

RAYTHEON CO/  
Form DEF 14A  
April 26, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934  
(Amendment No. )

Filed by the Registrant  S

Filed by a Party other than the Registrant  £

Check the appropriate box:

£ Preliminary Proxy Statement

£ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

S Definitive Proxy Statement

£ Definitive Additional Materials

£ Soliciting Material Pursuant to §240.14a-12

Raytheon Company

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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S No fee required.

£ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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£ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

April 26, 2013

Dear Raytheon Shareholder,

I am pleased to invite you to attend Raytheon's 2013 Annual Meeting of Shareholders on Thursday, May 30, 2013. The meeting will be held at 11:00 a.m. Eastern Time at The Ritz-Carlton, Pentagon City, 1250 South Hayes Street, Arlington, Virginia 22202. For your convenience, we are pleased to offer a live webcast (audio only) of the meeting at [www.raytheon.com/ir](http://www.raytheon.com/ir).

This booklet includes a formal notice of the meeting and the proxy statement. It also provides information on, among other things, Raytheon's corporate governance, the Company's executive compensation program, and the matters to be voted on at the meeting. The proxy statement reflects Raytheon's commitment to strong governance processes, including independent and active Board oversight, shareholder accountability and access, transparent disclosure, and compliance with complex and changing regulatory responsibilities.

The Raytheon Board of Directors has set a clear "tone at the top" with their steadfast focus on sound and progressive governance. This is illustrated in the array of governance measures we have adopted such as majority and annual election of directors, a robust Lead Director role, contemporary stock ownership guidelines, a clawback policy, website disclosure on political activities and a statement on human rights. Additionally, our compensation program aims to promote a strong alignment between pay and performance and the interests of our executives with our shareholders, while enabling the Company to attract and retain the highly qualified talent needed to compete in an increasingly challenging market environment. The Board recently amended the Management and Development Compensation Committee's charter and policy with respect to compensation adviser independence in anticipation of upcoming New York Stock Exchange requirements, building on a formal compensation consultant independence policy first established in 2009, well in advance of applicable regulatory requirements.

In the last several years, the Company has built upon its strong governance platform in significant respects. We have promoted shareholder access and communication through adoption of a measure permitting shareholders holding 25% or more of our stock to call a special meeting and a concerted outreach effort outside of the proxy season resulting in dialogue on governance and compensation matters in 2012 with shareholders representing over 35% of the Company's outstanding shares. We have also brought greater focus to our risk management and oversight processes through which top risks and associated mitigation plans are actively managed by senior management and closely monitored by the Board. We encourage you to learn more about these initiatives and all of our governance practices by reading the proxy statement and visiting our website at [www.raytheon.com](http://www.raytheon.com).

I look forward to sharing information with you about Raytheon at the Annual Meeting. Whether or not you plan to attend, I encourage you to vote your proxy as soon as possible so that your shares will be represented at the meeting. Thank you.

Sincerely,

WILLIAM H. SWANSON  
Chairman and Chief Executive Officer

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NOTICE OF 2013 ANNUAL MEETING OF SHAREHOLDERS

Time: 11:00 a.m. Eastern Time

Date: Thursday, May 30, 2013

Place: The Ritz-Carlton, Pentagon City

1250 South Hayes Street  
Arlington, Virginia 22202

Record Date: Shareholders of record at the close of business on Tuesday, April 9, 2013 are entitled to notice of and to vote at the meeting.

(1) Elect eight directors nominated by the Company's Board to hold office until the next annual shareholders' meeting or until their respective successors have been elected.

(2) Consider an advisory vote on the compensation of the Company's named executive officers.

Purpose:

(3) Ratify the selection of PricewaterhouseCoopers LLP as Raytheon's independent auditors.

(4) Consider and act upon such other business, including shareholder proposals if properly presented,

as may properly come before the meeting or any adjournment thereof.

Proxy Voting: You can vote your shares by completing and returning the proxy card or voting instruction form sent to you. Most shareholders can also vote their shares over the Internet or by telephone. Please check your proxy card or the information forwarded by your broker, bank, trust or other holder of record to see which options are available to you. You can revoke a proxy at any time prior to its exercise by following the instructions in the proxy statement.

By order of the Board of Directors,

JAY B. STEPHENS

Secretary

Waltham, Massachusetts

April 26, 2013

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RAYTHEON COMPANY  
 870 Winter Street, Waltham, Massachusetts 02451  
 PROXY STATEMENT FOR 2013 ANNUAL MEETING OF SHAREHOLDERS  
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RAYTHEON COMPANY

870 Winter Street, Waltham, Massachusetts 02451

PROXY STATEMENT FOR 2013 ANNUAL MEETING OF SHAREHOLDERS

We are providing these proxy materials in connection with the solicitation by the Board of Directors of Raytheon Company (Raytheon or the Company) of proxies to be voted at our 2013 Annual Meeting of Shareholders and at any meeting following adjournment thereof.

You are cordially invited to attend Raytheon's Annual Meeting on Thursday, May 30, 2013 beginning at 11:00 a.m. Eastern Time. Shareholders will be admitted beginning at 10:30 a.m. The meeting will be held at The Ritz-Carlton, Pentagon City, 1250 South Hayes Street, Arlington, Virginia 22202.

We are first mailing this proxy statement and accompanying forms of proxy and voting instructions on or about April 26, 2013 to holders of shares of our common stock as of Tuesday, April 9, 2013, the record date for the meeting.

If you are a shareholder of record as of the record date for the meeting, you will find an admission ticket attached to the proxy card sent to you. If you plan to attend the meeting in person, please detach the admission ticket from the proxy card and bring it with you to the meeting. For security purposes, to enter the meeting, you will be asked to present a valid picture identification, such as a driver's license or passport, with your admission ticket.

If your shares are held through a broker, bank, trust or other holder of record and you plan to attend the meeting in person, we will admit you only if we are able to verify that you are a Raytheon shareholder as of the record date. You should bring a letter or account statement demonstrating that you are the beneficial owner of our common stock on the record date, along with a valid picture identification to be admitted to the meeting. To vote your shares at the meeting, please see below.

Proxies and Voting Procedures

Your vote is important. Because many shareholders cannot attend the meeting in person, it is necessary that a large number of shareholders be represented by proxy. Most shareholders have a choice of voting over the Internet, by using a toll-free telephone number, or by completing a proxy card or voting instruction form and mailing it in the envelope provided. Please check your proxy card or the information forwarded by your broker, bank, trust or other holder of record to see which options are available to you. The Internet and

telephone voting facilities for shareholders of record will close at 11:59 p.m. Eastern Time on Wednesday, May 29, 2013. The Internet and telephone voting procedures have been designed to authenticate shareholders, to allow you to vote your shares and to confirm that your instructions have been properly recorded. If your shares are held through a broker, bank, trust or other holder of record and Internet or telephone facilities are made available to you, these facilities may close sooner than facilities for shareholders of record.

You can revoke your proxy at any time before it is exercised by timely delivery of a properly executed, later-dated proxy (including an Internet or telephone vote) or by voting by ballot at the meeting. By providing your voting instructions promptly, you may save the Company the expense of a second mailing and help avoid unnecessary resource consumption.

The method by which you vote will not limit your right to vote at the meeting if you later decide to attend in person. If your shares are held in the name of a broker, bank, trust or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the meeting.

All shares entitled to vote and represented by properly executed proxies received prior to the meeting and not revoked will be voted at the meeting in accordance with your instructions. If you sign and return your proxy but do not indicate how your shares should be voted on a matter, the shares represented by your proxy will be voted as the Board of Directors recommends.

Shareholders Entitled to Vote

Shareholders of our common stock at the close of business on the record date are entitled to notice of and to vote at the meeting. On April 9, 2013, there were 324,567,128 shares of our common stock outstanding.

If you are a participant in our Dividend Reinvestment Plan, shares acquired under the plan may be voted in the same manner as the shares that generated the dividends for reinvestment. Thus, these shares may be voted by following the same procedures as those described above.

If you are a participant in the Raytheon Savings and Investment Plan, your vote will serve as the voting instruction



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to the trustee of the plan for all shares you own through the plan. If you own shares through this plan and do not provide voting instructions to the trustee, the trustee will vote those shares at the meeting in the same proportion as shares for which instructions were received under the plan.

### Quorum and Required Vote

#### Quorum

The presence, in person or by proxy, of the holders of a majority of the shares entitled to vote for the election of directors is necessary to constitute a quorum. Abstentions and "broker non-votes" are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a nominee holding shares for a beneficial owner (i.e., in "street name") does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. We believe that nominees only have discretionary voting power with respect to the ballot item on ratification of auditors described in this proxy statement.

#### Required Vote - Election of Directors

In uncontested elections of directors (as is the case for this annual meeting), each nominee must receive a majority of votes cast to be elected. That means that the number of votes cast "for" that nominee must exceed the votes cast "against" that nominee. An abstention does not count as a vote cast. Our Governance Principles require any incumbent nominee who fails to receive such a majority to tender his or her resignation to our Governance and Nominating Committee. For more information, see "Corporate Governance - Majority Voting for Directors" on page 7. A nominee holding shares in street name does not have discretionary voting power with respect to the election of directors and may not vote shares unless the nominee receives voting instructions from the beneficial owner. Accordingly, a broker non-vote is not counted for voting purposes with respect to, and has no effect on, the election of directors.

#### Required Vote - Advisory Vote on Executive Compensation

The affirmative vote of the holders of a majority of shares of our common stock, present in person or represented by proxy and entitled to vote, is required for approval with respect to the advisory vote on executive compensation. An abstention is treated as present and entitled to vote and therefore has the effect of a vote against the advisory vote on executive compensation. A nominee holding shares in street name does not have discretionary voting power with respect to this proposal and may not vote shares unless the nominee receives voting instructions from the beneficial owner. Accordingly, a broker non-vote is not counted for voting

purposes with respect to, and has no effect on, the advisory vote on executive compensation.

#### Required Vote - Ratification of Auditors

The affirmative vote of the holders of a majority of shares of our common stock, present in person or represented by proxy and entitled to vote, is required to ratify the selection of our independent auditors. An abstention is treated as present and entitled to vote and therefore has the effect of a vote against ratification of the independent auditors. Because the New York Stock Exchange (NYSE) considers the ratification of the independent auditors to be routine, a nominee holding shares in street name may vote on this proposal in the absence of instructions from the beneficial owner.

