of-use assets obtained in exchange for new operating lease obligations	**56**	38

There were no material restrictions or covenants imposed by our leases at March 31, 2019 or December 31, 2018. In addition, we do not have any related party leases and our sublease transactions are de minimis.

Note 12: 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 regularly assess the probability of recovery of these costs, which requires us to make assumptions about the extent of cost recovery under our contracts and the amount of future contract activity. We consider such recovery probable based on government contracting regulations and our long history of receiving reimbursement for such costs, and accordingly have recorded the estimated future recovery of these costs from the U.S. government within prepaid expenses and other current assets in our consolidated balance sheets. Our estimates regarding remediation costs to be incurred were as follows:

(In millions, except percentages)	**Mar 31, 2019**	Dec 31, 2018
Total remediation costs—undiscounted	**$ 197**	$ 193
Weighted-average discount rate	**5.1%**	5.1%
Total remediation costs—discounted	**$ 136**	$ 128
Recoverable portion	**88**	82

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 for us or our affiliates. These instruments expire on various dates through 2028. 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 31, 2019**	Dec 31, 2018
Guarantees	**$ 211**	$ 201
Letters of credit	**2,296**	2,503
Surety bonds	**80**	166

All guarantees at March 31, 2019 and December 31, 2018 related to our joint venture in Thales-Raytheon Systems Air and Missile Defense Command and Control S.A.S. (TRS AMDC2). We provide these guarantees, as well as letters of credit, to TRS AMDC2 and other affiliates to assist these entities in obtaining financing on more favorable terms, making bids on contracts and performing their contractual obligations. While we expect these entities to satisfy their loans and meet their project performance and other contractual obligations, their failure to do so may result in a future obligation to us. We periodically evaluate the risk of these entities failing to meet their obligations described above. At March 31, 2019, we believe the risk that these entities will not be able to meet their obligations is minimal for the foreseeable future based on their current financial condition. All obligations were current at March 31, 2019. We had an estimated liability of $3 million at both March 31, 2019 and December 31, 2018 related to these guarantees.

As discussed in “Note 13: Redeemable Noncontrolling Interests,” under the joint venture agreement between Raytheon Company and Vista Equity Partners, Raytheon may be required to purchase Vista Equity Partners’ interest in Forcepoint.

We have entered into industrial cooperation agreements, sometimes in the form of either offset agreements or in-country industrial participation (ICIP) agreements, as a condition to obtaining orders for our products and services from certain customers in foreign countries. At March 31, 2019, the aggregate amount of our offset agreements, both agreed to and anticipated to be agreed to, had an outstanding notional value of approximately $9.3 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. Historically, we have not been required to pay any penalties of significance.

As a U.S. government contractor, we are subject to many levels of audit and investigation by the U.S. government relating to our contract performance and compliance with applicable rules and regulations. Agencies that oversee contract performance include: the Defense Contract Audit Agency (DCAA); the Defense Contract Management Agency (DCMA); the Inspectors General of the U.S. Department of Defense (DoD) and other departments and agencies; the Government Accountability Office (GAO); the Department of Justice (DOJ); and Congressional Committees. Other areas of our business operations may also be subject to audit and investigation by these and/or other agencies. From time to time, agencies investigate or conduct audits to determine whether our operations are being conducted in accordance with applicable requirements. Such investigations and audits may be initiated due to a number of reasons, including as a result of a whistleblower complaint. Such investigations and audits could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, the suspension of government export licenses or the suspension or debarment from future U.S. government contracting. U.S. government investigations often take years to complete and many result in no adverse action against us. Our final allowable incurred costs for each year are also subject to audit and have, from time to time, resulted in disputes between us and the U.S. government, with litigation resulting at the Court of Federal Claims (COFC) or the Armed Services Board of Contract Appeals (ASBCA) or their related courts of appeals. In addition, the DOJ has, from time to time, convened grand juries to investigate possible irregularities by us. We also provide products and services to customers outside of the U.S., and those sales are subject to local government laws, regulations and procurement policies and practices. Our compliance with such local government regulations or any applicable U.S. government regulations (e.g., the Foreign Corrupt Practices Act (FCPA) and International Traffic in Arms Regulations (ITAR)) may also be investigated or audited. Other than as specifically disclosed herein, we do not expect these audits, investigations or disputes to have a material effect on our financial position, results of operations or liquidity, either individually or in the aggregate.

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

Note 13: Redeemable Noncontrolling Interests

Forcepoint is a cybersecurity joint venture company with Vista Equity Partners. 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. The put option allows Vista Equity Partners to require Raytheon to purchase all, but not less than all, of Vista Equity Partners' interest in Forcepoint for cash at a price equal to fair value as determined under the joint venture agreement. Lastly, Raytheon has the option to purchase all, but not less than all, of Vista Equity Partners' interest in Forcepoint at a price equal to fair value as determined under the joint venture agreement. The joint venture agreement provides for the process under which the parties would determine the fair value of the interest and could result in a payment by Raytheon shortly after the exercise of Vista Equity Partners' put option or Raytheon's purchase option; however, the ultimate timing will depend on the actions of the parties and other factors. The estimate of fair value for purposes of presenting the redeemable noncontrolling interest in our consolidated balance sheets could differ from the parties' determination of fair value for the interest under the joint venture agreement.

Vista Equity Partners' adjusted equity interest in the Forcepoint joint venture was 19.5% at March 31, 2019. 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 $399 million at March 31, 2019, or the carrying value, defined as the initial value adjusted for Vista Equity Partners' share of the cumulative impact of net income (loss), other changes in accumulated other comprehensive income (loss) and additional contributions, which was $274 million at March 31, 2019. Adjustments to the redemption value over the period from the date of acquisition to the redemption date are immediately recorded to retained earnings.

As discussed in "Note 9: Acquisitions, Divestitures and Goodwill," in February 2019, we amended and restated the RGNext joint venture agreement and acquired an additional 10% equity ownership in the joint venture, increasing our equity ownership to 60% and giving us control of the operations, with GDIT obtaining only protective rights. As a result, we now consolidate the results of RGNext in our consolidated financial statements. The amendment to the RGNext joint venture agreement provides GDIT with the ability to liquidate its ownership and receive an amount equal to its contributed capital (the redemption value). As such, GDIT's interest in RGNext is presented as redeemable noncontrolling interest, outside of stockholders' equity, in our consolidated balance sheets, and is recorded at the greater of its carrying value or the redemption value.

A rollforward of redeemable noncontrolling interests was as follows:

(In millions)		Forcepoint		RGNext		Total
Balance at December 31, 2018	$	411	$	—	$	411
RGNext initial recognition		**—**		**32**		**32**
Net income (loss)		**(7)**		**1**		**(6)**
Other comprehensive income (loss), net of tax[(1)]		**—**		**—**		**—**
Adjustment of noncontrolling interests to redemption value		**(5)**		**—**		**(5)**
Balance at March 31, 2019	**$**	**399**	**$**	**33**	**$**	**432**
Balance at December 31, 2017	$	512	$	—	$	512
Net income (loss)		(10)		—		(10)
Other comprehensive income (loss), net of tax		1		—		1
Adjustment of noncontrolling interests to redemption value		(11)		—		(11)
Balance at April 1, 2018	$	492	$	—	$	492

(1) Other comprehensive income (loss), net of tax, related to Forcepoint was income of less than $1 million for the first quarter of 2019.

Note 14: Stockholders' Equity

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

	Three Months Ended	
(In millions)	**Mar 31, 2019**	Apr 1, 2018
Beginning balance	**282.1**	288.4
Stock plans activity	**1.1**	1.0
Share repurchases	**(3.1)**	(2.2)
Ending balance	**280.1**	287.2

From time to time, our Board of Directors authorizes the repurchase of shares of our common stock. In November 2015, our Board authorized the repurchase of up to $2.0 billion of our outstanding common stock. In November 2017, our Board also authorized the repurchase of up to an additional $2.0 billion of our outstanding common stock. At March 31, 2019, we had approximately $1.0 billion available under the 2017 repurchase program. Share repurchases will take place from time to time at management's discretion depending on market conditions.

Share repurchases also include shares surrendered by employees to satisfy tax withholding obligations in connection with restricted stock, RSUs and LTPP awards issued to employees.

Our share repurchases were as follows:

	Three Months Ended					
(In millions)	**Mar 31, 2019**			Apr 1, 2018		
		$	**Shares**		$	Shares
Shares repurchased under our share repurchase programs	**$**	**500**	**2.8**	$	400	1.9
Shares repurchased to satisfy tax withholding obligations		**66**	**0.3**		72	0.3
Total share repurchases	**$**	**566**	**3.1**	$	472	2.2

In March 2019, our Board of Directors authorized an 8.6% increase to our annual dividend payout rate from $3.47 to $3.77 per share. Our Board of Directors also declared dividends of $0.9425 per share during the first quarter of 2019, compared to dividends of $0.8675 per share during the first quarter of 2018. Dividends are subject to quarterly approval by our Board of Directors.

Stock-based Compensation Plans

Restricted Stock and RSUs—During the first quarter of 2019, we granted 0.9 million combined shares of restricted stock and RSUs with a weighted-average grant-date fair value of $179.93 per share, calculated under the intrinsic value method. These awards generally vest in equal installments on each of the second, third and fourth anniversary dates of the award's grant date.

LTPP—During the first quarter of 2019, we granted RSUs subject to the 2019–2021 LTPP plan with an aggregate target award of 0.1 million units and a weighted-average grant-date fair value of $175.93 per share. The performance goals for the 2019–2021 LTPP award are independent of each other and based on three metrics, as defined in the LTPP award agreements: return on invested capital (ROIC), weighted at 50%; total shareholder return (TSR) relative to a peer group, weighted at 25%; and cumulative free cash flow from continuing operations (CFCF), weighted at 25%. The ultimate award, which is determined at the end of the three-year cycle, can range from zero to 200% of the target award and includes dividend equivalents, which are not included in the aggregate target award numbers. The grant-date fair value is based upon the value determined under the intrinsic value method for the CFCF and ROIC portions of the award and the Monte Carlo simulation method for the TSR portion of the award.

Forcepoint Plans—Forcepoint unit appreciation rights and profits interests vest over a specified period of time and settlement is subject to a liquidity event defined as either a change in control or an initial public offering of the joint venture. In certain limited circumstances other vesting conditions may apply. The impact attributable to these other vesting conditions was income of $2 million for the first quarter of 2019 and expense of $1 million for the first quarter of 2018. At March 31, 2019, there were 174 thousand combined units and/or profits interests authorized for award under these plans.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes gains and losses associated with pension and other postretirement benefit (PRB) plans, foreign exchange translation adjustments, gains and losses on derivative instruments qualified as cash flow hedges included in the assessment of effectiveness, and unrealized gains (losses) on available-for-sale investments. The computation of other comprehensive income (loss) and its components are presented in the consolidated statements of comprehensive income.

A rollforward of accumulated other comprehensive income (loss) was as follows:

(In millions)	Pension and PRB plans, net(1)	Foreign exchange translation	Cash flow hedges(2)	Unrealized gains (losses) on investments and other, net(3)	Total
Balance at December 31, 2018	$ (8,483)	$ (131)	$ (2)	$ (2)	$ (8,618)
Before tax amount	**277**	**8**	**(10)**	**—**	**275**
Tax (expense) or benefit	**(58)**	**—**	**2**	**—**	**(56)**
Net of tax amount	**219**	**8**	**(8)**	**—**	**219**
Balance at March 31, 2019	**$ (8,264)**	**$ (123)**	**$ (10)**	**$ (2)**	**$ (8,399)**
Balance at December 31, 2017	$ (7,843)	$ (95)	$ 6	$ (3)	$ (7,935)
Before tax amount	348	24	(10)	—	362
Tax (expense) or benefit	(73)	—	2	—	(71)
Net of tax amount	275	24	(8)	—	291
Reclassification of stranded tax effects	(1,452)	—	1	—	(1,451)
Balance at April 1, 2018	$ (9,020)	$ (71)	$ (1)	$ (3)	$ (9,095)

(1) Pension and PRB plans, net is shown net of cumulative tax benefits of $2,197 million and $2,255 million at March 31, 2019 and December 31, 2018, respectively.
(2) Cash flow hedges are shown net of cumulative tax benefits of $3 million and $1 million at March 31, 2019 and December 31, 2018, respectively.
(3) Unrealized gains (losses) on investments and other, net are shown net of cumulative tax expense of $1 million at both March 31, 2019 and December 31, 2018.

In the first quarter of 2018, we reclassified the stranded tax effects related to the enactment of the Tax Cuts and Jobs Act of 2017 (2017 Act) from accumulated other comprehensive loss (AOCL) to retained earnings in accordance with ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. These stranded tax effects related to the deferred tax amounts at December 31, 2017 recorded through other comprehensive income prior to the enactment date using the prior 35% statutory tax rate that remained in other comprehensive income despite the fact that the related deferred tax assets and liabilities were remeasured to reflect the newly enacted tax rate of 21%.