#### Required Vote - Shareholder Proposals

The affirmative vote of the holders of a majority of shares of our common stock, present in person or represented by proxy and entitled to vote, is required to approve a shareholder proposal. An abstention is treated as present and entitled to vote on the shareholder proposal and therefore has the effect of a vote against the proposal. A nominee holding shares in street name does not have discretionary voting power with respect to a shareholder proposal and may not vote shares unless the nominee receives voting instructions from the beneficial owner. Accordingly, a broker non-vote is not counted for voting purposes with respect to, and has no effect on, the shareholder proposals.

#### Other Matters

If any other matters are properly presented for consideration at the meeting, including, among other things, consideration of a motion to adjourn the meeting to another time or place, the persons named in the proxy card will have discretion to vote on those matters according to their best judgment to the same extent as the person signing the

proxy would be entitled to vote. At the date of this proxy statement, we do not anticipate that any other matters will be raised at the meeting.

In accordance with our Restated Certificate of Incorporation, as amended, each share of our common stock is entitled to one vote.

Tabulation of Votes

All votes, whether by proxy or ballot, will be tabulated by an independent business entity, which will not disclose your vote except as:

required by law;

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necessary in connection with a judicial or regulatory action or proceeding;

necessary in connection with a contested proxy solicitation; or

requested or otherwise disclosed by you.

Any comment written on a proxy card will be provided to our Corporate Secretary without disclosing your vote, unless necessary to an understanding of the comment.

### Multiple Copies of Annual Report to Shareholders

A copy of our 2012 Annual Report is enclosed. If you received more than one copy of the annual report and wish to reduce the number of reports you receive to save us the cost of producing and mailing the annual report, we will discontinue the mailing of reports on the accounts you select if you follow the instructions regarding electronic access when you vote over the Internet.

At least one account must continue to receive annual reports and proxy statements, unless you elect to view future annual reports and proxy statements over the Internet. Mailing of dividends, dividend reinvestment statements and special notices will not be affected by your election to discontinue duplicate mailings of the annual report and proxy statement.

### Householding Information

We have adopted a procedure approved by the Securities and Exchange Commission (SEC) called "householding." Under this procedure, we are permitted to deliver a single copy of our proxy statement and annual report to shareholders sharing the same address. Householding allows us to reduce our printing and postage costs and reduces the volume of duplicative information received at your household.

For certain holders who share a single address, we are sending only one annual report and proxy statement to that address unless we received instructions to the contrary from any shareholder at that address. If you wish to receive an additional copy of our annual report or proxy statement this year, you may obtain one by calling the Raytheon Investor Relations Information Line toll free at 1-877-786-7070 (Option 1) or by writing to the Corporate Secretary at Raytheon Company, 870 Winter Street, Waltham, Massachusetts 02451. You also may request copies of our annual disclosure documents on our website at [www.raytheon.com](http://www.raytheon.com) under the heading "Investor Relations/Request Information." If you are a street name holder and wish to revoke your consent to householding and receive additional copies of our proxy statement and annual report in future years, you may call Broadridge Investor

Communications Services toll-free at 1-800-542-1061 or write to Broadridge Investor Communications Services, Householding Department, 51 Mercedes Way, Edgewood, New York 11717. If you are a shareholder of record and wish to revoke your consent to householding and receive additional copies of our proxy statement and annual report in future years, you may call Raytheon Shareholder Services toll-free at 1-800-360-4519 or write to Raytheon Shareholder Services, c/o American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, New York 11219.

### Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on Thursday, May 30, 2013

This proxy statement and our 2012 Annual Report are also available on our website at [www.raytheon.com/proxy](http://www.raytheon.com/proxy).

### Electronic Delivery of Future Proxy Materials and Annual Reports

Most shareholders can elect to view future proxy statements and annual reports, as well as vote their shares of our common stock, over the Internet instead of receiving paper copies in the mail. This will save the Company the cost of producing and mailing these documents and help avoid unnecessary resource consumption.

If you are a shareholder of record, you may choose this option by following the instructions provided when you vote over the Internet. You may also elect to receive annual disclosure documents electronically by following the

instructions published on our website at [www.raytheon.com/proxy](http://www.raytheon.com/proxy). If you choose to view future proxy statements and annual reports over the Internet, you will receive an e-mail message next year containing the Internet address to access our annual report and proxy statement. Your choice will remain in effect until you cancel your election at [www.raytheon.com/proxy](http://www.raytheon.com/proxy). You do not have to elect Internet access each year.

If you hold our common stock through a broker, bank, trust or other holder of record, please refer to the information provided by your broker, bank, trust or other holder of record regarding the availability of electronic delivery. If you hold our common stock through a broker, bank, trust or other holder of record and you have elected electronic access, you will receive information from your broker, bank, trust or other holder of record containing the Internet address for use in accessing our proxy statement and annual report.

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Cost of Proxy Solicitation

We will pay the cost of soliciting proxies. Proxies may be solicited on behalf of Raytheon by directors, officers or employees of Raytheon in person or by telephone, facsimile or other electronic means. We have retained D. F. King & Co., Inc. (DF King) to assist in the distribution and solicitation of proxies. Based on our agreement with DF King, we anticipate paying it fees ranging from approximately \$30,000 up to approximately \$100,000, plus-out-of-pocket expenses, for these services, depending upon the extent of proxy solicitation efforts undertaken.

As required by the SEC and the NYSE, we will also reimburse brokerage firms and other custodians, nominees and fiduciaries for their expenses incurred in sending proxies and proxy materials to beneficial owners of our common stock.

Shareholder Account Maintenance

Our transfer agent is American Stock Transfer & Trust Company (AST). All communications concerning accounts of shareholders of record, including address changes, name changes, inquiries as to requirements to transfer Raytheon stock and similar issues, can be handled by calling Raytheon Shareholder Services toll-free at 1-800-360-4519 or by accessing AST's website at [www.amstock.com](http://www.amstock.com).

For other Raytheon information, you can visit our website at [www.raytheon.com](http://www.raytheon.com). We make our website content available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this proxy statement.

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### CORPORATE GOVERNANCE

The Board of Directors (the Board) is committed to being a leader in corporate governance. The Board believes that good governance enhances shareholder value and goes beyond simply complying with applicable requirements. It means adhering to the highest standards of ethics and integrity. To that end, the Board has adopted a number of policies and processes to ensure effective governance. Our key governance documents are described below and are available on our website at [www.raytheon.com](http://www.raytheon.com) under the heading "Investor Relations/Corporate Governance."

#### Governance Principles

Our Governance Principles provide the framework for the oversight of our business and operations. The Governance Principles address, among other things, the following:

A substantial majority of the Board should be independent directors. In addition, the Audit, Management Development and Compensation, and Governance and Nominating Committees must consist entirely of independent directors.

The non-management directors designate a Lead Director with the role and responsibilities set forth in the Governance Principles. More information regarding the Lead Director's role and responsibilities may be found on page 8 under the heading "Lead Director."

The limit on the number of public company boards (including Raytheon) on which a director may serve is five, or three in the case of a director who is a chief executive officer of a public company.

The Board regularly reviews our long-term strategic and business plans.

A director must retire at the expiration of his or her term following attaining age 74.

The Board has established a process, led and implemented by the Management Development and Compensation Committee, through which the performance of the CEO is evaluated annually by the independent directors.

The CEO provides a periodic report on succession planning and management development to the Management Development and Compensation Committee and the Board.

The Board oversees the review of various risks potentially affecting the Company. Management may address such risks with the full Board directly or with an appropriate Board committee in accordance with the responsibilities of such committee under its charter.

The Board is subject to the Company's Code of Conduct and Conflict of Interest policies, and engages in periodic reviews of the Company's ethics program.

A Restatement Clawback Policy gives the Board the right to recover any incentive payments and stock awards made on or after January 1, 2009 to any elected officer, to the extent that such payments or awards were inflated due to erroneous financial statements substantially caused by the executive's knowing or intentionally fraudulent or illegal conduct.

The Board has adopted stock ownership guidelines applicable to officers and directors. In 2011, the Board revised the stock ownership guidelines applicable to non-employee directors to provide that each director is expected to own shares of Raytheon stock with a market value of at least four times the cash component of the director's annual retainer for service on the Board.

The Governance Principles are available on our website at [www.raytheon.com](http://www.raytheon.com) under the heading "Investor Relations/Corporate Governance/Governance Principles" and are also available in print to any shareholder who requests them by writing to Raytheon Company, Investor Relations, 870 Winter Street, Waltham, Massachusetts 02451 or by emailing [invest@raytheon.com](mailto:invest@raytheon.com).

#### Board Independence

The Governance Principles also include criteria adopted by the Board to assist it in making determinations regarding the independence of its members. The criteria are consistent with the NYSE listing standards regarding director independence. To be considered independent, the Board must determine that a director does not have a material

relationship, directly or indirectly, with Raytheon. A director will not be considered independent if he or she is a current partner or employee of an internal or external auditor of Raytheon, or if his or her immediate family member is a current partner of an internal or external auditor of Raytheon, or if he or she, or an immediate family member, has been within the last three years:

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an executive officer of Raytheon;  
a partner or employee of an internal or external auditor of Raytheon who personally worked on a Raytheon audit;  
an executive officer of a public company that has an executive officer of Raytheon on its compensation committee;  
a paid advisor or consultant to Raytheon receiving in excess of \$120,000 per year in direct compensation from Raytheon (other than fees for service as a director); or  
an employee (or in the case of an immediate family member, an executive officer) of a company that does business with Raytheon and the annual payments to or from Raytheon exceeded the greater of \$1 million or 2% of the other company's annual gross revenues.

A director will also not be considered independent if he or she, or an immediate family member, has been an executive officer of a tax-exempt entity that receives contributions in any fiscal year from Raytheon exceeding the greater of \$1 million or 2% of the entity's gross revenues.

The Board has considered the independence of its members in light of its independence criteria, and has reviewed Raytheon's relationships with organizations with which our directors are affiliated. In this regard, the Board considered that the Massachusetts Institute of Technology (MIT), where Mr. Deutch is a professor, provides services to, and receives services from, Raytheon. Mr. Deutch does not participate in any of the arrangements between Raytheon and MIT, and the amounts paid to, and received from, MIT were well below the relevant thresholds referenced above.

The Board also considered that Ms. Stuntz's son and his spouse are employees of Deloitte LLP (Deloitte), which performs various non-audit related services for the Company and receives certain training services from the Company. Deloitte does not serve as the Company's independent auditors, a role which for many years has, and continues to be, performed by PricewaterhouseCoopers LLP. Ms. Stuntz's son and his spouse are in the early stages of their careers with Deloitte, neither participates in any of the arrangements between Raytheon and Deloitte, and neither of them is an officer or partner of the firm. The Company played no role in the hiring of Ms. Stuntz's son or his spouse by Deloitte. The amounts paid to, and received from, Deloitte represent a very small fraction of one-percent of Deloitte's annual revenues. The Board strongly believes that Ms. Stuntz's independence is not affected by these relationships and that she is fully compliant with applicable NYSE independence standards, the

Company's Governance Principles and SEC rules governing Audit Committee independence. In the remote event that any decision relating to Deloitte comes before the Board, the Audit Committee or the Governance and Nominating Committee, Ms. Stuntz would recuse herself.

Although none of our directors or their spouses is an executive officer of a not-for-profit organization, the Board reviewed charitable contributions to not-for-profit organizations with which our directors or their spouses are affiliated. None of the contributions approached the thresholds set forth in our independence criteria.

The Board has determined that Messrs. Cartwright, Clark, Deutch, Hadley, Poses, Ruettgers, Skates and Spivey and Ms. Stuntz do not directly or indirectly have a material relationship with the Company, nor do they directly or indirectly have a material interest in any transaction involving the Company, and each of them satisfies the independence criteria set forth in the Governance Principles.

### Director Nomination Process

The Governance and Nominating Committee's frame of reference for considering director candidates is set forth in the Board Selection section of the Governance Principles, which identifies diversity of experience, expertise and business judgment as key objectives. The Governance Principles also provide that the Committee, in consultation with the Board, will be guided by a number of other criteria, including that each director candidate should be chosen without regard to gender, race, religion, age, sexual orientation or national origin. The Committee considers the effectiveness of the framework established in the Governance Principles periodically when considering the attributes and experience that might be most valuable in a new Board member. The Committee seeks to have a balanced, engaged and collegial board whose members possess the skills and background necessary to ensure that shareholder value is maximized in a manner consistent with all legal requirements and the highest ethical standards.



The Committee reviews each candidate's qualifications in accordance with the director qualification criteria contained in our Governance Principles and determines whether the candidate should be nominated for election to the Board. There is no difference in the way in which the Committee evaluates nominees for director positions based on the source of the nomination. From time to time, the Committee may engage a third party for a fee to assist it in identifying potential director candidates.

Shareholders wishing to nominate a director candidate may do so by sending the candidate's name, biographical information and qualifications to the Chair of the Governance

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and Nominating Committee, in care of the Corporate Secretary, Raytheon Company, 870 Winter Street, Waltham, Massachusetts 02451. All director nominations should be made in accordance with the provisions set forth in our By-Laws, which are published on our website at [www.raytheon.com](http://www.raytheon.com) under the heading "Investor Relations/Corporate Governance." You also may obtain a copy of our By-Laws by writing to the Corporate Secretary at the address set forth above.

Under our By-Laws, nominations for director may be made only by the Board or a Board committee, or by a shareholder entitled to vote who complies with the advance notice provision in our By-Laws. For our 2014 Annual Meeting of Shareholders, we must receive this notice between January 30, 2014 and March 1, 2014. However, in no event are we obligated to include any such nomination in our proxy materials.

### Majority Voting for Directors

Our By-Laws contain a majority of votes cast standard for uncontested elections of directors. Under the majority of votes cast standard, a director nominee is elected if the number of votes cast "for" the nominee exceeds the number of votes cast "against" the nominee. In contested elections (that is, those in which the number of nominees exceeds the number of directors to be elected), the voting standard is a plurality of votes cast.

Our Governance Principles also provide that any incumbent director in an uncontested election who fails to receive the requisite majority of votes cast "for" his or her election will tender his or her resignation to the Governance and Nominating Committee. The Governance and Nominating Committee will make a recommendation to the Board as to whether to accept or reject the director's resignation. The Board will act on the resignation and publicly disclose its decision and the rationale behind it within 90 days from the date of the certification of results. The director whose resignation is under consideration will abstain from participating in both the Governance and Nominating Committee's recommendation and the Board's decision with respect to the resignation. If a resignation is not accepted by the Board, the director may continue to serve.

The Board also maintains the following policies and processes, which it believes represent best practices with respect to the election of directors:

- the annual election of all directors;
- a policy that a substantial majority of the Board shall be independent;

- a rigorous nomination process conducted by the independent Governance and Nominating Committee; and
- disclosure of a process through which shareholders may nominate director candidates.

The Board believes that the foregoing policies and practices help ensure the integrity of the election process by providing shareholders with a meaningful voice in director elections, thereby increasing the Board's accountability to shareholders.

### Board Leadership Structure

The Board believes that the most effective leadership structure for the Company at this time is one with a combined Chairman and CEO, coupled with an independent Lead Director. Having the CEO serve as Chairman has a number of benefits. It promotes a cohesive vision and strategy for the Company and strong execution ability. It helps to assure clear and direct communication to the Board of any key enterprise risks. The Company has found that having a combined Chairman and CEO is particularly advantageous with respect to our growing international business with foreign government customers who value unified leadership and a single ultimate executive decision maker. Finally, it facilitates the Company's ability to respond nimbly to changing business needs and customer objectives. When taken together with the robust role established for the Lead Director, the Board believes that the structure is currently optimal for the Company.

The Board has created the position of Lead Director to strengthen independent Board oversight in accordance with Raytheon's contemporary governance practices. The Lead Director must qualify as "independent" under our Governance Principles, which comply with NYSE listing standards. The Lead Director is empowered with broad

leadership authority and responsibilities, including working with the Chairman to develop and approve Board agendas, advising on the quality, quantity and timeliness of information provided by management to the Board, and acting as a liaison between the independent directors and the Chairman. The Lead Director also chairs executive sessions of the independent directors not attended by management in conjunction with each regularly scheduled Board meeting. The Lead Director's role is described in greater detail below.

#### The Board's Role in Risk Oversight

The Board oversees various risks potentially affecting the Company, both directly and indirectly, through its committees. The Company has in place an enterprise risk management

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(ERM) process that, among other things, is designed to identify risks across the Company with input from each business unit and function. Under the ERM process, various business risks are identified, assessed and prioritized. The top risks to the Company, and any mitigation plans associated with those risks, are reported to the Board. The ERM process is reviewed with the Board from time to time and is the subject of periodic review by the Audit Committee of the Board. The Company also manages risk through numerous controls and processes embedded in its operations. Such controls and processes also are reviewed from time to time with the Board and/or the relevant Board committees as noted below.

Risk considerations also are raised in the context of a range of matters that are reported by management to the Board or one of the Board's committees for review. For example, elements of risk are discussed by the full Board in presentations concerning company-wide and business unit annual operating plans, merger and acquisition opportunities, market environment updates, international business activities and other strategic discussions. Elements of risk related to financial reporting, internal audit, auditor independence and related areas of law and regulation are reviewed by the Audit Committee. Elements of risk related to various aspects of U.S. and international regulatory compliance, social responsibility, environmental matters, export/import controls and crisis management are reviewed by the Public Affairs Committee. Elements of risk related to compensation policies and practices and talent management are reviewed by the Management Development and Compensation Committee (MDCC), as further discussed below. Elements of risk applicable to classified business are reviewed by the Special Activities Committee. Similarly, elements of risk related to governance issues are reviewed by the Governance and Nominating Committee.

### Risk Assessment of Overall Compensation Program

The MDCC has reviewed with management the design and operation of our incentive compensation arrangements for all employees, including executive officers, for the purpose of determining whether such programs might encourage inappropriate risk-taking that would be reasonably likely to have a material adverse effect on the Company. The MDCC considered the incentive award elements of the Company's compensation program and the features of the program that are designed to mitigate compensation-related risk, such as those described on page 30 under the caption "Management of Compensation-Related Risk." While risk is inherent in numerous aspects of our business operations, our compensation program does not unduly effect these inherent business risks. The MDCC concluded that the Company's compensation plans, programs and policies, considered as a

whole, including applicable risk-mitigation features, are not reasonably likely to have a material adverse effect on the Company.

### Lead Director

The Board has created the position of independent Lead Director. The Board believes that a Lead Director is an integral part of a Board structure that promotes strong, independent oversight of Raytheon's management and affairs. The Lead Director must be independent as determined by the Board in accordance with the criteria included in our Governance Principles, which are summarized above. The Lead Director's duties include working with the Chairman to develop and approve Board agendas, developing and approving meeting schedules with the Chairman to ensure there is sufficient time for discussion of agenda topics, advising the Chairman as to the quality, quantity and timeliness of the information sent to the Board by management, developing agendas for and chairing executive sessions of the Board (in which the non-management directors meet without management), acting as a liaison between the Chairman and the independent directors and performing such other duties as the Board may determine from time to time. The designation of a Lead Director is not intended to inhibit communication among the directors or between any of them and the Chairman. Annually, the Board reviews the role and function of the Lead Director. The position of Lead Director is currently held by Michael C. Ruettgers, former Chairman and CEO of EMC Corporation. Mr. Ruettgers was first elected Lead Director by the Board in 2006.