Other material amounts reclassified out of AOCL related to the amortization of net actuarial loss associated with our pension plans were $273 million and $344 million before tax in the first quarters of 2019 and 2018, respectively. This component of AOCL is included in the calculation of net periodic pension expense (income). See “Note 15: Pension and Other Employee Benefits” for additional details.

We expect $2 million net of tax of net unrealized losses on our cash flow hedges at March 31, 2019 to be reclassified into earnings at then-current values over the next 12 months as the underlying hedged transactions occur.

Note 15: Pension and Other Employee Benefits

We have pension plans covering the majority of our employees hired prior to January 1, 2007, including certain employees in foreign countries (Pension Benefits). Our primary pension obligations relate to our domestic Internal Revenue Service (IRS) qualified pension plans. In addition, we provide certain health care and life insurance benefits to retired employees and to eligible employees upon retirement through PRB plans.

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

(In millions)	**Mar 31, 2019**	Dec 31, 2018
Marketable securities held in trust	**$ 677**	$ 642

Included in marketable securities held in trust in the table above was $431 million and $420 million at March 31, 2019 and December 31, 2018, respectively, related to the nonqualified defined contribution plans. The liabilities related to the nonqualified defined contribution plans were $440 million and $431 million at March 31, 2019 and December 31, 2018, respectively.

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

	Three Months Ended	
(In millions)	**Mar 31, 2019**	Apr 1, 2018
Operating expense		
Service cost	**$ 105**	$ 127
Non-operating expense		
Interest cost	**261**	253
Expected return on plan assets	**(359)**	(363)
Amortization of prior service cost	**1**	1
Amortization of net actuarial loss	**273**	344
Total pension non-service expense	**176**	235
Net periodic pension expense (income)	**$ 281**	$ 362

Net periodic pension expense (income) includes income of $1 million and $2 million from foreign Pension Benefits plans in the first quarters of 2019 and 2018, respectively.

Net periodic PRB expense was $6 million and $5 million in the first quarters of 2019 and 2018, respectively.

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

(In millions)	**Mar 31, 2019**	Dec 31, 2018
Long-term pension liabilities	**$ 6,042**	$ 6,111
Long-term PRB liabilities	**356**	354
Total long-term pension and PRB liabilities	**$ 6,398**	$ 6,465

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

	Three Months Ended	
(In millions)	**Mar 31, 2019**	Apr 1, 2018
Required pension contributions	**$ 64**	$ 58
PRB contributions	**4**	3
Total	**$ 68**	$ 61

We periodically evaluate whether to make discretionary contributions. We did not make any discretionary contributions to our pension plans during the first quarters of 2019 or 2018.

Note 16: Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. With the exception of one matter related to the 2015 tax year, all IRS examinations related to originally filed returns are closed through the 2016 tax year. No amount related to the 2015 matter is reflected in unrecognized tax benefits as of March 31, 2019. In 2018 we amended tax returns for tax years 2014-2016 to reflect refund claims related to increased Research and Development tax credits (R&D tax credits), which will be subject to audit. We are also under audit by multiple state and foreign tax authorities.

The balance of our unrecognized tax benefits, exclusive of interest, was $96 million and $92 million at March 31, 2019 and December 31, 2018, respectively, the majority of which would affect our earnings if recognized. There were no significant changes in the balance during the first quarter of 2019.

We accrue interest and penalties related to unrecognized tax benefits in tax expense. Interest and penalties recognized during the first quarters of 2019 and 2018 and accrued as of March 31, 2019 and December 31, 2018 were de minimis.

Note 17: Business Segment Reporting

Our reportable segments, organized based on capabilities and technologies, are: Integrated Defense Systems (IDS); Intelligence, Information and Services (IIS); Missile Systems (MS); Space and Airborne Systems (SAS); and Forcepoint. Segment total net sales and operating income include intersegment sales and profit generally recorded at cost-plus a specified fee, which may differ from what the selling entity would be able to obtain on sales to external customers. Eliminations include intersegment sales and profit eliminations. Corporate operating income includes expenses that represent unallocated costs and certain other corporate costs not considered part of management’s evaluation of reportable segment operating performance. Acquisition Accounting Adjustments include the adjustments to record acquired deferred revenue at fair value as part of our purchase price allocation process and the amortization of acquired intangible assets related to historical acquisitions.

Segment financial results were as follows:

Total Net Sales (in millions)	Three Months Ended **Mar 31, 2019**	Three Months Ended Apr 1, 2018
Integrated Defense Systems	**$ 1,550**	$ 1,489
Intelligence, Information and Services	**1,777**	1,582
Missile Systems	**2,006**	1,848
Space and Airborne Systems	**1,653**	1,568
Forcepoint	**158**	141
Eliminations	**(414)**	(357)
Total business segment sales	**6,730**	6,271
Acquisition Accounting Adjustments	**(1)**	(4)
Total	**$ 6,729**	$ 6,267

Intersegment Sales (in millions)	Three Months Ended **Mar 31, 2019**	Three Months Ended Apr 1, 2018
Integrated Defense Systems	**$ 21**	$ 15
Intelligence, Information and Services	**168**	162
Missile Systems	**43**	35
Space and Airborne Systems	**173**	139
Forcepoint	**9**	6
Total	**$ 414**	$ 357

Operating Income (in millions)	Three Months Ended Mar 31, 2019	Apr 1, 2018
Integrated Defense Systems	$ 258	$ 273
Intelligence, Information and Services	187	117
Missile Systems	190	212
Space and Airborne Systems	212	193
Forcepoint	(9)	(7)
Eliminations	(47)	(40)
Total business segment operating income	791	748
Acquisition Accounting Adjustments	(28)	(33)
FAS/CAS Operating Adjustment	366	354
Corporate	(16)	(28)
Total	$ 1,113	$ 1,041

Intersegment Operating Income (in millions)	Three Months Ended Mar 31, 2019	Apr 1, 2018
Integrated Defense Systems	$ 2	$ 2
Intelligence, Information and Services	17	17
Missile Systems	4	3
Space and Airborne Systems	17	14
Forcepoint	7	4
Total	$ 47	$ 40

The FAS/CAS Operating Adjustment, which is reported as a separate line in our segment results above, represents the difference between the service cost component of our pension and PRB expense or income under Financial Accounting Standards (FAS) in accordance with U.S. 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 pension and PRB components of the FAS/CAS Operating Adjustment were as follows:

(In millions)	Three Months Ended Mar 31, 2019	Apr 1, 2018
FAS/CAS Pension Operating Adjustment	$ 362	$ 351
FAS/CAS PRB Operating Adjustment	4	3
FAS/CAS Operating Adjustment	$ 366	$ 354

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

Total Assets (in millions)	Mar 31, 2019	Dec 31, 2018(2)
Integrated Defense Systems(1)	$ 4,783	$ 4,826
Intelligence, Information and Services(1)	4,368	4,238
Missile Systems(1)	8,490	8,229
Space and Airborne Systems(1)	6,856	6,740
Forcepoint(1)	2,455	2,529
Corporate	4,624	6,108
Total	$ 31,576	$ 32,670

(1) Total assets includes intangible assets. Related amortization expense is included in Acquisition Accounting Adjustments.
(2) Amounts have been recast to reflect the adoption of ASU 2016-02, *Leases (Topic 842)*. Operating lease right-of-use assets are all recorded at Corporate.

We disaggregate our revenue from contracts with customers by geographic location, customer-type and contract-type for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. See details in the tables below.

Disaggregation of Total Net Sales (in millions)	Three Months Ended March 31, 2019 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	Total
United States							
Sales to the U.S. government[(1)]							
Fixed-price contracts	$ 221	$ 224	$ 708	$ 548	$ 37	$ —	$ 1,738
Cost-type contracts	424	1,152	699	659	4	—	2,938
Direct commercial sales and other U.S. sales							
Fixed-price contracts	1	33	9	26	44	—	113
Cost-type contracts	—	4	—	1	—	—	5
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	40	73	124	30	—	—	267
Cost-type contracts	18	11	16	9	—	—	54
Direct commercial sales and other foreign sales[(1)]							
Fixed-price contracts	168	41	32	48	16	—	305
Cost-type contracts	17	—	—	—	—	—	17
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	269	3	115	74	—	—	461
Cost-type contracts	48	5	5	19	—	—	77
Direct commercial sales and other foreign sales[(1)]							
Fixed-price contracts	195	7	145	18	8	—	373
Cost-type contracts	—	—	19	—	—	—	19
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	81	1	34	17	—	—	133
Cost-type contracts	10	—	15	2	—	—	27
Direct commercial sales and other foreign sales[(1)]							
Fixed-price contracts	34	49	42	29	39	—	193
Cost-type contracts	3	6	—	—	—	—	9
Total net sales	1,529	1,609	1,963	1,480	148	—	6,729
Intersegment sales	21	168	43	173	9	(414)	—
Acquisition Accounting Adjustments	—	—	—	—	1	(1)	—
Reconciliation to business segment sales	$ 1,550	$ 1,777	$ 2,006	$ 1,653	$ 158	$ (415)	$ 6,729

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

Total Net Sales by Geographic Area (in millions)	Three Months Ended March 31, 2019					
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	$ 646	$ 1,413	$ 1,416	$ 1,234	$ 85	$ 4,794
Asia/Pacific	243	125	172	87	16	643
Middle East and North Africa	512	15	284	111	8	930
All other (principally Europe)	128	56	91	48	39	362
Total net sales	$ 1,529	$ 1,609	$ 1,963	$ 1,480	$ 148	$ 6,729

Total Net Sales by Major Customer (in millions)	Three Months Ended March 31, 2019					
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government[(1)]	$ 645	$ 1,376	$ 1,407	$ 1,207	$ 41	$ 4,676
U.S. direct commercial sales and other U.S. sales	1	37	9	27	44	118
Foreign military sales through the U.S. government	466	93	309	151	—	1,019
Foreign direct commercial sales and other foreign sales[(1)]	417	103	238	95	63	916
Total net sales	$ 1,529	$ 1,609	$ 1,963	$ 1,480	$ 148	$ 6,729

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

Total Net Sales by Contract Type (in millions)	Three Months Ended March 31, 2019					
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	$ 1,009	$ 431	$ 1,209	$ 790	$ 144	$ 3,583
Cost-type contracts	520	1,178	754	690	4	3,146
Total net sales	$ 1,529	$ 1,609	$ 1,963	$ 1,480	$ 148	$ 6,729

Disaggregation of Total Net Sales (in millions)	Three Months Ended April 1, 2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	Total
United States							
Sales to the U.S. government[1]							
Fixed-price contracts	$ 226	$ 252	$ 584	$ 544	$ 21	—	$ 1,627
Cost-type contracts	402	956	630	642	3	—	2,633
Direct commercial sales and other U.S. sales							
Fixed-price contracts	2	28	11	26	49	—	116
Cost-type contracts	—	4	—	—	—	—	4
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	29	51	96	30	—	—	206
Cost-type contracts	25	14	17	2	—	—	58
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	146	44	43	50	16	—	299
Cost-type contracts	27	—	—	2	—	—	29
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	195	3	81	54	—	—	333
Cost-type contracts	32	1	6	15	—	—	54
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	347	5	231	21	6	—	610
Cost-type contracts	—	—	—	—	—	—	—
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	—	—	25	9	—	—	34
Cost-type contracts	8	—	24	1	—	—	33
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	33	51	65	33	36	—	218
Cost-type contracts	2	11	—	—	—	—	13
Total net sales	1,474	1,420	1,813	1,429	131	—	6,267
Intersegment sales	15	162	35	139	6	(357)	—
Acquisition Accounting Adjustments	—	—	—	—	4	(4)	—
Reconciliation to business segment sales	$ 1,489	$ 1,582	$ 1,848	$ 1,568	$ 141	$ (361)	$ 6,267

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

Total Net Sales by Geographic Area (in millions)	Three Months Ended April 1, 2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	$ 630	$ 1,240	$ 1,225	$ 1,212	$ 73	$ 4,380
Asia/Pacific	227	109	156	84	16	592
Middle East and North Africa	574	9	318	90	6	997
All other (principally Europe)	43	62	114	43	36	298
Total net sales	$ 1,474	$ 1,420	$ 1,813	$ 1,429	$ 131	$ 6,267

Total Net Sales by Major Customer (in millions)	Three Months Ended April 1, 2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government(1)	$ 628	$ 1,208	$ 1,214	$ 1,186	$ 24	$ 4,260
U.S. direct commercial sales and other U.S. sales	2	32	11	26	49	120
Foreign military sales through the U.S. government	289	69	249	111	—	718
Foreign direct commercial sales and other foreign sales(1)	555	111	339	106	58	1,169
Total net sales	$ 1,474	$ 1,420	$ 1,813	$ 1,429	$ 131	$ 6,267

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

Total Net Sales by Contract Type (in millions)	Three Months Ended April 1, 2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	$ 978	$ 434	$ 1,136	$ 767	$ 128	$ 3,443
Cost-type contracts	496	986	677	662	3	2,824
Total net sales	$ 1,474	$ 1,420	$ 1,813	$ 1,429	$ 131	$ 6,267

Note 18: Remaining Performance Obligations

Remaining performance obligations represents the transaction price of firm orders for which work has not been performed and excludes unexercised contract options and potential orders under ordering-type contracts (e.g., indefinite-delivery, indefinite-quantity (IDIQ)). As of March 31, 2019, the aggregate amount of the transaction price allocated to remaining performance obligations was $41,073 million. We expect to recognize revenue on approximately half and three-quarters of the remaining performance obligations over the next 12 and 24 months, respectively, with the remainder recognized thereafter.

Recent events have caused increased attention on U.S. defense sales to the Kingdom of Saudi Arabia (KSA). KSA represents less than 5% of our sales and $2.1 billion of our remaining performance obligations at March 31, 2019. Although we currently do not expect to be prevented from doing business in KSA, if government action impairs our ability to fulfill our contractual obligations or otherwise to continue to do business in KSA, it would have a material adverse effect on our financial results.

With respect to the unaudited consolidated financial information of Raytheon Company for the three months ended March 31, 2019 and April 1, 2018, 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 25, 2019, appearing below, states that the firm did not audit and does not express an opinion on that unaudited consolidated financial information. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended (Securities Act) for its report on the unaudited consolidated financial information because that report is not a "report" or a "part" of a registration statement prepared or certified by PricewaterhouseCoopers within the meaning of Sections 7 and 11 of the Securities Act.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Raytheon Company

Results of Review of Interim Financial Statements

We have reviewed the accompanying consolidated balance sheet of Raytheon Company and its subsidiaries (the "Company") as of March 31, 2019, and the related consolidated statements of operations, of comprehensive income (loss), of equity and of cash flows for the three-month periods ended March 31, 2019 and April 1, 2018, including the related notes (collectively referred to as the "interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2018, 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 13, 2019, which included a paragraph describing a change in the manner in which it accounts for certain stranded tax effects impacting accumulated other comprehensive income and the manner in which it presents and discloses certain net periodic pension and postretirement benefit costs in the Company's statements of operations, we expressed an unqualified opinion on those consolidated financial statements. As discussed in Note 2 to the accompanying consolidated interim financial statements, the Company changed its method of accounting for leases. The accompanying December 31, 2018 consolidated balance sheet reflects this change.

Basis for Review Results

These interim financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. 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 PCAOB, 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.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
April 25, 2019

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RAYTHEON COMPANY
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In millions, except per share amounts)	Jun 30, 2019	Dec 31, 2018
Assets		
Current assets		
Cash and cash equivalents	**$ 2,173**	$ 3,608
Receivables, net	**1,607**	1,648
Contract assets	**6,130**	5,594
Inventories	**932**	758
Prepaid expenses and other current assets	**684**	529
Total current assets	**11,526**	12,137
Property, plant and equipment, net	**2,982**	2,840
Operating lease right-of-use assets	**888**	805
Goodwill	**14,882**	14,864
Other assets, net	**1,908**	2,024
Total assets	**$ 32,186**	$ 32,670
Liabilities, Redeemable Noncontrolling Interests and Equity		
Current liabilities		
Commercial paper and current portion of long-term debt	**$ 800**	$ 300
Contract liabilities	**2,944**	3,309
Accounts payable	**1,368**	1,964
Accrued employee compensation	**1,361**	1,509
Other current liabilities	**1,398**	1,381
Total current liabilities	**7,871**	8,463
Accrued retiree benefits and other long-term liabilities	**6,699**	6,922
Long-term debt	**4,257**	4,755
Operating lease liabilities	**720**	647
Commitments and contingencies (Note 13)		
Redeemable noncontrolling interests	**435**	411
Equity		
Raytheon Company stockholders’ equity		
Common stock, par value, $0.01 per share, 1,450 shares authorized, 278 and 282 shares outstanding at June 30, 2019 and December 31, 2018, respectively	**3**	3
Additional paid-in capital	**—**	—
Accumulated other comprehensive loss	**(8,182)**	(8,618)
Retained earnings	**20,383**	20,087
Total Raytheon Company stockholders’ equity	**12,204**	11,472
Noncontrolling interests in subsidiaries	**—**	—
Total equity	**12,204**	11,472
Total liabilities, redeemable noncontrolling interests and equity	**$ 32,186**	$ 32,670

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

RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In millions, except per share amounts)	Three Months Ended Jun 30, 2019	Three Months Ended Jul 1, 2018	Six Months Ended Jun 30, 2019	Six Months Ended Jul 1, 2018
Net sales				
Products	$ **5,994**	$ 5,507	$ **11,556**	$ 10,761
Services	**1,165**	1,118	**2,332**	2,131
Total net sales	**7,159**	6,625	**13,888**	12,892
Operating expenses				
Cost of sales—products	**4,302**	3,903	**8,304**	7,640
Cost of sales—services	**903**	874	**1,778**	1,669
General and administrative expenses	**778**	748	**1,517**	1,442
Total operating expenses	**5,983**	5,525	**11,599**	10,751
Operating income	**1,176**	1,100	**2,289**	2,141
Non-operating (income) expense, net				
Retirement benefits non-service expense	**181**	238	**362**	477
Interest expense	**45**	46	**89**	93
Interest income	**(7)**	(8)	**(20)**	(15)
Other (income) expense, net	**(8)**	(3)	**(28)**	2
Total non-operating (income) expense, net	**211**	273	**403**	557
Income from continuing operations before taxes	**965**	827	**1,886**	1,584
Federal and foreign income taxes	**152**	37	**298**	170
Income from continuing operations	**813**	790	**1,588**	1,414
Income (loss) from discontinued operations, net of tax	**—**	1	**—**	—
Net income	**813**	791	**1,588**	1,414
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	**(4)**	(9)	**(10)**	(19)
Net income attributable to Raytheon Company	$ **817**	$ 800	$ **1,598**	$ 1,433
Basic earnings per share attributable to Raytheon Company common stockholders:				
Income from continuing operations	$ **2.92**	$ 2.78	$ **5.69**	$ 4.98
Income (loss) from discontinued operations, net of tax	**—**	—	**—**	—
Net income	**2.92**	2.78	**5.69**	4.98
Diluted earnings per share attributable to Raytheon Company common stockholders:				
Income from continuing operations	$ **2.92**	$ 2.78	$ **5.69**	$ 4.98
Income (loss) from discontinued operations, net of tax	**—**	—	**—**	—
Net income	**2.92**	2.78	**5.69**	4.97
Amounts attributable to Raytheon Company common stockholders:				
Income from continuing operations	$ **817**	$ 799	$ **1,598**	$ 1,433
Income (loss) from discontinued operations, net of tax	**—**	1	**—**	—
Net income	$ **817**	$ 800	$ **1,598**	$ 1,433

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

RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In millions)	Three Months Ended Jun 30, 2019	Three Months Ended Jul 1, 2018	Six Months Ended Jun 30, 2019	Six Months Ended Jul 1, 2018
Net income	**$ 813**	$ 791	**$ 1,588**	$ 1,414
Other comprehensive income (loss), before tax:				
Pension and other postretirement benefit plans, net:				
Amortization of prior service cost	**2**	2	**3**	3
Amortization of net actuarial loss	**274**	346	**550**	693
Pension and other postretirement benefit plans, net	**276**	348	**553**	696
Foreign exchange translation	**(6)**	(43)	**2**	(19)
Cash flow hedges	**8**	—	**(2)**	(10)
Unrealized gains (losses) on investments and other, net	**—**	—	**—**	—
Other comprehensive income (loss), before tax	**278**	305	**553**	667
Income tax benefit (expense) related to items of other comprehensive income (loss)	**(61)**	(73)	**(117)**	(144)
Other comprehensive income (loss), net of tax	**217**	232	**436**	523
Reclassification of stranded tax effects	**—**	—	**—**	(1,451)
Total comprehensive income (loss)	**1,030**	1,023	**2,024**	486
Less: Comprehensive income (loss) attributable to noncontrolling interests in subsidiaries	**(4)**	(9)	**(10)**	(19)
Comprehensive income attributable to Raytheon Company	**$ 1,034**	$ 1,032	**$ 2,034**	$ 505

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

RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

(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 March 31, 2019	$ 3	$ —	$ (8,399)	$ 20,104	$ 11,708	$ —	$ 11,708
Net income (loss)				**817**	**817**	**—**	**817**
Other comprehensive income (loss), net of tax			**217**		**217**		**217**
Adjustment of redeemable noncontrolling interests to redemption value				**(7)**	**(7)**		**(7)**
Dividends declared		**—**		**(264)**	**(264)**		**(264)**
Common stock plans activity		**33**			**33**		**33**
Share repurchases		**(33)**		**(267)**	**(300)**		**(300)**
Balance at June 30, 2019	**$ 3**	**$ —**	**$ (8,182)**	**$ 20,383**	**$ 12,204**	**$ —**	**$ 12,204**
Balance at December 31, 2018	$ 3	$ —	$ (8,618)	$ 20,087	$ 11,472	$ —	$ 11,472
Net income (loss)				**1,598**	**1,598**	**—**	**1,598**
Other comprehensive income (loss), net of tax			**436**		**436**		**436**
Adjustment of redeemable noncontrolling interests to redemption value				**(2)**	**(2)**		**(2)**
Dividends declared		**1**		**(529)**	**(528)**		**(528)**
Common stock plans activity		**94**			**94**		**94**
Share repurchases		**(95)**		**(771)**	**(866)**		**(866)**
Balance at June 30, 2019	**$ 3**	**$ —**	**$ (8,182)**	**$ 20,383**	**$ 12,204**	**$ —**	**$ 12,204**

(1) Excludes redeemable noncontrolling interests which are not considered equity. See "Note 14: Redeemable Noncontrolling Interests" for additional information.

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

RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

(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 April 1, 2018	$ 3	$ —	$ (9,095)	$ 19,329	$ 10,237	$ —	$ 10,237
Net income (loss)				800	800	—	800
Other comprehensive income (loss), net of tax			232		232		232
Adjustment of redeemable noncontrolling interests to redemption value				(30)	(30)		(30)
Dividends declared		—		(248)	(248)		(248)
Common stock plans activity		35			35		35
Share repurchases		(35)		(384)	(419)		(419)
Balance at July 1, 2018	$ 3	$ —	$ (8,863)	$ 19,467	$ 10,607	$ —	$ 10,607
Balance at December 31, 2017	$ 3	$ —	$ (7,935)	$ 17,895	$ 9,963	$ —	$ 9,963
Net income (loss)				1,433	1,433	—	1,433
Other comprehensive income (loss), net of tax			523		523		523
Reclassification of stranded tax effects			(1,451)	1,451	—		—
Adjustment of redeemable noncontrolling interests to redemption value				(19)	(19)		(19)
Dividends declared		1		(500)	(499)		(499)
Common stock plans activity		97			97		97
Share repurchases		(98)		(793)	(891)		(891)
Balance at July 1, 2018	$ 3	$ —	$ (8,863)	$ 19,467	$ 10,607	$ —	$ 10,607

(1) Excludes redeemable noncontrolling interests which are not considered equity. See “Note 14: Redeemable Noncontrolling Interests” for additional information.

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

RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)	Six Months Ended Jun 30, 2019	Jul 1, 2018
Cash flows from operating activities		
Net income	**$ 1,588**	$ 1,414
(Income) loss from discontinued operations, net of tax	**—**	—
Income from continuing operations	**1,588**	1,414
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	**291**	274
Stock-based compensation	**91**	101
Deferred income taxes	**3**	8
Changes in assets and liabilities		
Receivables, net	**53**	7
Contract assets and contract liabilities	**(865)**	(442)
Inventories	**(174)**	(133)
Prepaid expenses and other current assets	**(17)**	62
Income taxes receivable/payable	**(203)**	168
Accounts payable	**(502)**	(73)
Accrued employee compensation	**(157)**	(98)
Other current liabilities	**17**	(70)
Accrued retiree benefits	**365**	239
Other, net	**(78)**	(18)
Net cash provided by (used in) operating activities from continuing operations	**412**	1,439
Net cash provided by (used in) operating activities from discontinued operations	**—**	1
Net cash provided by (used in) operating activities	**412**	1,440
Cash flows from investing activities		
Additions to property, plant and equipment	**(438)**	(366)
Additions to capitalized internal-use software	**(25)**	(28)
Maturities of short-term investments	**—**	309
Payments for purchases of acquired companies, net of cash received	**(8)**	—
Proceeds from sale of business, net of transaction costs	**—**	11
Other	**2**	(3)
Net cash provided by (used in) investing activities	**(469)**	(77)
Cash flows from financing activities		
Dividends paid	**(510)**	(480)
Net borrowings (payments) on commercial paper	**—**	—
Repurchases of common stock under share repurchase programs	**(800)**	(800)
Repurchases of common stock to satisfy tax withholding obligations	**(66)**	(91)
Other	**(5)**	(5)
Net cash provided by (used in) financing activities	**(1,381)**	(1,376)
Net increase (decrease) in cash, cash equivalents and restricted cash	**(1,438)**	(13)
Cash, cash equivalents and restricted cash at beginning of the year	**3,624**	3,115
Cash, cash equivalents and restricted cash at end of period	**$ 2,186**	$ 3,102

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

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). The accompanying unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements. 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 (SEC) 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.