### Communication with the Board

Interested parties may communicate with our Board through our Lead Director in writing, care of the Corporate Secretary, Raytheon Company, 870 Winter Street, Waltham, Massachusetts 02451. Interested parties also may contact the Lead Director electronically by submitting comments on our website at [www.raytheon.com](http://www.raytheon.com) in the section entitled, "Contact the Board," under the heading "Investor Relations/Corporate Governance/Contact the Company." Communications will be referred to the Lead Director and tracked by the Office of the General Counsel. Anyone who has a concern regarding our accounting, internal controls over financial reporting or auditing matters may communicate that concern to the Audit Committee. You may contact the Audit Committee by writing to Raytheon Audit Committee, Raytheon Company, 870 Winter Street, Waltham, Massachusetts 02451. Interested parties may also contact the Audit Committee electronically by submitting comments on our website at [www.raytheon.com](http://www.raytheon.com) in the section

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entitled, "Contact the Audit Committee Regarding Accounting, Internal Controls or Auditing Matters," under the heading, "Investor Relations/Corporate Governance/Contact the Company." Communications will be referred to the Audit Committee and will be tracked and investigated in the ordinary course by our Ethics Office with the assistance of the Office of the General Counsel unless otherwise instructed by the Audit Committee.

### Service on Other Boards

Our Governance Principles limit the number of public company boards (including Raytheon) on which a director may serve to five, or three in the case of a director who currently serves as a CEO of a public company. This latter limitation applies to the Company's Chairman and CEO. The Governance Principles provide that a director who is considering joining the board of another public company must notify the Chairman of the Board and the Chair of the Governance and Nominating Committee regarding the proposed board service and shall not accept the position until advised by the Chairman of the Board that service on the other board would not conflict with a Raytheon policy or service on the Raytheon Board.

### Director Education

Our director education program consists of visits to Raytheon facilities, education regarding our Code of Conduct and other policies and practices relevant to our business and operations. In addition, we sponsor in-house educational programs for the Board and provide updates on relevant topics of interest to the Board. We also encourage directors to attend accredited director education programs and institutes sponsored by various educational institutions.

### Board and Committee Evaluation Process

The Governance and Nominating Committee leads an annual assessment of the Board's performance and of its contribution as a whole. In addition, each of the Audit Committee, Governance and Nominating Committee, Management Development and Compensation Committee, Public Affairs Committee and Special Activities Committee of the Board annually reviews its performance. Many of the changes to the Governance Principles, committee charters and Board governance practices in general have resulted from the annual evaluation process. The Board views the annual self-assessment review as an integral part of its commitment to achieving high levels of Board and committee performance.

### Policy on Shareholder Rights Plans

We do not have a shareholder rights plan. The Board will obtain shareholder approval prior to adopting a shareholder rights plan unless the Board, in the exercise of its fiduciary duties, determines that, under the circumstances then existing, it would be in the best interests of Raytheon and our shareholders to adopt a rights plan without prior shareholder approval. If a rights plan is adopted by the Board without prior shareholder approval, the plan must provide that it will expire within one year of adoption unless ratified by shareholders.

### Political Contributions and Lobbying Expenditures Disclosure

We disclose on our website a description of our oversight process for political contributions and a summary of direct corporate contributions, including those to state and local parties and candidates, and organizations operated in accordance with Section 527 of the U.S. Internal Revenue Code. This section of the website also includes information on lobbying activities at the federal and state level. This disclosure is available on our website at [www.raytheon.com](http://www.raytheon.com) under the heading "Investor Relations/Corporate Governance/Political Contributions and Lobbying Expenditures."

### Shareholder Access and Board Review of Action by Written Consent

In recent years the Company has taken significant steps to enhance shareholder access. In 2010, shareholders voted in favor of a proposal, recommended by the Board, to amend the Certificate of Incorporation to permit shareholders owning 25% or more of the Company's stock to call a special meeting of shareholders. The Company has also made a concerted effort to engage with shareholders outside the proxy season. In 2012, these outreach efforts resulted in

dialogue with shareholders representing over 35% of the Company's outstanding shares to solicit their input on a range of topics related to executive compensation and governance matters. In addition to outreach with institutional shareholders, the Company has also engaged in conversations and correspondence with a number of other investors, proxy advisory services and corporate governance research firms.

Over the last several years, the Governance and Nominating Committee and the full Board have also engaged in periodic deliberations to carefully consider shareholder action by written consent in light of shareholder interest. The Governance and Nominating Committee and the full Board have repeatedly reviewed the reasons both in favor of, and against, action by written consent and each time concluded on a unanimous basis that the measure is not in the best interests of the Company or its shareholders. This view is in accord with shareholders who cast the majority of votes against an action by written consent proposal at the Company's 2012 and 2011 Annual Meetings. For an explanation of the Board's position, see the statement in opposition beginning on page 64.

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### Restatement Clawback Policy

Our Governance Principles contain a Restatement Clawback Policy which gives the Board the right to recover Results-Based Incentive Plan payments, Long-Term Performance Plan awards and restricted stock awards made on or after January 1, 2009 to any elected officer, to the extent that such payments or awards were inflated due to erroneous financial statements substantially caused by the executive's knowing or intentionally fraudulent or illegal conduct. The policy is designed to maximize the likelihood that the Company will be successful if it seeks to recover the portion of an executive's incentive compensation attributable to inflated financial results caused by the executive's malfeasance.

### Code of Conduct and Conflict of Interest

We have adopted a Code of Conduct and Conflict of Interest policies which apply to all officers, directors, employees and representatives. The Code of Conduct was recently updated to provide clearer and more comprehensive guidance. The Code of Conduct and the Conflict of Interest policies are the foundation of our ethics and compliance program and cover a wide range of areas. Many of our policies are summarized in the Code of Conduct, including our policies regarding conflict of interest, insider trading, discrimination and harassment, confidentiality and compliance with laws and regulations applicable to the conduct of our business. All officers, directors, employees and representatives are required to comply with the Code of Conduct and are subject to disciplinary action, including termination, for violations. We provide ethics education for directors, officers and employees. The Code of Conduct is published on our website at [www.raytheon.com](http://www.raytheon.com) under the heading "Investor Relations/Corporate Governance/Code of Conduct" and is also available in print to any shareholder who requests it by writing to Raytheon Company, Investor Relations, 870 Winter Street, Waltham, Massachusetts 02451 or by emailing [invest@raytheon.com](mailto:invest@raytheon.com). Any amendments to the Code of Conduct or the grant of a waiver from a provision of the Code of Conduct requiring disclosure under applicable SEC rules will be disclosed on our website.

Under our Conflict of Interest policy, directors, officers and employees are expected to bring to the attention of the Senior Vice President, General Counsel and Secretary or the Vice President - Business Ethics and Compliance any actual or potential conflict of interest. Anyone may report matters of concern to Raytheon's Ethics Office through our anonymous, confidential toll-free EthicsLine at 1-800-423-0210, by writing to the Ethics Office, Raytheon Company, 235 Wyman Street, Waltham, Massachusetts 02451, or by submitting comments on our website at [www.raytheon.com](http://www.raytheon.com) in the section

entitled, "Contact the Ethics Office," under the heading "Investor Relations/Corporate Governance/Contact the Company."

### Transactions with Related Persons

Our Board has adopted a written Related Party Transactions Policy. Related party transactions include all transactions and relationships involving amounts in excess of \$120,000 between (a) the Company (including subsidiaries) and (b) any director, executive officer or 5% shareholder, including immediate family members and certain entities in which they have a significant interest. Under the policy, the General Counsel (or the CEO, in the case of a matter involving the General Counsel) provides information regarding any related party transaction or relationship to the Governance and Nominating Committee based on information solicited by the General Counsel (or the CEO, in the case of a matter involving the General Counsel). The Governance and Nominating Committee reviews the material facts of all related party transactions and determines whether to approve, disapprove or ratify the transaction or relationship involved. Certain transactions and relationships have been pre-approved by the Governance and Nominating Committee for purposes of the policy, including (a) executive officer compensation approved by the Board, (b) director compensation, (c) certain relatively small transactions between the Company and other companies, (d) certain charitable contributions made by the Company and (e) matters considered by the Board in its director independence determinations.

In a Schedule 13G filing made with the SEC, BlackRock, Inc., including its subsidiaries, (BlackRock) reported beneficial ownership of 8.17% of our outstanding common stock as of December 31, 2012. Under a previously



established business relationship, BlackRock has provided investment management services for the benefit of certain Raytheon benefit plans. For providing such investment management services, BlackRock received fees of \$2.3 million in 2012. In accordance with the Related Party Transactions Policy referenced above, the Governance and Nominating Committee has reviewed this relationship. The Committee ratified the relationship on the basis that BlackRock's ownership of Raytheon stock plays no role in the business relationship between the two companies and that the engagement of BlackRock has been on terms no more favorable to it than terms that would be available to unaffiliated third parties under the same or similar circumstances.

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Our business, property and affairs are managed under the direction of the Board. Directors are kept informed of our business through discussions with the Lead Director, the Chairman and other officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees. The Board has a separately designated Audit Committee established in accordance with the Securities Exchange Act of 1934, as well as a standing Governance and Nominating Committee, Management Development and Compensation Committee, Public Affairs Committee, Special Activities Committee and Executive Committee. Each committee's charter (other than the Executive Committee) is published on our website at [www.raytheon.com](http://www.raytheon.com) under the heading "Investor Relations/Corporate Governance/Committees" and is also available in print to any shareholder who requests it by writing to Raytheon Company, Investor Relations, 870 Winter Street, Waltham, Massachusetts 02451 or by emailing [invest@raytheon.com](mailto:invest@raytheon.com).

The table below provides current membership information regarding the Board and Board committees as of the date of this proxy statement. During 2012, the Board met 8 times. The Board and certain committees also engaged in other discussions and actions during 2012 apart from these meetings. During 2012, the average attendance for directors at Board and committee meetings was 97%; no director attended less than 75% of the total of all Board and committee meetings on which they served. All directors are expected to attend the 2013 Annual Meeting of Shareholders. In 2012, all of the directors who were members of the Board at that time attended the annual meeting.

The non-management directors, all of whom are independent, meet in an executive session chaired by the Lead Director at the conclusion of regularly scheduled Board meetings. In addition, committee members generally meet in executive session, without management present, at the conclusion of regularly scheduled committee meetings. Each of the committees, except for the Executive Committee, is comprised solely of independent directors.

	Audit Committee	Governance and Nominating Committee	Management Development and Compensation Committee	Public Affairs Committee	Special Activities Committee	Executive Committee
Independent Directors						
James E. Cartwright	X			X	X	
Vernon E. Clark		X	X		Chair	X
John M. Deutch		X	X			
Stephen J. Hadley	X			X	X	
Frederic M. Poses	X		Chair			X
Michael C. Ruettgers					X	X
Ronald L. Skates	Chair		X	X		X
William R. Spivey		X		Chair		X
Linda G. Stuntz	X	Chair				X
Inside Director						
William H. Swanson						Chair
Number of Meetings in 2012	9	8	6	6	6	—

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### Audit Committee

#### The Audit Committee:

Oversees the integrity of our financial statements;

Evaluates the independent auditors' qualifications, performance and independence;

Oversees our internal audit function;

Meets with management to consider the adequacy of our internal controls and the objectivity of financial reporting;

Reviews the independent auditors' audit of the effectiveness of the Company's internal controls;

Prepares the Audit Committee Report found on page 60;

Meets with the independent auditors, internal auditors and appropriate financial personnel;

Appoints the independent auditors;

Pre-approves all audit fees and terms, as well as all non-audit engagements, with the independent auditors;

Reviews annual and periodic reports and earnings press releases and recommends to the Board whether the annual audited financial statements should be included in the Company's Form 10-K;

Reviews and discusses with management the Company's risk assessment and risk management policies, including ERM, the Company's major financial risk exposures and steps to monitor and control such exposures;

Has established a process for employees and others to confidentially and anonymously report concerns or complaints regarding accounting, internal control or auditing matters. More information regarding this process is available on page 8 under the heading "Corporate Governance - Communication with the Board";

Reviews compliance with our Code of Conduct with respect to certain financial reporting, controls and allegations of financial misconduct; and

Has the authority to hire independent counsel and other advisers.

The Board has determined that each member of the Audit Committee is independent as defined by the rules of the

NYSE and the SEC. The Board also has determined that Ronald L. Skates, the Chair of the Committee, is an "audit committee financial expert," as defined by SEC rules, based upon Mr. Skates' experience and training.

### Management Development and Compensation Committee

#### The Management Development and Compensation Committee (MDCC):

Reviews and oversees compensation and benefits, as well as personnel plans, policies and programs;

Reviews and recommends to the Board the compensation of the CEO and the other four most highly compensated executive officers;

Reviews and approves the compensation of other officers and key employees;

Reviews peer company practices to ensure competitiveness and seeks to align compensation with the performance of the Company;

Periodically reviews succession plans for the CEO, the other named executive officers and elected officers of the Company;

Periodically reviews career development plans for elected officers and other key employees;

Administers and makes awards under our equity compensation plans;

Reviews and discusses with management the "Compensation Discussion and Analysis" section of this proxy statement beginning on page 25;

Prepares the Management Development and Compensation Committee Report found on page 42;

Has the sole authority and responsibility for the appointment, compensation and oversight of any outside compensation consultant, outside legal counsel or other committee adviser, who may only be selected after the MDCC considers all factors relevant to such adviser's independence from management, including those specified in the NYSE listing standards; and

Annually assesses the independence of its outside compensation consultants or advisers, considering all relevant factors, including those specified in the NYSE listing standards, and pre-approves any services proposed to be

provided by such consultants or advisers to the Company.

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While the Board bears the ultimate responsibility for approving compensation of our named executive officers, the MDCC assists the Board in discharging these responsibilities. The Chair reports the MDCC's actions and its recommendations on named executive officer compensation to the Board. The agenda for MDCC meetings is determined by its Chair, with the assistance of our Senior Vice President - Global Human Resources and Security and our Senior Vice President, General Counsel and Secretary, who also regularly attend MDCC meetings. At each meeting, the MDCC meets in executive session. Using its authority to hire independent advisers, the MDCC has retained Pearl Meyer & Partners (PM&P), an independent compensation consulting firm, to assist it in evaluating executive compensation and to assist the Governance and Nominating Committee in evaluating director compensation. For more information on the MDCC and the services provided to the MDCC by PM&P, see the section entitled "Executive Compensation - Compensation Discussion and Analysis" beginning on page 25.

### Governance and Nominating Committee

The Governance and Nominating Committee:

- Reviews and reports to the Board on a periodic basis with regard to matters of corporate governance;
- Establishes procedures for the nomination of directors and recommends candidates for election to the Board;
- Considers director nominees proposed by shareholders;
- Reviews and assesses the effectiveness of our Governance Principles and recommends proposed revisions to the Board;
- Reviews and approves or ratifies transactions and relationships under our Related Party Transactions Policy;
- Reviews proposals by shareholders in connection with the annual meeting of shareholders and makes recommendations to the Board for action on such proposals;
- Makes recommendations to the Board regarding the size and composition of the Board;
- Oversees the orientation program for new directors and the continuing education program for existing directors;

- Approves director compensation with the concurrence of the Board; and
- Has the authority to hire independent counsel and other advisers.

### Public Affairs Committee

The Public Affairs Committee:

- Reviews, identifies and brings to the attention of the Board political, social and legal trends and issues that may have an impact on our business, operations, financial performance or public image;
- Reviews our policies and practices in the areas of legal and social responsibility, and recommends to the Board such policies and practices, including those involving:
  - environmental protection;
  - health and safety of employees;
  - ethics;
  - export control;
  - regulatory compliance (except financial matters);
  - charitable contributions and community relations;
  - government relations and legislative policy;
  - political contributions and lobbying;
  - foreign and domestic consultants and representatives;
  - offsets;
  - crisis management and emergency preparedness;
  - pension plan performance, management and governance; and

government contracting and defense procurement policies;

Reviews, monitors and makes recommendations to the Board on corporate policies and practices that relate to public policy; and

Has the authority to hire independent counsel and other advisers.

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Special Activities Committee

The Special Activities Committee:

Reviews Company programs, activities and potential acquisitions involving classified business which involve special performance, financial, reputational or other risks; and  
Reviews policies, processes, practices, procedures, risk management and internal controls applicable to the Company's classified business to the extent that they deviate from those applicable to the Company's non-classified business activities.

Executive Committee

The Executive Committee is empowered to act for the full Board during intervals between Board meetings, with the exception of certain matters that by law may not be delegated. The Executive Committee did not meet in 2012.

Compensation Committee Interlocks and Insider Participation

The members of our MDCC during fiscal year 2012 were Vernon E. Clark, John M. Deutch, Frederic M. Poses and Ronald L. Skates. None of these members is or has ever been an officer or employee of the Company. To our knowledge, there were no relationships involving members of the MDCC or our other directors which require disclosure in this proxy statement as a Compensation Committee interlock.

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## DIRECTOR COMPENSATION

Set forth below is information regarding the compensation of our non-employee directors for 2012.

Name	Fees Earned or Paid in Cash <sup>(1)</sup> (\$)	Stock Awards <sup>(2)</sup> (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
James E. Cartwright	\$124,000	\$ 180,013	<sup>(3)</sup> —	—	—	\$—	\$304,013
Vernon E. Clark	137,000	120,013	—	—	—	5,000	<sup>(5)</sup> 262,013
John M. Deutch	116,500	120,013	—	—	—	—	236,513
Stephen J. Hadley	128,500	120,013	—	—	—	—	248,513
Frederic M. Poses	129,500	120,013	—	—	—	5,000	<sup>(5)</sup> 254,513
Michael C. Ruettgers	127,000	170,987	<sup>(4)</sup> —	—	—	—	297,987
Ronald L. Skates	148,500	120,013	—	—	—	5,000	<sup>(5)</sup> 273,513
William R. Spivey	129,500	120,013	—	—	—	—	249,513
Linda G. Stuntz	131,000	120,013	—	—	—	5,000	<sup>(5)</sup> 256,013

(1) Cash amounts consist of the following:

Director	Roles	Annual Board Cash Retainer (\$)	Annual Committee Chair or Lead Director Cash Retainer (\$)	Meeting Fees (\$)
Mr. Cartwright	Director	\$85,000	\$—	\$39,000
Mr. Clark	Chair, Special Activities Committee	85,000	10,000	42,000 <sup>(a)</sup>
Mr. Deutch	Director	85,000	—	31,500
Mr. Hadley	Director	85,000	—	43,500 <sup>(a)</sup>
Mr. Poses	Chair, MDCC	85,000	10,000	34,500
Mr. Ruettgers	Lead Director	85,000	24,000	18,000 <sup>(a)</sup>
Mr. Skates	Chair, Audit Committee	85,000	20,000	43,500
Mr. Spivey	Chair, Public Affairs Committee	85,000	10,000	34,500
Ms. Stuntz	Chair, Governance and Nominating Committee	85,000	10,000	36,000

(a) Includes a \$1,500 meeting fee for a November 2011 Special Activities Committee meeting paid in 2012.

(2) These amounts represent the aggregate grant date fair value of awards of restricted stock paid as the annual stock retainer in accordance with the accounting standard for share-based payments. The grant date fair value of the restricted stock awards is based on the stock price on the date of grant and the number of shares (or the intrinsic value method). For more information on the assumptions used by us in calculating the grant date fair values for



restricted stock awards, see Note 13: Stock-based Compensation Plans to our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012 (2012 Form 10-K).

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The aggregate number of shares of unvested restricted stock held by each director as of December 31, 2012 were as follows:

Director	Restricted Stock(#)
Mr. Cartwright	2,385
Mr. Clark	2,385
Mr. Deutch	2,385
Mr. Hadley	2,385
Mr. Poses	2,385
Mr. Ruettgers	3,398
Mr. Skates	2,385
Mr. Spivey	2,385
Ms. Stuntz	2,385

The following table shows the shares of restricted stock awarded to each director during 2012 and the aggregate grant date fair value for each award.

Director	Grant Date	All Stock Awards: Number of Shares of Stock or Units(#)	Full Grant Date Value of Award(\$)
Mr. Cartwright	1/25/2012	1,207	\$60,000
	5/31/2012	2,385	120,013
Mr. Clark	5/31/2012	2,385	120,013
Mr. Deutch	5/31/2012	2,385	120,013
Mr. Hadley	5/31/2012	2,385	120,013
Mr. Poses	5/31/2012	2,385	120,013
Mr. Ruettgers	5/31/2012	3,398	170,987
Mr. Skates	5/31/2012	2,385	120,013
Mr. Spivey	5/31/2012	2,385	120,013
Ms. Stuntz	5/31/2012	2,385	120,013

Upon election to the Board in January 25, 2012, Mr. Cartwright was granted 1,207 shares of restricted stock which (3) represented his pro-rated portion of the 2011 - 2012 annual stock retainer. Such restricted shares vested on May 31, 2012, the date of the 2012 Annual Meeting.