Effective January 1, 2019, we adopted the requirements of Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* using the modified retrospective approach as discussed below in “Note 3: Accounting Standards.” We reclassified certain balance sheet amounts to conform to our current period presentation. All amounts disclosed in this Exhibit 99.2 to this Current Report on 8-K reflect these changes.

Note 2: Proposed Merger with United Technologies Corporation (UTC)

On June 9, 2019, Raytheon, United Technologies Corporation, a Delaware corporation (UTC), and Light Merger Sub Corp., a Delaware corporation and wholly-owned subsidiary of UTC (Merger Sub), entered into an Agreement and Plan of Merger (the Merger Agreement). The Merger Agreement provides for, among other things and subject to the satisfaction or waiver of specified conditions, the merger of Merger Sub with and into Raytheon (the Merger), with Raytheon surviving the Merger as a wholly-owned subsidiary of UTC.

At the effective time of the Merger (the Effective Time), each share of common stock of Raytheon issued and outstanding immediately prior to the Effective Time (except for shares held by Raytheon as treasury stock) will be converted into the right to receive 2.3348 shares of common stock of UTC (and, if applicable, cash in lieu of fractional shares), less any applicable withholding taxes. At the Effective Time, Raytheon’s stockholders will hold approximately 43%, and UTC’s stockholders will hold approximately 57%, of the outstanding shares of common stock of UTC.

The Merger Agreement also provides that, prior to the consummation of the Merger, UTC will complete the previously announced separation of its commercial businesses, Otis and Carrier, from its other businesses (the Separation), and the pro rata distributions to its stockholders of 100% of the common stock of the entity holding the Otis business and 100% of the common stock of the entity holding the Carrier business (the Distributions).

The parties’ obligations to consummate the Separation, the Distributions and the Merger are subject to customary conditions, including the approval of the Merger by Raytheon’s stockholders, the approval of the issuance of shares of UTC Common Stock in connection with the Merger by UTC’s stockholders, the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (HSR Act), and the receipt of other required regulatory approvals. In addition, the parties’ obligations to consummate the Merger are subject to the prior completion of the Separation and the Distributions.

The Merger Agreement includes customary representations, warranties and covenants of Raytheon and UTC (generally excluding the Otis business and the Carrier business). Between the date of execution of the Merger Agreement and the Effective Time, each of Raytheon and UTC (generally with respect to its aerospace business) has agreed to use reasonable best efforts to conduct its businesses in all material respects in the ordinary course consistent with past practice and to comply with certain operating covenants. In addition, the Merger Agreement generally restricts certain actions by both Raytheon and UTC, including the incurrence or issuance of new debt in excess of $1 billion in the aggregate (unless used to refinance existing debt), acquisitions or divestitures in excess of $500 million in the aggregate, and repurchases or issuances of shares other than in accordance with our existing equity award programs. In addition, the Merger Agreement provides that, immediately prior to the consummation of the Merger, the adjusted net indebtedness of UTC’s aerospace business will not exceed an amount as provided for under the Merger Agreement.

Subject to certain exceptions, each of Raytheon and UTC has agreed to use reasonable best efforts to cause the Merger to be completed. The Merger Agreement includes certain termination provisions for both UTC and Raytheon and provides that, in connection with a termination of the Merger Agreement under specified circumstances, Raytheon will be required to pay UTC a termination fee of $1.785 billion, or UTC will be required to pay Raytheon a termination fee of $2.365 billion.

The Merger is expected to close in the first half of 2020, subject to and following completion by UTC of the Separation and Distributions.

Note 3: Accounting Standards

In February 2016, the Financial Accounting Standards Board (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. Effective January 1, 2019, we adopted the requirements of the new lease standard using the modified retrospective approach, applying the new lease requirements at the beginning of the earliest period presented. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allows us to carry forward the historical lease classification. We did not elect the practical expedient to use hindsight in determining the lease term and in assessing impairment of right-of-use assets. The standard resulted in the recognition of operating lease right-of-use assets of $805 million and operating lease liabilities of $841 million, of which $194 million was classified as current and is included in other current liabilities in our consolidated balance sheet, as of December 31, 2018, with immaterial changes to other balance sheet accounts. The standard had no impact on our results of operations or cash flows. In addition, new disclosures are provided to enable users to assess the amount, timing and uncertainty of cash flows arising from leases.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)*, which eliminates the disclosure requirement of the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and modifies certain disclosure requirements related to Level 3 recurring and nonrecurring fair value measurements. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Effective January 1, 2019, we elected to early adopt the requirements of the new standard on a prospective basis. The standard did not have an impact on our financial position, results of operations or liquidity.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-24): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Effective January 1, 2019, we elected to early adopt the requirements of the new standard on a prospective basis. The standard did not have a material impact on our financial position, results of operations or liquidity.

Other new pronouncements adopted and issued but not effective until after June 30, 2019 did not and are not expected to have a material impact on our financial position, results of operations or liquidity.

Note 4: Significant Accounting Policies Update

Our significant accounting policies are detailed in "Note 1: Summary of Significant Accounting Policies" within Exhibit 99.1 to this Current Report on Form 8-K. Significant changes to our accounting policies as a result of adopting Topic 842 are discussed below:

Leases—We determine if an arrangement is a lease or contains an embedded lease at inception. For lease agreements with both lease and nonlease components (e.g., common-area maintenance costs), we account for the nonlease components separately. Consideration is allocated to the lease and nonlease components based on the estimated standalone prices.

All of our leases are operating leases. Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of the future lease payments over the lease term at the commencement date. The current portion of operating lease liabilities is included in other current liabilities in our consolidated balance sheets. For the majority of our leases, the discount rate used to determine the present value of the lease payments is our incremental borrowing rate as of the lease commencement date, as the implicit rate is not readily determinable. The operating lease right-of-use assets also includes any initial direct costs and any lease payments made at or before the commencement date, and is reduced for any unrestricted incentives received at or before the commencement date.

Some of our leases include options to extend or terminate the lease. We include these options in the recognition of our right-of-use assets and lease liabilities when it is reasonably certain that we will exercise the option. Very few of our leases include variable lease-related payments, such as escalation clauses based on consumer price index (CPI) rates, or residual guarantees. Variable payments that are based on an index or a rate are included in the recognition of our right-of-use assets and lease liabilities using the index or rate at lease commencement; however, changes to these lease payments due to rate or index updates are recorded as lease expense in the period incurred. Amounts probable of payment under residual guarantees are also included in the recognition of our right-of-use assets and lease liabilities.

Note 5: 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 execution of our performance obligations. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities and the related changes in estimates of revenues and costs. The risks and opportunities include management's judgment about the ability and cost to achieve the schedule (e.g., the number and type of milestone events), technical requirements (e.g., a newly-developed product versus a mature product) and other contract requirements. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the performance obligation (e.g., to estimate increases in wages and prices for materials and related support cost allocations), execution by our subcontractors, the availability and timing of funding from our customer, and overhead cost rates, among other variables. These estimates also include the estimated cost of satisfying our industrial cooperation agreements, sometimes in the form of either offset obligations or in-country industrial participation (ICIP) agreements, required under certain contracts. These obligations may or may not be distinct depending on their nature.

Based on this analysis, any quarterly adjustments to net sales, cost of sales and the related impact to operating income are recognized as necessary in the period they become known. These adjustments may result from positive program performance, and may result in an increase in operating income during the performance of individual performance obligations, if we determine we will be successful in mitigating risks surrounding the technical, schedule and cost aspects of those performance obligations or realizing related opportunities. Likewise, these adjustments may result in a decrease in operating income if we determine we will not be successful in mitigating these risks or realizing related opportunities. Changes in estimates of net sales, cost of sales and the related impact to operating income are recognized quarterly on a cumulative catch-up basis, which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a performance obligation's percentage of completion. A significant change in one or more of these estimates could affect the profitability of one or more of our performance obligations. When estimates of total costs to be incurred exceed total estimates of revenue to be earned on a performance obligation related to complex aerospace or defense equipment or related services, or product maintenance or separately priced extended warranty, a provision for the entire loss on the performance obligation is recognized in the period the loss is identified.

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

	Three Months Ended		Six Months Ended	
(In millions, except per share amounts)	**Jun 30, 2019**	Jul 1, 2018	**Jun 30, 2019**	Jul 1, 2018
Operating income	**$ 123**	$ 129	**$ 246**	$ 244
Income from continuing operations attributable to Raytheon Company	**97**	102	**194**	193
Diluted earnings per share (EPS) from continuing operations attributable to Raytheon Company	**$ 0.35**	$ 0.35	**$ 0.69**	$ 0.67

In addition, net revenue recognized from our performance obligations satisfied in previous periods was $171 million and $162 million in the second quarters of 2019 and 2018, respectively, and $329 million and $300 million in the first six months of 2019 and 2018, respectively. This primarily relates to EAC adjustments that impacted revenue.

Note 6: 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 and net income attributable to Raytheon Company, and our actual weighted-average shares outstanding rather than the numbers presented within our unaudited consolidated financial statements, which are rounded to the nearest million. As a result, it may not be possible to recalculate EPS as presented in our unaudited consolidated financial statements. Furthermore, it may not be possible to recalculate EPS attributable to Raytheon Company common stockholders by adjusting EPS from continuing operations by EPS from discontinued operations.

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

As described in "Note 14: Redeemable Noncontrolling Interests," we record redeemable noncontrolling interest related to Vista Equity Partners' interest in Forcepoint. We reflect the redemption value adjustments related to this redeemable noncontrolling interest in both the basic and diluted EPS calculation for the portion of redemption value that is in excess of the fair value of noncontrolling interest. There was no impact to basic or diluted EPS in the second quarter or first six months of 2019 or 2018 related to the redemption value adjustments.

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

	Three Months Ended		Six Months Ended	
	Jun 30, 2019	Jul 1, 2018	**Jun 30, 2019**	Jul 1, 2018
Basic EPS attributable to Raytheon Company common stockholders:				
Distributed earnings	**$ 0.94**	$ 0.86	**$ 1.88**	$ 1.73
Undistributed earnings	**1.98**	1.92	**3.81**	3.25
Total	**$ 2.92**	$ 2.78	**$ 5.69**	$ 4.98
Diluted EPS attributable to Raytheon Company common stockholders:				
Distributed earnings	**$ 0.94**	$ 0.86	**$ 1.88**	$ 1.73
Undistributed earnings	**1.98**	1.92	**3.81**	3.25
Total	**$ 2.92**	$ 2.78	**$ 5.69**	$ 4.98

Income attributable to participating securities was as follows:

	Three Months Ended		Six Months Ended	
(In millions)	**Jun 30, 2019**	Jul 1, 2018	**Jun 30, 2019**	Jul 1, 2018
Income from continuing operations attributable to participating securities	**$ 8**	$ 8	**$ 16**	$ 15
Income (loss) from discontinued operations, net of tax attributable to participating securities	**—**	—	**—**	—
Net income attributable to participating securities	**$ 8**	$ 8	**$ 16**	$ 15

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

	Three Months Ended		Six Months Ended	
(In millions)	**Jun 30, 2019**	Jul 1, 2018	**Jun 30, 2019**	Jul 1, 2018
Shares for basic EPS(1)	**279.7**	287.3	**280.8**	287.9
Effect of dilutive securities	**0.2**	0.3	**0.2**	0.3
Shares for diluted EPS	**279.9**	287.6	**281.0**	288.2

(1) Includes 2.7 million and 2.9 million participating securities in the second quarters of 2019 and 2018, respectively, and 2.7 million and 3.0 million participating securities in the first six months of 2019 and 2018, respectively.

Note 7: Inventories

Inventories consisted of the following:

(In millions)		Jun 30, 2019		Dec 31, 2018
Materials and purchased parts	$	**76**	$	75
Work in process		**834**		662
Finished goods		**22**		21
Total	$	**932**	$	758

Precontract costs are costs incurred to fulfill a contract prior to contract award. Precontract costs, including general and administrative expenses that are specifically chargeable to the customer, are deferred in inventories if we determine that the costs are probable of recovery under a specific anticipated contract. All other precontract costs, including start-up costs, are expensed as incurred. Costs that are deferred are recognized as contract costs upon the receipt of the anticipated contract. We included deferred precontract costs of $298 million and $163 million in inventories as work in process at June 30, 2019 and December 31, 2018, respectively.

Note 8: Contract Assets and Contract Liabilities

Our contract assets consist of unbilled amounts typically resulting from sales under long-term contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. Our contract liabilities consist of advance payments and billings in excess of costs incurred and deferred revenue. The noncurrent portion of deferred revenue is included in accrued retiree benefits and other long-term liabilities in our consolidated balance sheets.

Net contract assets (liabilities) consisted of the following:

(In millions, except percentages)		Jun 30, 2019		Dec 31, 2018		$ Change	% Change
Contract assets	$	**6,130**	$	5,594	$	536	10%
Contract liabilities—current		**(2,944)**		(3,309)		365	11%
Contract liabilities—noncurrent		**(139)**		(150)		11	7%
Net contract assets (liabilities)	$	**3,047**	$	2,135	$	912	43%

The $912 million increase in our net contract assets (liabilities) from December 31, 2018 to June 30, 2019 was primarily due to a $536 million increase in our contract assets, principally due to contractual billing terms on U.S. government and foreign military sales contracts and the timing of approvals on direct commercial sales contracts for precision guided munitions to certain Middle Eastern customers. On May 24, 2019, the Administration announced an emergency certification authorizing the immediate export of 22 pending arms sales to Jordan, the United Arab Emirates (UAE) and the Kingdom of Saudi Arabia (KSA), waiving the requirement of Congressional Notification of these arms sales. As a result, we were able to obtain the necessary regulatory approvals and licenses for contracts, which had approximately $1.2 billion of total contract value, and for which we have recognized approximately $950 million of sales for work performed to date and received approximately $350 million in advances as of June 30, 2019. On a contract-by-contract basis, and excluding advances billed but not received, we had $600 million of net contract assets related to these contracts. For those contracts for which we have not yet obtained the regulatory approval and licenses and that are not subject to the emergency certification, we had approximately $1.1 billion of total contract value, recognized approximately $300 million of sales for work performed to date and received approximately $500 million in advances as of June 30, 2019. On a contract-by-contract basis, and excluding advances billed but not received, we had $100 million and $300 million of net contract assets and net contract liabilities, respectively, related to the contracts pending approval.

In the second quarter and first six months of 2019, we recognized revenue of $496 million and $1,390 million, respectively, related to our contract liabilities at January 1, 2019. In the second quarter and first six months of 2018, we recognized revenue of $311 million and $963 million, respectively, related to our contract liabilities at January 1, 2018.

Impairment losses recognized on our receivables and contract assets were de minimis in the second quarters and first six months of 2019 and 2018.

Note 9: Deferred Commissions

Our incremental direct costs of obtaining a contract, which consist of sales commissions primarily for our security software sales at Forcepoint, are deferred and amortized over the period of contract performance or a longer period, generally the estimated life of the customer relationship, if renewals are expected and the renewal commission is not commensurate with the initial commission. We classify deferred commissions as current or noncurrent based on the timing of when we expect to recognize the expense. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets, and other assets, net, respectively, in our consolidated balance sheets. At June 30, 2019 and December 31, 2018, we had deferred commissions of $50 million and $55 million, respectively. Amortization expense related to deferred commissions was $9 million and $7 million in the second quarters of 2019 and 2018, respectively, and $13 million and $15 million in the first six months of 2019 and 2018, respectively.

Note 10: Acquisitions, Divestitures and Goodwill

In pursuing our business strategies, we acquire and make investments in certain businesses that meet strategic and financial criteria, and divest of certain non-core businesses, investments and assets when appropriate. We did not have any divestitures in the first six months of 2019.

In 2013, we formed the Range Generation Next LLC (RGNext) joint venture with General Dynamics Information Technology (GDIT) through our Intelligence, Information and Services (IIS) segment, in which we held a 50% equity ownership that was accounted for using the equity method. On February 8, 2019, we amended and restated the RGNext joint venture agreement and acquired an additional 10% equity ownership in the joint venture, increasing our equity ownership to 60% and giving us control of the operations of RGNext. Effective as of February 8, 2019, we consolidate the results of RGNext in our consolidated financial statements and report its results in our IIS segment. We also remeasured our equity method investment in RGNext to fair value, which resulted in a non-cash gain of $21 million that was recorded in operating income through a reduction to cost of sales at our IIS segment; recognized redeemable noncontrolling interest for GDIT’s interest in RGNext at a fair value of $32 million; and recognized $90 million of net assets, including cash acquired, at fair value. As part of our purchase price allocation, we recorded $19 million of goodwill, primarily related to the value of the existing workforce, and $34 million of intangible assets, primarily related to customer relationships with a weighted-average life of 7 years.

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

A rollforward of goodwill by segment was as follows:

(In millions)	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint(1)	Total
Balance at December 31, 2018	$ 1,704	$ 2,965	$ 4,154	$ 4,103	$ 1,938	$ 14,864
Acquisitions	**—**	**19**	**—**	**—**	**—**	**19**
Effect of foreign exchange rates and other	**(1)**	**—**	**—**	**—**	**—**	**(1)**
Balance at June 30, 2019	**$ 1,703**	**$ 2,984**	**$ 4,154**	**$ 4,103**	**$ 1,938**	**$ 14,882**

(1) At June 30, 2019, Forcepoint’s fair value was estimated to exceed its net book value by approximately $900 million. As discussed in “Note 14: Redeemable Noncontrolling Interests,” we are required to determine Forcepoint’s fair value on a quarterly basis due to the accounting related to the redeemable noncontrolling interest.

Note 11: 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. 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.

We use foreign currency forward contracts to fix the functional currency value of specific commitments, payments and receipts denominated in foreign currencies. The aggregate notional amount of our outstanding foreign currency forward contracts was $1,737 million and $1,772 million at June 30, 2019 and December 31, 2018, respectively. The net notional exposure of these contracts was $757 million and $840 million at June 30, 2019 and December 31, 2018, respectively.

We may also enter into and designate treasury rate lock contracts as cash flow hedges to reduce variability in cash flows due to changes in interest payments attributable to increases or decreases in the benchmark interest rate during the period leading up to the probable issuance of long-term debt. Cash flows associated with these instruments are presented in the same category as the cash flows from the hedged item. In May 2019, we entered into treasury rate lock contracts with a notional amount of $375 million, which will mature in the fourth quarter of 2019, in anticipation of the probable issuance of debt. These treasury rate lock contracts were designated as cash flow hedges and are included in the assessment of effectiveness. There were no treasury rate lock contracts outstanding at December 31, 2018.

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 forward contracts and treasury rate lock contracts were as follows:

(In millions)	Jun 30, 2019	Dec 31, 2018
Asset derivatives related to foreign currency forward contracts	$ **26**	$ 26
Liability derivatives related to foreign currency forward contracts	**30**	34
Liability derivatives related to treasury rate lock contracts	**7**	—

The fair value of these derivatives is Level 2 in the fair value hierarchy because they are determined based on a market approach utilizing externally quoted foreign currency forward rates and treasury rates for similar contracts.

Our foreign currency forward contracts and treasury rate lock contracts contain offset or netting provisions to mitigate credit risk in the event of counterparty default, including payment default and cross default. We measure and record the impact of counterparty credit risk into our valuation and at June 30, 2019 and December 31, 2018, the fair value of our counterparty default exposure was less than $1 million and was spread across numerous highly rated counterparties.

Other Financial Instruments—We hold financial instruments, including cash and cash equivalents, commercial paper and long-term debt. The carrying amounts for cash and cash equivalents and commercial paper approximated their fair values. The carrying value of long-term debt was recorded at amortized cost. The estimated fair value of long-term debt was determined based on quoted prices in inactive markets, which falls within Level 2 of the fair value hierarchy. The carrying value and estimated fair value of long-term debt were as follows:

(In millions)	Jun 30, 2019	Dec 31, 2018
Carrying value of long-term debt(1)	$ **4,757**	$ 4,755
Fair value of long-term debt(2)	**5,256**	5,063

(1) Carrying value of long-term debt at June 30, 2019 includes current portion of long-term debt carrying value of $500 million.
(2) Fair value of long-term debt at June 30, 2019 includes current portion of long-term debt fair value of $507 million.

At June 30, 2019, short-term commercial paper borrowings outstanding were $300 million, which had a weighted-average interest rate and original maturity period of 2.502% and 12 days, respectively. At December 31, 2018, short-term commercial paper borrowings outstanding were $300 million, which had a weighted-average interest rate and original maturity period of 2.954% and 16 days, respectively. The commercial paper notes outstanding have original maturities of not more than 90 days from the date of issuance.

Supplemental Cash Flow Information—Cash and cash equivalents reported within our consolidated balance sheets excludes restricted cash of $13 million and $16 million at June 30, 2019 and December 31, 2018, respectively, which for purposes of our consolidated statements of cash flows, is included in cash, cash equivalents and restricted cash.

Note 12: Leases

We enter into operating leases primarily for: real estate, including for manufacturing, engineering, research, administration, sales and warehousing facilities; information technology (IT) equipment; and other equipment. At June 30, 2019 and December 31, 2018, we did not have any finance leases. Approximately 90% of our future lease commitments, and related lease liability, relate to our real estate leases. Some of our leases also include options to extend the lease or terminate the lease. A small portion of our leases include variable escalation clauses, which are typically based on CPI rates, or other variable lease-related payments.

The components of lease expense were as follows:

	Three Months Ended		Six Months Ended	
(In millions)	Jun 30, 2019	Jul 1, 2018	Jun 30, 2019	Jul 1, 2018
Operating lease cost	$ **60**	$ 58	$ **113**	$ 116
Variable lease cost(1)	**—**	—	**—**	—
Sublease income	**(1)**	(2)	**(1)**	(2)
Total lease cost	$ **59**	$ 56	$ **112**	$ 114

(1) Variable lease cost was expense of less than $1 million in the second quarters and first six months of 2019 and 2018.

Gains and losses on sale and leaseback transactions were de minimis in the second quarters and first six months of 2019 and 2018.

At June 30, 2019, our future lease payments under non-cancellable leases were as follows:

(In millions)		
2019 (excluding the six months ended June 30, 2019)	$	118
2020		212
2021		190
2022		145
2023		103
Thereafter		286
Total future lease payments[1]		1,054
Imputed interest		(127)
Total lease liabilities	$	927

(1) Total future lease payments excluded $20 million of future lease payments related to leases that were signed but had not yet commenced as of June 30, 2019.

Our lease liabilities recognized in our consolidated balance sheet at June 30, 2019 were as follows:

(In millions)		
Operating lease liabilities—current	$	207
Operating lease liabilities—noncurrent		720
Total lease liabilities	$	927

The weighted-average remaining lease term related to our operating leases was 8 years and 7 years as of June 30, 2019 and December 31, 2018, respectively. The weighted-average discount rate related to our operating leases was 3.1% as of June 30, 2019 and December 31, 2018.

Other information related to leases was as follows:

	Six Months Ended			
(In millions)	**Jun 30, 2019**		Jul 1, 2018	
Cash paid for amounts included in the measurement of operating lease liabilities	**$**	**122**	$	124
Right-of-use assets obtained in exchange for new operating lease obligations		**173**		106

There were no material restrictions or covenants imposed by our leases at June 30, 2019 or December 31, 2018. In addition, we do not have any related party leases and our sublease transactions are de minimis.

Note 13: 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 regularly assess the probability of recovery of these costs, which requires us to make assumptions about the extent of cost recovery under our contracts and the amount of future contract activity. We consider such recovery probable based on government contracting regulations and our long history of receiving reimbursement for such costs, and accordingly have recorded the estimated future recovery of these costs from the U.S. government within prepaid expenses and other current assets in our consolidated balance sheets. Our estimates regarding remediation costs to be incurred were as follows:

(In millions, except percentages)	**Jun 30, 2019**		Dec 31, 2018	
Total remediation costs—undiscounted	**$**	**193**	$	193
Weighted-average discount rate		**5.1%**		5.1%
Total remediation costs—discounted	**$**	**131**	$	128
Recoverable portion		**86**		82

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 for us or our affiliates. These instruments expire on various dates through 2028. 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)	**Jun 30, 2019**	Dec 31, 2018
Guarantees	**$ 222**	$ 201
Letters of credit	**2,260**	2,503
Surety bonds	**74**	166

All guarantees at June 30, 2019 and December 31, 2018 related to our joint venture in Thales-Raytheon Systems Air and Missile Defense Command and Control S.A.S. (TRS AMDC2). We provide these guarantees, as well as letters of credit, to TRS AMDC2 and other affiliates to assist these entities in obtaining financing on more favorable terms, making bids on contracts and performing their contractual obligations. While we expect these entities to satisfy their loans and meet their project performance and other contractual obligations, their failure to do so may result in a future obligation to us. We periodically evaluate the risk of these entities failing to meet their obligations described above. At June 30, 2019, we believe the risk that these entities will not be able to meet their obligations is minimal for the foreseeable future based on their current financial condition. All obligations were current at June 30, 2019. We had an estimated liability of $2 million and $3 million at June 30, 2019 and December 31, 2018, respectively, related to these guarantees.