(4) This amount represents Mr. Ruettger's annual stock retainer in his capacity as the Lead Director. For a further discussion, please see "Director Compensation - Elements of Director Compensation - Equity Awards" below.

(5) Represents Raytheon contributions under our matching gift and charitable awards program, which is available to all employees and directors.

#### Elements of Director Compensation

The principal features of the compensation received by our non-employee directors for 2012 are described below. Annual Retainers. All of our non-employee directors are paid an annual cash retainer and an annual stock retainer (as further discussed below) for service on the Board. The Lead Director and each of the committee chairs are also paid an additional annual cash retainer for their service in such roles. Directors may elect to receive their annual retainers in shares of our common stock in lieu of cash. We pay the cash retainers quarterly and the stock retainer, including stock in lieu of cash, annually. The Governance and Nominating Committee and the Board review non-employee director compensation annually.

Annual Cash Retainers	2012
Board of Directors	\$85,000
Lead Director	\$24,000
Governance and Nominating Committee Chair	\$10,000
Audit Committee Chair	\$20,000
Management Development and Compensation Committee Chair	\$10,000
Public Affairs Committee Chair	\$10,000
Special Activities Committee Chair	\$10,000

Meeting Fees. Our non-employee directors receive a \$1,500 meeting fee for each Board or committee meeting attended in person or held by teleconference. Non-employee directors who are not members of the Audit Committee are invited each year to attend the February Audit Committee meeting, for review of the draft Annual Report on Form 10-K, and receive a meeting fee for such attendance.

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**Equity Awards.** Each non-employee director receives an annual stock retainer in the form of a grant of restricted stock under the Raytheon 2010 Stock Plan (2010 Stock Plan) which is entitled to full dividend and voting rights. Unless otherwise provided by the Board, the restricted stock vests (becomes non-forfeitable) on the date of the annual meeting of shareholders in the calendar year following the year of grant, or upon the earlier occurrence of the director's termination as a director after a change-in-control of Raytheon or the director's death. Upon a director's termination of service on the Board for any other reason, his or her unvested restricted stock award will be forfeited to Raytheon. Regardless of the vesting date, the shares will remain subject to transfer restriction for at least six months after the grant date. In 2012, each non-employee director was awarded \$120,000 of restricted stock, except for Mr. Ruettgers and Mr. Cartwright. Mr. Ruettgers was awarded \$171,000 of restricted stock in his capacity as the Lead Director. In addition to the \$120,000 of restricted stock awarded to each non-employee director on May 31, 2012, Mr. Cartwright was awarded \$60,000 of restricted stock, his pro-rata portion of the 2011 - 2012 annual stock retainer, upon his election to the Board on January 25, 2012.

An assessment by PM&P of 2011 data showed that total direct compensation (the sum of the annual retainer, committee fees, meeting fees and the annual equity award) for our non-employee directors was approximately 5% below the 50<sup>th</sup> percentile relative to the Company's core and broader peer groups. For more information on the Company's core and broader peer groups, see the section entitled "Compensation Discussion and Analysis - How We Determine and Assess Executive Compensation - Market Data" beginning on page 31.

**Benefits.** We reimburse our non-employee directors for actual expenses incurred in the performance of their service as directors, including attendance at director education programs sponsored by educational and other institutions. We also maintain a business travel accident insurance policy which provides non-employee directors with up to \$1,000,000 of coverage per incident when traveling on Raytheon business. In addition, all directors are eligible to participate in our matching gift and charitable awards program available to all employees. We match eligible gifts up to \$5,000 per donor per calendar year.

Pursuant to our Deferred Compensation Plan, directors may defer receipt of their cash retainers and/or meeting fees until retirement from the Board. Directors also may elect to receive their cash retainers in shares of our common stock, which can be received currently but cannot be deferred.

### **Director Stock Ownership and Retention Guidelines**

As stated in our Governance Principles, the Board believes that directors should be shareholders and have a financial stake in the Company. Accordingly, independent directors are paid a substantial portion of their compensation in equity awards. Further, each director is expected to own shares of our common

stock with a market value of at least four times the cash component of a non-employee director's annual retainer for service on the Board, with five years to achieve the target ownership threshold. In 2011, the Governance Principles were amended to change this threshold from a previous requirement to own two times the aggregate stock and cash retainer amounts. The Governance Principles also provide that a director may not dispose of Company stock until attaining the requisite ownership threshold and thereafter must maintain such equity ownership level.

### **Policy Against Hedging with Respect to Company Stock**

To assure alignment with the long-term interests of our other shareholders, under the Company's Insider Trading Policy, directors, officers and employees cannot engage in short sales of Company stock or transactions in any derivative of a Company security, including, but not limited to, puts, calls and options (other than the receipt and exercise of options that might be granted by the Company pursuant to a Company compensation plan).

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ELECTION OF DIRECTORS

(Item No. 1 on the proxy card)

The Board is subject to annual election by the shareholders. The Board has nominated James E. Cartwright, Vernon E. Clark, Stephen J. Hadley, Michael C. Ruetters, Ronald L. Skates, William R. Spivey, Linda G. Stuntz and William H. Swanson to serve one-year terms that will expire at the 2014 Annual Meeting of Shareholders. Two of the current directors, John M. Deutch and Frederic M. Poses, are retiring from the Board effective May 30, 2013. Messrs. Deutch and Poses have served on the Board for 15 and 13 years, respectively, and we gratefully acknowledge their dedicated service and numerous contributions to the Company.

We have included below the principal occupation and employment during the past five years and other information

about the nominees, including a discussion of the specific considerations relating to the experience, qualifications, attributes or skills considered by the Governance and Nominating Committee in support of each individual's nomination to serve as a director. If elected, the nominees will continue in office until their successors have been duly elected and qualified, or until the earlier of their death, resignation or retirement. We expect each of the nominees to be able to serve if elected. If any of these persons is unable to serve or for good cause will not serve, the proxies may be voted for a substitute nominee designated by the Board.

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Nominees for Election

JAMES E. CARTWRIGHT

Director of the Company since January 2012.

Harold Brown Chair in Defense Policy Studies, the Center for Strategic and International Studies, since September 2011.

General, United States Marine Corps; Vice Chairman of the Joint Chiefs of Staff from 2007 to 2011 (retired in August 2011).

40-year career in the United States Marines, serving in a series of staff and operational positions with increasing responsibility including Commanding General, 1<sup>st</sup> Marine Aircraft Wing (2000 to 2002); Director for Force Structure, Resources and Assessment, J-8 the Joint Staff (2002 to 2004); and Commander, U.S. Strategic Command (2004 to 2007).

Age 63.

General Cartwright's qualifications to serve on the Board include his mastery of defense matters and broad background in military operations and national security, his deep understanding of organizational management in a complex, technologically advanced environment, and practical knowledge of customer needs, based on his varied and challenging assignments in the U.S. Military that culminated in his service as Vice Chair of the Joint Chiefs.

VERNON E. CLARK

Director of the Company since 2005.

Chief of Naval Operations, the senior uniformed executive of the United States Navy and member of the Joint Chiefs of Staff, from 2000 to 2005 (retired in 2005).

37-year career in the United States Navy, serving in various positions of increasing responsibility; commanded a patrol gunboat and concluded as the Chief of Naval Operations.

Current Directorship: Rolls Royce North America (aerospace, marine and energy-related manufacturer) since 2006.

Past Directorship: Horizon Lines, Inc. (ocean shipping and integrated logistics company) from 2007 to November 2011.

Affiliations: Trustee of Regent University and Vanguard University; Member of Air University Board of Visitors; Non-executive Chairman of the Board of SRI International (Stanford Research Institute); and served with the Defense Policy Board and the Defense Business Board.

Age 68.

Admiral Clark's qualifications to serve on the Board include his extensive knowledge of, and experience with, the products used by and the needs of our customers based on his extensive career as an officer in the United States Navy, coupled with his organizational acumen and leadership ability illustrated by his service as Chief of Naval Operations.

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**STEPHEN J. HADLEY**

Director of the Company since 2009.

Principal in RiceHadleyGates LLC (international strategic consulting firm) since 2009.

Senior Advisor for International Affairs at the U.S. Institute of Peace since 2009.

Assistant to the President for National Security Affairs from 2005 to 2009.

Assistant to the President and Deputy National Security Advisor from 2001 to 2005.

Partner in the Washington, D.C. law firm of Shea & Gardner and a principal in The Scowcroft Group (international consulting firm) from 1993 to 2001.

Current Directorships: The Bessemer Group, Incorporated (including service on its Compensation Committee since 2012 and Audit and Examining Committee since 2013), Bessemer Securities Corporation, (including service on its Audit Committee since 2011 and Asset Allocation Committee since 2010), and certain related entities (all privately held financial services companies) since 2009.

Affiliations: Director (and member of the Executive Committee) of the Atlantic Council of the United States since 2010; Member of the Board of Managers of the John Hopkins University Applied Physics Laboratory since 2011; Member of U.S. Secretary of State's Foreign Affairs Policy Board since 2011; Chairman of the Advisory Board of the RAND Center for Middle East Public Policy since 2011; and Member of Yale University's Kissinger Papers Advisory Board since 2011.

Age 66.

Mr. Hadley's qualifications to serve on the Board include his extensive knowledge and experience relating to national security, international affairs, public policy, legal matters and formulation of strategy, based on his varied high level roles in government, consulting and the practice of law.

**MICHAEL C. RUETTGERS**

Director of the Company since 2000.

Chairman of EMC Corporation (data storage and management products and services provider) from January 2004 to December 2005.

Executive Chairman (from 2001 to 2004) and CEO (from 1992 to 2001) of EMC Corporation; held a variety of senior executive positions at EMC Corporation from 1988 to 1992.