As discussed in “Note 14: Redeemable Noncontrolling Interests,” under the joint venture agreement between Raytheon Company and Vista Equity Partners, Raytheon may be required to purchase Vista Equity Partners’ interest in Forcepoint.

We have entered into industrial cooperation agreements, sometimes in the form of either offset agreements or in-country industrial participation (ICIP) agreements, as a condition to obtaining orders for our products and services from certain customers in foreign countries. At June 30, 2019, the aggregate amount of our offset agreements, both agreed to and anticipated to be agreed to, had an outstanding notional value of approximately $9.6 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. Historically, we have not been required to pay any penalties of significance.

As a U.S. government contractor, we are subject to many levels of audit and investigation by the U.S. government relating to our contract performance and compliance with applicable rules and regulations. Agencies that oversee contract performance include: the Defense Contract Audit Agency (DCAA); the Defense Contract Management Agency (DCMA); the Inspectors General of the U.S. Department of Defense (DoD) and other departments and agencies; the Government Accountability Office (GAO); the Department of Justice (DOJ); and Congressional Committees. Other areas of our business operations may also be subject to audit and investigation by these and/or other agencies. From time to time, agencies investigate or conduct audits to determine whether our operations are being conducted in accordance with applicable requirements. Such investigations and audits may be initiated due to a number of reasons, including as a result of a whistleblower complaint. Such investigations and audits could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, the suspension of government export licenses or the suspension or debarment from future U.S. government contracting. U.S. government investigations often take years to complete and many result in no adverse action against us. Our final allowable incurred costs for each year are also subject to audit and have, from time to time, resulted in disputes between us and the U.S. government, with litigation resulting at the Court of Federal Claims (COFC) or the Armed Services Board of Contract Appeals (ASBCA) or their related courts of appeals. In addition, the DOJ has, from time to time, convened grand juries to investigate possible irregularities by us. We also provide products and services to customers outside of the U.S., and those sales are subject to local government laws, regulations and procurement policies and practices. Our compliance with such local government regulations or any applicable U.S. government regulations (e.g., the Foreign Corrupt Practices Act (FCPA) and International Traffic in Arms Regulations (ITAR)) may also be investigated or audited. Other than as specifically disclosed herein, we do not expect these audits, investigations or disputes to have a material effect on our financial position, results of operations or liquidity, either individually or in the aggregate.

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

Note 14: Redeemable Noncontrolling Interests

Forcepoint is a cybersecurity joint venture company with Vista Equity Partners. 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. The put option allows Vista Equity Partners to require Raytheon to purchase all, but not less than all, of Vista Equity Partners' interest in Forcepoint for cash at a price equal to fair value as determined under the joint venture agreement. Lastly, Raytheon has the option to purchase all, but not less than all, of Vista Equity Partners' interest in Forcepoint at a price equal to fair value as determined under the joint venture agreement. The joint venture agreement provides for the process under which the parties would determine the fair value of the interest and could result in a payment by Raytheon shortly after the exercise of Vista Equity Partners' put option or Raytheon's purchase option; however, the ultimate timing will depend on the actions of the parties and other factors. The estimate of fair value for purposes of presenting the redeemable noncontrolling interest in our consolidated balance sheets could differ from the parties' determination of fair value for the interest under the joint venture agreement.

Vista Equity Partners' adjusted equity interest in the Forcepoint joint venture was 19.5% at June 30, 2019. 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 $401 million at June 30, 2019, or the carrying value, defined as the initial value adjusted for Vista Equity Partners' share of the cumulative impact of net income (loss), other changes in accumulated other comprehensive income (loss) and additional contributions, which was $269 million at June 30, 2019. Adjustments to the redemption value over the period from the date of acquisition to the redemption date are immediately recorded to retained earnings.

As discussed in "Note 10: Acquisitions, Divestitures and Goodwill," in February 2019, we amended and restated the RGNext joint venture agreement and acquired an additional 10% equity ownership in the joint venture, increasing our equity ownership to 60% and giving us control of the operations, with GDIT obtaining only protective rights. As a result, we now consolidate the results of RGNext in our consolidated financial statements. The amendment to the RGNext joint venture agreement provides GDIT with the ability to liquidate its ownership and receive an amount equal to its contributed capital (the redemption value). As such, GDIT's interest in RGNext is presented as redeemable noncontrolling interest, outside of stockholders' equity, in our consolidated balance sheets, and is recorded at the greater of its carrying value or the redemption value.

A rollforward of redeemable noncontrolling interests was as follows:

(In millions)		Forcepoint		RGNext		Total
Balance at March 31, 2019	$	399	$	33	$	432
Net income (loss)		**(5)**		**1**		**(4)**
Other comprehensive income (loss), net of tax(1)		**—**		**—**		**—**
Adjustment of noncontrolling interests to redemption value		**7**		**—**		**7**
Balance at June 30, 2019	**$**	**401**	**$**	**34**	**$**	**435**
Balance at December 31, 2018	$	411	$	—	$	411
RGNext initial recognition		**—**		**32**		**32**
Net income (loss)		**(12)**		**2**		**(10)**
Other comprehensive income (loss), net of tax(1)		**—**		**—**		**—**
Adjustment of noncontrolling interests to redemption value		**2**		**—**		**2**
Balance at June 30, 2019	**$**	**401**	**$**	**34**	**$**	**435**
Balance at April 1, 2018	$	492	$	—	$	492
Net income (loss)		(9)		—		(9)
Other comprehensive income (loss), net of tax		(1)		—		(1)
Adjustment of noncontrolling interests to redemption value		30		—		30
Balance at July 1, 2018	$	512	$	—	$	512
Balance at December 31, 2017	$	512	$	—	$	512
Net income (loss)		(19)		—		(19)
Other comprehensive income (loss), net of tax(1)		—		—		—
Adjustment of noncontrolling interests to redemption value		19		—		19
Balance at July 1, 2018	$	512	$	—	$	512

(1) Other comprehensive income (loss), net of tax, related to Forcepoint was a loss of less than $1 million and income of less than $1 million for the second quarter and first six months of 2019, respectively, and a loss of less than $1 million for the first six months of 2018.

Note 15: Stockholders' Equity

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

	Three Months Ended		Six Months Ended	
(In millions)	**Jun 30, 2019**	Jul 1, 2018	**Jun 30, 2019**	Jul 1, 2018
Beginning balance	**280.1**	287.2	**282.1**	288.4
Stock plans activity	**—**	—	**1.1**	1.0
Share repurchases	**(1.7)**	(2.0)	**(4.8)**	(4.2)
Ending balance	**278.4**	285.2	**278.4**	285.2

From time to time, our Board of Directors authorizes the repurchase of shares of our common stock. In November 2015, our Board authorized the repurchase of up to $2.0 billion of our outstanding common stock. In November 2017, our Board also authorized the repurchase of up to an additional $2.0 billion of our outstanding common stock. At June 30, 2019, we had approximately $0.7 billion available under the 2017 repurchase program. However, the merger agreement restricts us from repurchasing shares other than to satisfy tax withholding obligations. For more information refer to "Note 2: Proposed Merger with United Technologies Corporation (UTC)."

Share repurchases also include shares surrendered by employees to satisfy tax withholding obligations in connection with restricted stock, RSUs and LTPP awards issued to employees.

Our share repurchases were as follows:

(In millions)	Three Months Ended Jun 30, 2019 $	Jun 30, 2019 Shares	Jul 1, 2018 $	Jul 1, 2018 Shares
Shares repurchased under our share repurchase programs	**$ 300**	**1.7**	$ 400	1.9
Shares repurchased to satisfy tax withholding obligations	**—**	**—**	19	0.1
Total share repurchases	**$ 300**	**1.7**	$ 419	2.0

(In millions)	Six Months Ended Jun 30, 2019 $	Jun 30, 2019 Shares	Jul 1, 2018 $	Jul 1, 2018 Shares
Shares repurchased under our share repurchase programs	**$ 800**	**4.4**	$ 800	3.8
Shares repurchased to satisfy tax withholding obligations	**66**	**0.4**	91	0.4
Total share repurchases	**$ 866**	**4.8**	$ 891	4.2

In March 2019, our Board of Directors authorized an 8.6% increase to our annual dividend payout rate from $3.47 to $3.77 per share. Our Board of Directors also declared dividends of $0.9425 and $1.885 per share during the second quarter and first six months of 2019, respectively, compared to dividends of $0.8675 and $1.735 per share during the second quarter and first six months of 2018, respectively. Dividends are subject to quarterly approval by our Board of Directors.

Stock-based Compensation Plans

On May 30, 2019 our stockholders approved the Raytheon 2019 Stock Plan. The 2019 Stock Plan provides for stock-based awards to be issued as restricted stock, RSUs, stock grants, stock options or stock appreciation rights, including awards based on performance criteria. The plan authorizes the issuance of 2.7 million shares in addition to shares remaining available for awards under the Raytheon 2010 Stock Plan as of December 31, 2018. The total maximum number of shares originally authorized for issuance under the 2019 Stock Plan, the 2010 Stock Plan and other prior Raytheon plans is 44.5 million. The 2019 Stock Plan provides that awards to our officers, employees and consultants are generally granted by the Management Development and Compensation Committee (MDCC) of our Board of Directors and are compensatory in nature, while awards to our non-employee directors are granted by the Board's Governance and Nominating Committee. At June 30, 2019, there were 7.9 million shares available for new awards and 2.9 million shares outstanding under the 2019 Stock Plan, the 2010 Stock Plan and other prior Raytheon plans.

Restricted Stock and RSUs—During the first six months of 2019, we granted 0.1 million combined shares of restricted stock and RSUs with a weighted-average grant-date fair value of $179.87 per share, calculated under the intrinsic value method. These awards generally vest in equal installments on each of the second, third and fourth anniversary dates of the award's grant date.

LTPP—During the first six months of 2019, we granted RSUs subject to the 2019–2021 LTPP with an aggregate target award of 0.1 million units and a weighted-average grant-date fair value of $175.93 per share. The performance goals for the 2019–2021 LTPP awards are independent of each other and based on three metrics, as defined in the LTPP award agreements: return on invested capital (ROIC), weighted at 50%; total shareholder return (TSR) relative to a peer group, weighted at 25%; and cumulative free cash flow from continuing operations (CFCF), weighted at 25%. The ultimate award, which is determined at the end of the three-year cycle, can range from zero to 200% of the target award and includes dividend equivalents, which are not included in the aggregate target award numbers. The grant-date fair value is based upon the value determined under the intrinsic value method for the CFCF and ROIC portions of the award and the Monte Carlo simulation method for the TSR portion of the award.

Forcepoint Plans—Forcepoint unit appreciation rights and profits interests vest over a specified period of time and settlement is subject to a liquidity event defined as either a change in control or an initial public offering of the joint venture. In certain limited circumstances other vesting conditions may apply. The impact attributable to these other vesting conditions was income of $2 million and expense of $3 million in the second quarters of 2019 and 2018, respectively, and income of $4 million and expense of $4 million in the first six months of 2019 and 2018, respectively. At June 30, 2019, there were 174 thousand combined units and/or profits interests authorized for award under these plans.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes gains and losses associated with pension and other postretirement benefit (PRB) plans, foreign exchange translation adjustments, gains and losses on derivative instruments qualified as cash flow hedges included in the assessment of effectiveness, and unrealized gains (losses) on available-for-sale investments. The computation of other comprehensive income (loss) and its components are presented in the consolidated statements of comprehensive income.

A rollforward of accumulated other comprehensive income (loss) was as follows:

(In millions)	Pension and PRB plans, net(1)	Foreign exchange translation	Cash flow hedges(2)	Unrealized gains (losses) on investments and other, net(3)	Total
Balance at December 31, 2018	$ (8,483)	$ (131)	$ (2)	$ (2)	$ (8,618)
Before tax amount	**553**	**2**	**(2)**	**—**	**553**
Tax (expense) or benefit	**(116)**	**—**	**(1)**	**—**	**(117)**
Net of tax amount	**437**	**2**	**(3)**	**—**	**436**
Balance at June 30, 2019	**$ (8,046)**	**$ (129)**	**$ (5)**	**$ (2)**	**$ (8,182)**
Balance at December 31, 2017	$ (7,843)	$ (95)	$ 6	$ (3)	$ (7,935)
Before tax amount	696	(19)	(10)	—	667
Tax (expense) or benefit	(146)	—	2	—	(144)
Net of tax amount	550	(19)	(8)	—	523
Reclassification of stranded tax effects	(1,452)	—	1	—	(1,451)
Balance at July 1, 2018	$ (8,745)	$ (114)	$ (1)	$ (3)	$ (8,863)

(1) Pension and PRB plans, net is shown net of cumulative tax benefits of $2,139 million and $2,255 million at June 30, 2019 and December 31, 2018, respectively.
(2) Cash flow hedges are shown net of cumulative tax benefits of zero and $1 million at June 30, 2019 and December 31, 2018, respectively.
(3) Unrealized gains (losses) on investments and other, net are shown net of cumulative tax expense of $1 million at June 30, 2019 and December 31, 2018.