Current Directorship: Non-executive Chairman of the Board of Wolfson Microelectronics plc (manufacturer of semiconductor chips used in audio, video and imaging applications) since 2008.

Past Directorship: EMC Corporation from 1992 to 2005.

Age 70.

Mr. Ruettgers' qualifications to serve on the Board include his extensive business experience, skills and acumen reflected in his positions as chairman and CEO of a large public company operating in the technology sector.

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**RONALD L. SKATES**

Director of the Company since 2003.

Private investor since 1999.

President and CEO of Data General Corporation (data storage and enterprise solutions supplier) from 1989 to 1999; held other positions at Data General Corporation from 1986 to 1989.

Partner at Price Waterhouse (now PricewaterhouseCoopers LLP) from 1976 to 1986.

Current Directorships: State Street Corporation (financial services company) since 2002; Courier Corporation (book manufacturer and specialty publisher) since 2003; and Gilbane, Inc. (privately held real estate development and construction company) since 2002.

Past Directorship: Cabot Microelectronics Corporation (supplier of chemical mechanical planarization products and services) from 2001 to 2005.

Affiliations: Trustee of Massachusetts General Physicians Organization and Trustee Emeritus of Massachusetts General Hospital.

Age 71.

Mr. Skates' qualifications to serve on the Board include his extensive business experience, skills and acumen evidenced by his service as president and CEO of a large public technology company, coupled with his accounting expertise derived from being a certified public accountant and partner of a major accounting firm.

**WILLIAM R. SPIVEY**

Director of the Company since 1999.

President and CEO of Luminent, Inc. (fiber-optic transmission products provider) from 2000 to 2001.

Group President, Network Products Group, Lucent Technologies Inc. from 1997 to 2000.

Vice President, Systems & Components Group, AT&T Corporation from 1994 to 1997.

Group Vice President and President, Tektronix Development Company, Tektronix, Inc. from 1991 to 1994.

Current Directorships: Cascade Microtech, Inc. (advanced wafer probing solutions provider) since 1998 and Lam Research Corporation (advanced process equipment provider) since 2012.

Past Directorships: Lyondell Chemical Company (manufacturer of basic chemicals and derivatives) from 2000 to 2007; ADC Telecommunications, Inc. (supplier of network infrastructure products and services) from 2004 to 2010; Novellus Systems, Inc. (advanced process equipment provider) from 1998 to 2012; and Laird PLC (electronics components and systems provider) from 2002 to 2012.

Age 66.

Mr. Spivey's qualifications to serve on the Board include his extensive business experience, skills and acumen reflected in his positions as a business unit head at three public technology companies and CEO of another public technology company.



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LINDA G. STUNTZ

Director of the Company since 2004.

Partner in the law firm of Stuntz, Davis & Staffier, P.C. since 1995.

Partner in the law firm of Van Ness Feldman from 1993 to 1995.

Deputy Secretary of, and held senior policy positions in, the United States Department of Energy from 1989 to 1993.

Associate Minority Counsel and Minority Counsel to the U.S. House of Representatives Energy and Commerce Committee from 1981 to 1987.

Current Directorship: Royal Dutch Shell plc (an oil and gas exploration and production company) since 2011 (which includes service on its Audit Committee).

Past Directorship: Schlumberger Ltd. (oilfield services company) from 1993 to 2010.

Affiliations: Member, Board of Advisors, Frank Batten School of Leadership and Public Policy, University of Virginia since 2011.

Age 58.

Ms. Stuntz's qualifications to serve on the Board include her extensive knowledge and experience relating to corporate governance, public policy and legal matters, as well as legislative and regulatory affairs, based on her varied high-level roles in both the executive and legislative branches of government, her substantial experience as a corporate director, as well as the practice of law.

WILLIAM H. SWANSON

Chairman of the Board since 2004.

Director and CEO of the Company since 2003.

President of the Company from July 2002 to May 2004.

Executive Vice President of the Company and President of Electronic Systems from January 2000 to July 2002.

Executive Vice President of the Company and Chairman and CEO of Raytheon Systems Company from January 1998 to January 2000.

In the 41st year of his career at the Company, which has included a wide range of leadership positions.

Current Directorship: NextEra Energy, Inc. (formerly FPL Group, Inc.) (a clean energy company) since 2009.

Past Directorship: Sprint Nextel Corporation (wireless and wireline communications services provider) from 2004 to 2008.

Affiliations: Congressional Medal of Honor Foundation Board of Directors; the California Polytechnic State University President's Cabinet; the Cal Poly Foundation Board of Directors; Vice Chairman of the John F. Kennedy Library Foundation Board of Directors; Chairman Emeritus of the Business-Higher Education Forum Executive Committee; and Chairman Emeritus of the Aerospace Industries Association Executive Committee.

Age 64.

Mr. Swanson's qualifications to serve on the Board include his extensive business experience, skills and acumen developed over his long career with the Company during which he has held a wide range of leadership positions, including general manager of Missile Systems, head of Electronic Systems, CEO of Raytheon Systems Company, President of the Company and, since 2003, CEO.

The Board unanimously recommends that shareholders vote FOR each of the nominees for election. Proxies solicited by the Board will be so voted unless shareholders specify otherwise in their proxies.

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## STOCK OWNERSHIP

## Five Percent Shareholders

The following table lists those persons or groups (based solely on our examination of Schedules 13G filed with the SEC or furnished to us) who are beneficial owners of more than 5% of our common stock as of December 31, 2012.

Name and Address of Beneficial Owner	Common Stock	Percent of Class	
BlackRock, Inc. 40 East 52nd Street, New York, NY 10022	26,945,085	8.17	%
Barrow, Hanley, Mewhinney & Strauss, LLC 2200 Ross Avenue, 31st Floor, Dallas, TX 75201-2761	19,691,231	5.97	%

## Management and Directors

The following table contains information regarding the beneficial ownership of shares of our common stock as of March 1, 2013 for (a) each director and nominee for director, including our CEO, (b) our CFO and our three other most highly compensated executive officers who are not also directors, and (c) the directors, nominees and all executive officers as a group. Except as otherwise noted below, to the Company's knowledge, the named persons possessed sole voting and investment power over their shares, and the shares are not subject to any pledge. No individual director or nominee for director or named executive officer beneficially owns 1% or more of the outstanding shares of common stock. The directors and executive officers as a group own less than 1% of the outstanding shares of common stock.

Name of Beneficial Owner	Number of Shares and Nature of Beneficial Ownership	
(a)		
William H. Swanson	417,694	(1)
	374,397	(2)(3)
	792,091	(1)(2)(3)
James E. Cartwright	3,592	(4)
Vernon E. Clark	10,781	(4)
John M. Deutch	13,362	(4)
Stephen J. Hadley	9,695	(4)
Frederic M. Poses	30,874	(4)(5)
Michael C. Ruettgers	21,897	(4)(6)
Ronald L. Skates	32,894	(4)(7)
William R. Spivey	35,449	(4)
Linda G. Stuntz	19,949	(4)
(b)		
David C. Wajsgas	130,583	(2)
Richard R. Yuse	59,179	(2)
Jay B. Stephens	147,442	(2)
Daniel J. Crowley	66,226	(2)(8)
(c)		
All directors, nominees for director and executive officers as a group (22 persons)	1,862,331	(1)(2)(3)(4)(5)(6)(7)(8)(9)

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(1) Shares owned outright by Mr. Swanson.

Includes shares of restricted stock over which the beneficial owner has voting power as follows: Mr. Swanson

(2) 246,147; Mr. Wajsgras - 62,056; Mr. Yuse - 47,286; Mr. Stephens - 58,060; Mr. Crowley - 50,894; and all executive officers and directors as a group - 760,400.

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- (3) Includes vested deferred compensation equivalent to 128,250 shares of our common stock attributable to Mr. Swanson.  
Includes shares of restricted stock issued under the 2010 Stock Plan over which the beneficial owner has voting
- (4) power as follows: Ms. Stuntz and Messrs. Cartwright, Clark, Deutch, Hadley, Poses, Skates and Spivey - 2,385 shares each; and Mr. Ruetters - 3,398 shares.
- (5) Includes 16,272 shares held by a family charitable foundation over which Mr. Poses has voting and investment power.
- (6) Includes vested deferred compensation equivalent to 502 shares of our common stock attributable to Mr. Ruetters.
- (7) Includes 2,400 shares held in family trusts as to which Mr. Skates disclaims beneficial ownership.
- (8) Includes vested deferred compensation held in an employee benefit plan account equivalent to 1,600 shares of our common stock attributable to Mr. Crowley.
- (9) Includes shares indirectly held by the beneficial owner through the Raytheon Savings and Investment Plan and the Raytheon Excess Savings Plan as follows: all executive officers as a group - 13,693.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and persons who beneficially own more than 10% of a registered class of our equity securities to file reports of holdings and transactions in our common stock with the SEC and the NYSE. Based on our records and other information, we believe that, in 2012, none of our directors, executive officers or 10% shareholders failed to file a required report on time.

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## EXECUTIVE COMPENSATION

## Compensation Discussion and Analysis

In the discussion that follows, we provide an overview and analysis of our executive compensation program and policies, material compensation decisions and the factors that we considered in making those decisions. Included within and following this section you will find a series of tables containing specific information about the compensation earned or paid in 2012 to the following individuals, to whom we refer as our named executive officers: our Chairman and CEO, William H. Swanson; our Senior Vice President and Chief Financial Officer, David C. Wajsgras; our Senior Vice President, General Counsel and Corporate Secretary, Jay B. Stephens; our Vice President, and President of our Network Centric Systems (NCS) business in 2012, Daniel J. Crowley, who was appointed President of our Integrated Defense Systems (IDS) business effective April 1, 2013; and our Vice President, and President of our Space and Airborne Systems (SAS) business, Richard R. Yuse.

The discussion below is intended to help our shareholders understand the detailed information provided in those tables and put that information into context within our overall compensation program.

## Executive Summary

Our executive compensation program reflects a commitment to (1) retain and attract highly-qualified executives, (2) motivate our executives to achieve our overall business objectives, (3) reward performance and (4) align the interests of our executives with our shareholders.

Set forth below are highlights of our current executive compensation program as established by the Management Development and Compensation Committee (MDCC) in accordance with our compensation philosophy.