In the first quarter of 2018, we reclassified the stranded tax effects related to the enactment of the Tax Cuts and Jobs Act of 2017 (2017 Act) from accumulated other comprehensive loss (AOCL) to retained earnings in accordance with ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. These stranded tax effects related to the deferred tax amounts at December 31, 2017 recorded through other comprehensive income prior to the enactment date using the prior 35% statutory tax rate that remained in other comprehensive income despite the fact that the related deferred tax assets and liabilities were remeasured to reflect the newly enacted tax rate of 21%.

Other material amounts reclassified out of AOCL related to the amortization of net actuarial loss associated with our pension plans were $546 million and $688 million before tax in the first six months of 2019 and 2018, respectively. This component of AOCL is included in the calculation of net periodic pension expense (income). See “Note 16: Pension and Other Employee Benefits” for additional details.

We expect $2 million net of tax of net unrealized losses on our cash flow hedges at June 30, 2019 to be reclassified into earnings at then-current values over the next 12 months as the underlying hedged transactions occur.

Note 16: Pension and Other Employee Benefits

We have pension plans covering the majority of our employees hired prior to January 1, 2007, including certain employees in foreign countries (Pension Benefits). Our primary pension obligations relate to our domestic Internal Revenue Service (IRS) qualified pension plans. In addition, we provide certain health care and life insurance benefits to retired employees and to eligible employees upon retirement through PRB plans.

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

(In millions)	**Jun 30, 2019**	Dec 31, 2018
Marketable securities held in trust	**$ 686**	$ 642

Included in marketable securities held in trust in the table above was $429 million and $420 million at June 30, 2019 and December 31, 2018, respectively, related to the nonqualified defined contribution plans. The liabilities related to the nonqualified defined contribution plans were $438 million and $431 million at June 30, 2019 and December 31, 2018, respectively.

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

	Three Months Ended		Six Months Ended	
(In millions)	**Jun 30, 2019**	Jul 1, 2018	**Jun 30, 2019**	Jul 1, 2018
Operating expense				
Service cost	**$ 104**	$ 128	**$ 209**	$ 255
Non-operating expense				
Interest cost	**261**	252	**522**	505
Expected return on plan assets	**(360)**	(363)	**(719)**	(726)
Amortization of prior service cost	**2**	2	**3**	3
Amortization of net actuarial loss	**273**	344	**546**	688
Total pension non-service expense	**176**	235	**352**	470
Net periodic pension expense (income)	**$ 280**	$ 363	**$ 561**	$ 725

Net periodic pension expense (income) includes income of $1 million and $2 million from foreign Pension Benefits plans in the second quarters of 2019 and 2018, respectively, and income of $2 million and $4 million in the first six months of 2019 and 2018, respectively.

Net periodic PRB expense was $5 million in both the second quarters of 2019 and 2018, and $11 million and $10 million in the first six months of 2019 and 2018, respectively.

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

(In millions)	**Jun 30, 2019**	Dec 31, 2018
Long-term pension liabilities	**$ 5,922**	$ 6,111
Long-term PRB liabilities	**352**	354
Total long-term pension and PRB liabilities	**$ 6,274**	$ 6,465

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

	Six Months Ended	
(In millions)	**Jun 30, 2019**	Jul 1, 2018
Required pension contributions	**$ 196**	$ 488
PRB contributions	**11**	9
Total	**$ 207**	$ 497

We did not make any discretionary contributions to our pension plans during the first six months of 2019 or 2018; however, we periodically evaluate whether to make discretionary contributions.

Note 17: Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. With the exception of one matter related to the 2015 tax year, all IRS examinations related to originally filed returns are closed through the 2016 tax year. No amount related to the 2015 matter is reflected in unrecognized tax benefits as of June 30, 2019. In 2018 we amended tax returns for tax years 2014–2016 to reflect refund claims related to increased Research and Development tax credits (R&D tax credits), which will be subject to audit. We are also under audit by multiple state and foreign tax authorities.

In the second quarter of 2018, we determined we would make a $1.25 billion contribution to our pension plans in the third quarter of 2018, and as a result recorded a net tax benefit of $95 million in the second quarter of 2018. This was primarily due to the remeasurement of the related deferred tax asset balance at the 2017 tax rate of 35% versus the 2018 tax rate of 21% since the discretionary contribution was deductible on our 2017 tax return. This decreased our effective tax rate by 11.5% and 6.0% in the second quarter and first six months of 2018, respectively.

The balance of our unrecognized tax benefits, exclusive of interest, was $203 million and $92 million at June 30, 2019 and December 31, 2018, respectively, the majority of which would affect our earnings if recognized. The increase in the balance of our unrecognized tax benefits during the first six months of 2019 is related to positions we expect to take on amended state tax returns.

We accrue interest and penalties related to unrecognized tax benefits in tax expense. Interest and penalties recognized during the second quarter and first six months of 2019 and 2018 and accrued as of June 30, 2019 and December 31, 2018 were de minimis.

Note 18: Business Segment Reporting

Our reportable segments, organized based on capabilities and technologies, are: Integrated Defense Systems (IDS); Intelligence, Information and Services (IIS); Missile Systems (MS); Space and Airborne Systems (SAS); and Forcepoint. Segment total net sales and operating income include intersegment sales and profit generally recorded at cost-plus a specified fee, which may differ from what the selling entity would be able to obtain on sales to external customers. Eliminations include intersegment sales and profit eliminations. Corporate operating income includes expenses that represent unallocated costs and certain other corporate costs not considered part of management's evaluation of reportable segment operating performance. Acquisition Accounting Adjustments include the adjustments to record acquired deferred revenue at fair value as part of our purchase price allocation process and the amortization of acquired intangible assets related to historical acquisitions.

Segment financial results were as follows:

	Three Months Ended		Six Months Ended	
Total Net Sales (in millions)	**Jun 30, 2019**	Jul 1, 2018	**Jun 30, 2019**	Jul 1, 2018
Integrated Defense Systems	**$ 1,641**	$ 1,514	**$ 3,191**	$ 3,003
Intelligence, Information and Services	**1,777**	1,687	**3,554**	3,269
Missile Systems	**2,210**	2,051	**4,216**	3,899
Space and Airborne Systems	**1,817**	1,605	**3,470**	3,173
Forcepoint	**156**	148	**314**	289
Eliminations	**(442)**	(376)	**(856)**	(733)
Total business segment sales	**7,159**	6,629	**13,889**	12,900
Acquisition Accounting Adjustments	**—**	(4)	**(1)**	(8)
Total	**$ 7,159**	$ 6,625	**$ 13,888**	$ 12,892

	Three Months Ended		Six Months Ended	
Intersegment Sales (in millions)	**Jun 30, 2019**	Jul 1, 2018	**Jun 30, 2019**	Jul 1, 2018
Integrated Defense Systems	$ 22	$ 15	**$ 43**	$ 30
Intelligence, Information and Services	**183**	167	**351**	329
Missile Systems	**58**	42	**101**	77
Space and Airborne Systems	**173**	148	**346**	287
Forcepoint	**6**	4	**15**	10
Total	**$ 442**	$ 376	**$ 856**	$ 733

Operating Income (in millions)	Three Months Ended Jun 30, 2019	Three Months Ended Jul 1, 2018	Six Months Ended Jun 30, 2019	Six Months Ended Jul 1, 2018
Integrated Defense Systems	**$ 264**	$ 262	**$ 522**	$ 535
Intelligence, Information and Services	**161**	128	**348**	245
Missile Systems	**253**	231	**443**	443
Space and Airborne Systems	**229**	206	**441**	399
Forcepoint	**(3)**	(8)	**(12)**	(15)
Eliminations	**(46)**	(41)	**(93)**	(81)
Total business segment operating income	**858**	778	**1,649**	1,526
Acquisition Accounting Adjustments	**(27)**	(34)	**(55)**	(67)
FAS/CAS Operating Adjustment	**363**	353	**729**	707
Corporate	**(18)**	3	**(34)**	(25)
Total	**$ 1,176**	$ 1,100	**$ 2,289**	$ 2,141

Intersegment Operating Income (in millions)	Three Months Ended Jun 30, 2019	Three Months Ended Jul 1, 2018	Six Months Ended Jun 30, 2019	Six Months Ended Jul 1, 2018
Integrated Defense Systems	**$ 2**	$ 1	**$ 4**	$ 3
Intelligence, Information and Services	**18**	17	**35**	34
Missile Systems	**5**	4	**9**	7
Space and Airborne Systems	**17**	15	**34**	29
Forcepoint	**4**	4	**11**	8
Total	**$ 46**	$ 41	**$ 93**	$ 81

The FAS/CAS Operating Adjustment, which is reported as a separate line in our segment results above, represents the difference between the service cost component of our pension and PRB expense or income under Financial Accounting Standards (FAS) in accordance with U.S. 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 pension and PRB components of the FAS/CAS Operating Adjustment were as follows:

(In millions)	Three Months Ended Jun 30, 2019	Three Months Ended Jul 1, 2018	Six Months Ended Jun 30, 2019	Six Months Ended Jul 1, 2018
FAS/CAS Pension Operating Adjustment	**$ 361**	$ 350	**$ 723**	$ 701
FAS/CAS PRB Operating Adjustment	**2**	3	**6**	6
FAS/CAS Operating Adjustment	**$ 363**	$ 353	**$ 729**	$ 707

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

Total Assets (in millions)	Jun 30, 2019	Dec 31, 2018(2)
Integrated Defense Systems(1)	**$ 4,965**	$ 4,826
Intelligence, Information and Services(1)	**4,372**	4,238
Missile Systems(1)	**8,769**	8,229
Space and Airborne Systems(1)	**6,897**	6,740
Forcepoint(1)	**2,422**	2,529
Corporate	**4,761**	6,108
Total	**$ 32,186**	$ 32,670

(1) Total assets includes intangible assets. Related amortization expense is included in Acquisition Accounting Adjustments.
(2) Amounts have been recast to reflect the adoption of ASU 2016-02, *Leases (Topic 842)*. Operating lease right-of-use assets are all recorded at Corporate.

We disaggregate our revenue from contracts with customers by geographic location, customer-type and contract-type for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. See details in the tables below.

Disaggregation of Total Net Sales (in millions)	Three Months Ended June 30, 2019						
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	Total
United States							
Sales to the U.S. government[1]							
Fixed-price contracts	$ 206	$ 224	$ 715	$ 632	$ 40	$ —	$ 1,817
Cost-type contracts	466	1,132	794	713	4	—	3,109
Direct commercial sales and other U.S. sales							
Fixed-price contracts	1	31	8	32	45	—	117
Cost-type contracts	—	5	—	—	—	—	5
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	45	61	128	36	—	—	270
Cost-type contracts	16	9	7	8	—	—	40
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	187	48	49	58	16	—	358
Cost-type contracts	19	—	1	—	—	—	20
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	171	6	191	83	—	—	451
Cost-type contracts	52	5	4	22	—	—	83
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	262	9	150	1	8	—	430
Cost-type contracts	—	—	18	—	—	—	18
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	132	—	37	20	—	—	189
Cost-type contracts	12	—	10	2	—	—	24
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	47	53	40	37	37	—	214
Cost-type contracts	3	11	—	—	—	—	14
Total net sales	1,619	1,594	2,152	1,644	150	—	7,159
Intersegment sales	22	183	58	173	6	(442)	—
Acquisition Accounting Adjustments	—	—	—	—	—	—	—
Reconciliation to business segment sales	$ 1,641	$ 1,777	$ 2,210	$ 1,817	$ 156	$ (442)	$ 7,159

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

Total Net Sales by Geographic Area (in millions)	Three Months Ended June 30, 2019 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	**$ 673**	**$ 1,392**	**$ 1,517**	**$ 1,377**	**$ 89**	**$ 5,048**
Asia/Pacific	**267**	**118**	**185**	**102**	**16**	**688**
Middle East and North Africa	**485**	**20**	**363**	**106**	**8**	**982**
All other (principally Europe)	**194**	**64**	**87**	**59**	**37**	**441**
Total net sales	**$ 1,619**	**$ 1,594**	**$ 2,152**	**$ 1,644**	**$ 150**	**$ 7,159**

Total Net Sales by Major Customer (in millions)	Three Months Ended June 30, 2019 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government(1)	**$ 672**	**$ 1,356**	**$ 1,509**	**$ 1,345**	**$ 44**	**$ 4,926**
U.S. direct commercial sales and other U.S. sales	**1**	**36**	**8**	**32**	**45**	**122**
Foreign military sales through the U.S. government	**428**	**81**	**377**	**171**	**—**	**1,057**
Foreign direct commercial sales and other foreign sales(1)	**518**	**121**	**258**	**96**	**61**	**1,054**
Total net sales	**$ 1,619**	**$ 1,594**	**$ 2,152**	**$ 1,644**	**$ 150**	**$ 7,159**

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

Total Net Sales by Contract-Type (in millions)	Three Months Ended June 30, 2019 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	**$ 1,051**	**$ 432**	**$ 1,318**	**$ 899**	**$ 146**	**$ 3,846**
Cost-type contracts	**568**	**1,162**	**834**	**745**	**4**	**3,313**
Total net sales	**$ 1,619**	**$ 1,594**	**$ 2,152**	**$ 1,644**	**$ 150**	**$ 7,159**

Disaggregation of Total Net Sales (in millions)	Three Months Ended July 1, 2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	Total
United States							
Sales to the U.S. government[1]							
Fixed-price contracts	$ 198	$ 250	$ 651	$ 525	$ 21	$ —	$ 1,645
Cost-type contracts	411	1,043	685	642	4	—	2,785
Direct commercial sales and other U.S. sales							
Fixed-price contracts	2	29	10	31	51	—	123
Cost-type contracts	—	6	1	1	—	—	8
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	50	51	113	37	—	—	251
Cost-type contracts	22	11	21	5	—	—	59
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	191	53	44	51	17	—	356
Cost-type contracts	42	—	—	—	—	—	42
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	243	6	126	64	—	—	439
Cost-type contracts	38	1	7	17	—	—	63
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	227	4	240	35	8	—	514
Cost-type contracts	—	—	—	—	—	—	—
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	28	—	32	12	—	—	72
Cost-type contracts	7	—	20	1	—	—	28
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	37	58	58	36	39	—	228
Cost-type contracts	3	8	1	—	—	—	12
Total net sales	1,499	1,520	2,009	1,457	140	—	6,625
Intersegment sales	15	167	42	148	4	(376)	—
Acquisition Accounting Adjustments	—	—	—	—	4	(4)	—
Reconciliation to business segment sales	$ 1,514	$ 1,687	$ 2,051	$ 1,605	$ 148	$ (380)	$ 6,625

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

Total Net Sales by Geographic Area (in millions)	Three Months Ended July 1, 2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	$ 611	$ 1,328	$ 1,347	$ 1,199	$ 76	$ 4,561
Asia/Pacific	305	115	178	93	17	708
Middle East and North Africa	508	11	373	116	8	1,016
All other (principally Europe)	75	66	111	49	39	340
Total net sales	$ 1,499	$ 1,520	$ 2,009	$ 1,457	$ 140	$ 6,625

Total Net Sales by Major Customer (in millions)	Three Months Ended July 1, 2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government[1]	$ 609	$ 1,293	$ 1,336	$ 1,167	$ 25	$ 4,430
U.S. direct commercial sales and other U.S. sales	2	35	11	32	51	131
Foreign military sales through the U.S. government	388	69	319	136	—	912
Foreign direct commercial sales and other foreign sales[1]	500	123	343	122	64	1,152
Total net sales	$ 1,499	$ 1,520	$ 2,009	$ 1,457	$ 140	$ 6,625

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

Total Net Sales by Contract-Type (in millions)	Three Months Ended July 1, 2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	$ 976	$ 451	$ 1,274	$ 791	$ 136	$ 3,628
Cost-type contracts	523	1,069	735	666	4	2,997
Total net sales	$ 1,499	$ 1,520	$ 2,009	$ 1,457	$ 140	$ 6,625

Disaggregation of Total Net Sales (in millions)	Six Months Ended June 30, 2019 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	Total
United States							
Sales to the U.S. government[1]							
Fixed-price contracts	$ 427	$ 449	$ 1,423	$ 1,181	$ 76	$ —	$ 3,556
Cost-type contracts	891	2,283	1,492	1,372	8	—	6,046
Direct commercial sales and other U.S. sales							
Fixed-price contracts	2	64	16	58	89	—	229
Cost-type contracts	—	9	—	1	1	—	11
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	85	134	251	68	—	—	538
Cost-type contracts	34	20	23	16	—	—	93
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	355	89	81	106	32	—	663
Cost-type contracts	36	—	1	—	—	—	37
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	439	9	307	157	—	—	912
Cost-type contracts	100	10	9	42	—	—	161
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	458	16	295	19	16	—	804
Cost-type contracts	—	—	37	—	—	—	37
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	212	1	71	36	—	—	320
Cost-type contracts	23	—	26	2	—	—	51
Direct commercial sales and other foreign sales[1]							
Fixed-price contracts	81	102	82	66	76	—	407
Cost-type contracts	5	17	1	—	—	—	23
Total net sales	3,148	3,203	4,115	3,124	298	—	13,888
Intersegment sales	43	351	101	346	15	(856)	—
Acquisition Accounting Adjustments	—	—	—	—	1	(1)	—
Reconciliation to business segment sales	$ 3,191	$ 3,554	$ 4,216	$ 3,470	$ 314	$ (857)	$ 13,888

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

Total Net Sales by Geographic Area (in millions)	Six Months Ended June 30, 2019 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	$ 1,320	$ 2,805	$ 2,931	$ 2,612	$ 174	$ 9,842
Asia/Pacific	510	243	356	190	32	1,331
Middle East and North Africa	997	35	648	218	16	1,914
All other (principally Europe)	321	120	180	104	76	801
Total net sales	$ 3,148	$ 3,203	$ 4,115	$ 3,124	$ 298	$ 13,888

Total Net Sales by Major Customer (in millions)	Six Months Ended June 30, 2019					
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government[(1)]	**$ 1,318**	**$ 2,732**	**$ 2,915**	**$ 2,553**	**$ 84**	**$ 9,602**
U.S. direct commercial sales and other U.S. sales	**2**	**73**	**16**	**59**	**90**	**240**
Foreign military sales through the U.S. government	**893**	**174**	**687**	**321**	**—**	**2,075**
Foreign direct commercial sales and other foreign sales[(1)]	**935**	**224**	**497**	**191**	**124**	**1,971**
Total net sales	**$ 3,148**	**$ 3,203**	**$ 4,115**	**$ 3,124**	**$ 298**	**$ 13,888**

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

Total Net Sales by Contract-Type (in millions)	Six Months Ended June 30, 2019					
	Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	**$ 2,059**	**$ 864**	**$ 2,526**	**$ 1,691**	**$ 289**	**$ 7,429**
Cost-type contracts	**1,089**	**2,339**	**1,589**	**1,433**	**9**	**6,459**
Total net sales	**$ 3,148**	**$ 3,203**	**$ 4,115**	**$ 3,124**	**$ 298**	**$ 13,888**

Disaggregation of Total Net Sales (in millions)	Six Months Ended July 1, 2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Other	Total
United States							
Sales to the U.S. government(1)							
Fixed-price contracts	$ 425	$ 502	$ 1,234	$ 1,070	$ 42	$ —	$ 3,273
Cost-type contracts	813	1,999	1,313	1,286	7	—	5,418
Direct commercial sales and other U.S. sales							
Fixed-price contracts	4	56	23	57	100	—	240
Cost-type contracts	1	9	—	1	—	—	11
Asia/Pacific							
Foreign military sales through the U.S. government							
Fixed-price contracts	80	102	209	66	—	—	457
Cost-type contracts	47	25	39	6	—	—	117
Direct commercial sales and other foreign sales(1)							
Fixed-price contracts	337	97	87	101	32	—	654
Cost-type contracts	69	—	1	—	—	—	70
Middle East and North Africa							
Foreign military sales through the U.S. government							
Fixed-price contracts	438	10	206	118	—	—	772
Cost-type contracts	70	1	14	32	—	—	117
Direct commercial sales and other foreign sales(1)							
Fixed-price contracts	574	9	470	56	15	—	1,124
Cost-type contracts	—	—	—	—	—	—	—
All other (principally Europe)							
Foreign military sales through the U.S. government							
Fixed-price contracts	25	—	58	22	—	—	105
Cost-type contracts	15	—	44	2	—	—	61
Direct commercial sales and other foreign sales(1)							
Fixed-price contracts	70	110	123	69	75	—	447
Cost-type contracts	5	20	1	—	—	—	26
Total net sales	2,973	2,940	3,822	2,886	271	—	12,892
Intersegment sales	30	329	77	287	10	(733)	—
Acquisition Accounting Adjustments	—	—	—	—	8	(8)	—
Reconciliation to business segment sales	$ 3,003	$ 3,269	$ 3,899	$ 3,173	$ 289	$ (741)	$ 12,892

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

Total Net Sales by Geographic Area (in millions)	Six Months Ended July 1, 2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
United States	$ 1,243	$ 2,566	$ 2,570	$ 2,414	$ 149	$ 8,942
Asia/Pacific	533	224	336	173	32	1,298
Middle East and North Africa	1,082	20	690	206	15	2,013
All other (principally Europe)	115	130	226	93	75	639
Total net sales	$ 2,973	$ 2,940	$ 3,822	$ 2,886	$ 271	$ 12,892

Total Net Sales by Major Customer (in millions)	Six Months Ended July 1, 2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Sales to the U.S. government[1]	$ 1,238	$ 2,501	$ 2,547	$ 2,356	$ 49	$ 8,691
U.S. direct commercial sales and other U.S. sales	5	65	23	58	100	251
Foreign military sales through the U.S. government	675	138	570	246	—	1,629
Foreign direct commercial sales and other foreign sales[1]	1,055	236	682	226	122	2,321
Total net sales	$ 2,973	$ 2,940	$ 3,822	$ 2,886	$ 271	$ 12,892

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

Total Net Sales by Contract-Type (in millions)	Six Months Ended July 1, 2018 Integrated Defense Systems	Intelligence, Information and Services	Missile Systems	Space and Airborne Systems	Forcepoint	Total
Fixed-price contracts	$ 1,953	$ 886	$ 2,410	$ 1,559	$ 264	$ 7,072
Cost-type contracts	1,020	2,054	1,412	1,327	7	5,820
Total net sales	$ 2,973	$ 2,940	$ 3,822	$ 2,886	$ 271	$ 12,892

Note 19: Remaining Performance Obligations

Remaining performance obligations represents the transaction price of firm orders for which work has not been performed and excludes unexercised contract options and potential orders under ordering-type contracts (e.g., indefinite-delivery, indefinite-quantity (IDIQ)). As of June 30, 2019, the aggregate amount of the transaction price allocated to remaining performance obligations was $43,131 million. We expect to recognize revenue on approximately half and three-quarters of the remaining performance obligations over the next 12 and 24 months, respectively, with the remainder recognized thereafter.

Recent events have caused increased attention on U.S. defense sales to KSA. KSA represents less than 5% of our sales and $2.4 billion of our remaining performance obligations at June 30, 2019. Although we currently do not expect to be prevented from doing business in KSA, if government action impairs our ability to fulfill our contractual obligations or otherwise to continue to do business in KSA, it would have a material adverse effect on our financial results.

With respect to the unaudited consolidated financial information of Raytheon Company for the six months ended June 30, 2019 and July 1, 2018, PricewaterhouseCoopers LLP (PricewaterhouseCoopers) reported that it has applied limited procedures in accordance with professional standards for a review of such information. Its report dated July 25, 2019, appearing below, states that the firm did not audit and does not express an opinion on that unaudited consolidated financial information. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended (Securities Act) for its report on the unaudited consolidated financial information because that report is not a “report” or a “part” of a registration statement prepared or certified by PricewaterhouseCoopers within the meaning of Sections 7 and 11 of the Securities Act.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Raytheon Company

Results of Review of Interim Financial Statements

We have reviewed the accompanying consolidated balance sheet of Raytheon Company and its subsidiaries (the “Company”) as of June 30, 2019, and the related consolidated statements of operations, of comprehensive income and of equity for the three-month and six-month periods ended June 30, 2019 and July 1, 2018, and the consolidated statements of cash flows for the six-month periods ended June 30, 2019 and July 1, 2018, including the related notes (collectively referred to as the “interim financial statements”). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2018, 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 13, 2019, which included a paragraph describing a change in the manner in which it accounts for certain stranded tax effects impacting accumulated other comprehensive income and the manner in which it presents and discloses certain net periodic pension and postretirement benefit costs in the Company’s statements of operations, we expressed an unqualified opinion on those consolidated financial statements. As discussed in Note 3 to the accompanying consolidated interim financial statements, the Company changed its method of accounting for leases. The accompanying December 31, 2018 consolidated balance sheet reflects this change.

Basis for Review Results

These interim financial statements are the responsibility of the Company’s management. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. 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 PCAOB, 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.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
July 25, 2019