Program Highlights	Page(s)
Ties a significant portion of each executive's compensation to the Company's performance and individual performance against various pre-established financial, operational and other goals, through variable, at-risk short- and long-term incentive awards.	26-38
Aligns closely the interests of executives with those of shareholders by making stock-based incentives a central component of compensation coupled with meaningful stock ownership and retention requirements.	26-29 and 36-38
Establishes a balanced incentives program by providing awards with both significant upside opportunity for exceptional performance and downside risk for underperformance.	26-38
Authorizes recovery or clawback of compensation in certain circumstances where restatement of financial results is required.	40-41
Maximizes the benefit to the MDCC of its independent compensation consulting firm by adhering to a stringent Compensation Consultant Independence Policy.	30
Provides our executives with total compensation opportunities at levels that are competitive for comparable positions at companies with whom we compete for talent.	31-32

Is designed and monitored by the MDCC to avoid risk-taking that might be likely to have a material adverse effect on the Company.

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The MDCC, with the assistance of management and the MDCC's independent consultant, oversees, approves and assesses the effectiveness of our compensation program in relation to our compensation philosophy and the market. The table below describes each element of the program and its link to our compensation objectives.

Compensation Element	Retain and attract highly-qualified executive talent	Incentivize achievement of our overall business objectives	Differentiate rewards on individual performance	Incentivize and reward long-term performance alignment with shareholders' interests
Base Salary (Base)	ü			
Annual Incentive Plan (RBI)	ü	ü	ü	
Performance-Based Restricted Stock Units (LTPP)	ü	ü		ü
Time-Based Restricted Shares (RSA)	ü			ü
Benefits, Perquisites and Other Compensation, including severance and change-in-control arrangements (Perks & Other)	ü			

Set forth below for the CEO, and separately for the other named executive officers, are charts illustrating the percentage of total target compensation corresponding to the target levels for each element and tables reflecting the total direct compensation opportunities for fiscal 2012.

Total Direct Compensation Opportunity - CEO<sup>(1)</sup>

Fixed 9% (Base Salary)	Variable 91% (RBI + Long-Term Incentive Value <sup>(2)</sup> )
Short-term 28% (Base Salary + RBI)	Long-term 72% (Long-Term Incentive Value)
Cash 28% (Base Salary + RBI)	Equity-Based 72% (Long-Term Incentive Value)

Total direct compensation opportunity does not include perquisites and other executive benefits, including

<sup>(1)</sup> retirement and severance benefits. As a result, the percentages above may vary slightly from the percentages set forth in the pay mix charts which do include perquisites and other executive benefits.

<sup>(2)</sup> Long-Term Incentive Value consists of LTPP and RSA.

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Total Direct Compensation Opportunity - Other Named Executive Officers<sup>(1)</sup>

(Average allocation for the four Named Executive Officers other than the CEO)

Fixed 20%	Variable 80%
(Base Salary)	(RBI + Long-Term Incentive Value <sup>(2)</sup> )
Short-term 40%	Long-term 60%
(Base Salary + RBI)	(Long-Term Incentive Value)
Cash 40%	Equity-Based 60%
(Base Salary + RBI)	(Long-Term Incentive Value)

Total direct compensation opportunity does not include perquisites and other executive benefits, including  
<sup>(1)</sup> retirement and severance benefits. As a result, the percentages above may vary slightly from the percentages set forth in the pay mix charts which do include perquisites and other executive benefits.

<sup>(2)</sup> Long-Term Incentive Value consists of LTPP and RSA.

According to an analysis performed by PM&P, these weightings were in line with what the companies in our peer groups provided to their executives holding comparable positions. The MDCC does not establish any fixed relationship between the compensation of our CEO and that of any other named executive officer. Using market data as a general reference point, we believe that the differences between our CEO's compensation and the compensation of the other named executive officers are consistent with differences that exist at comparable companies and are consistent with our executive compensation philosophy.



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The table below summarizes the 2010-2012 compensation provided to our named executive officers and reflects the view of our Board and the MDCC with respect to their annual compensation decisions for those executives during those years.

## TOTAL COMPENSATION FOR 2010-2012

Executive	Year <sup>(1)</sup>	Salary	(Non-Equity Incentive Plan Compensation) RBI <sup>(2)</sup>	(Stock Awards) Long-Term Incentives		All Other	Total
				Restricted Stock	LTPP Award <sup>(3)</sup>		
William H. Swanson	2012	\$1,414,421	\$3,400,000	\$4,699,989	\$6,499,980	\$446,160	\$16,460,550
	2011	1,369,704	3,000,000	3,800,021	6,400,000	439,546	15,009,271
	2010	1,327,622	2,800,000	3,799,976	6,386,011	488,921	14,802,530
David C. Wajsgras	2012	\$871,800	\$1,000,000	\$1,099,995	\$1,300,016	\$138,098	\$4,409,909
	2011	844,245	865,000	999,987	1,300,010	131,395	4,140,637
	2010	818,315	800,000	1,000,002	1,200,017	122,674	3,941,008
Jay B. Stephens	2012	\$762,979	\$950,000	\$1,000,009	\$1,199,999	\$122,096	\$4,035,083
	2011	738,863	755,000	950,018	1,200,010	120,110	3,764,001
	2010	716,170	720,000	949,994	1,200,017	111,259	3,697,440
Daniel J. Crowley	2012	\$691,028	\$575,000	\$900,024	\$1,250,008	\$118,595	\$3,534,655
	2011	667,000	500,000	800,010	1,250,010	117,231	3,334,251
Richard R. Yuse	2012	\$556,680	\$675,000	\$900,024	\$1,250,008	\$137,132	\$3,518,844
	2011	506,072	600,000	800,010	1,250,010	177,853	3,333,945
	2010	456,088	500,000	700,007	799,975	382,151	2,838,221

(1) Years in which the executive was a named executive officer.

(2) Annual Results-Based Incentive (RBI) cash award. RBI awards are discussed under "Annual Incentives" on pages 33 - 36.

(3) Long-Term Performance Plan (LTPP) award. LTPP awards are discussed under "Long-Term Incentives - LTPP" on pages 36 - 38.

The above table differs from the 2012 Summary Compensation Table required by the SEC, which appears on page 43, and is not a substitute for that table. The 2012 Summary Compensation Table includes amounts based on the change in the actuarial present value of the executives' accumulated pension benefits. The above table excludes these amounts because the Company and the MDCC consider the pension plan in the context of their assessment of the overall benefit design and the competitiveness of the Company's retirement benefits, and not as an element of their annual compensation decisions. Another difference is that the amounts set forth under the Restricted Stock and LTPP Award columns in the above table represent the full intrinsic values of such awards on the date the Board or MDCC made the formal determination for such grant (e.g., target number of shares times the closing price of our common stock on the determination date), since that is the basis upon which the Company, the MDCC and the Board consider these awards in proposing, recommending and approving annual compensation. In contrast, the Stock Awards column in the 2012 Summary Compensation Table represents

the grant date fair value of such awards for financial statement reporting purposes, which differs from the intrinsic value of the LTPP awards. These awards are discussed in more detail under "Long-Term Incentives" beginning on page 36.

We discuss the elements of our compensation program set forth in the above table in detail beginning on page 32 and describe how we set these opportunities and the total compensation of our named executive officers so that they are market competitive and are based on Company and individual performance. While we generally have provided consistent compensation opportunities, the actual compensation earned by our executives has varied reflecting our pay-for-performance approach and market competitiveness. For 2012, the base salaries for our CEO and three of the other named executive officers increased by 3.4%. Mr. Yuse received a 10% increase in an effort to bring his base salary closer to the 50<sup>th</sup> percentile of the market. In addition, based on Company, business and individual performance in 2012, our named executive officers, other than Mr. Crowley, received RBI awards that were above

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the funded RBI target level. For a discussion of named executive officer base salaries and RBI awards, see pages 33 to 36.

From a performance perspective, the Company had strong operational results in 2012, including bookings of \$26.5 billion, increased backlog from \$35.3 billion to \$36.2 billion, a book-to-bill ratio of 1.09, earnings per share growth of approximately 8% and operating cash flow from continuing operations of \$2 billion after a \$500 million discretionary pension plan contribution. Improved efficiencies and cost reduction initiatives were among the primary drivers of operating margin and earnings performance, while global demand for the Company's innovative and cost-effective products and services resulted in strong

bookings. In line with our pay-for-performance philosophy, our executives received competitive compensation commensurate with these results, particularly through our performance-based 2012 RBI and the 2010 - 2012 LTPP. These programs are specifically designed to closely tie the compensation paid to the individual executive with the performance of the Company. A summary of these compensation elements, the applicable performance / financial metrics, their respective weightings, the results we achieved, the overall funding levels and the location of where you can find a more detailed discussion of this section, are set forth in the table below.

Compensation Element	Performance Metrics/Weightings	Results Achieved
2012 RBI	Bookings (20%); net sales (30%); free cash flow (FCF) (20%); and operating income from continuing operations (30%).	We exceeded our pre-established 2012 target for Bookings, FCF, and operating income from continuing operations, but fell slightly below the target for net sales, resulting in the achievement of an overall funding level of 110.2%. See discussion beginning on page 33.
2010 - 2012 LTPP	Average return on invested capital (ROIC) (50%); cumulative FCF (CFCF) (25%); and total shareholder return (TSR) (25%).	We exceeded our pre-established three-year performance targets for average ROIC and CFCF, but fell below the target for TSR over the three-year period, which resulted in a 98.0% of target payout in shares of our common stock. See discussion beginning on page 36.

As a result of the MDCC's ongoing review of the compensation program and how the Company measures performance in a changing business environment, as of January 1, 2012, the MDCC refined the performance metrics relating to RBI by removing ROIC and revising the weightings on the remaining metrics, as indicated in the table above. The MDCC determined that discontinuing the use of ROIC for RBI, while retaining it for LTPP, was appropriate to further differentiate between long-term and short-term incentives and related performance metrics. We view ROIC as a more meaningful measurement of longer-term value creation, as opposed to short-term performance. This realignment eliminates overlap between the short- and long-term elements and is consistent with the Company's growth philosophy.

#### Consideration of 2012 Advisory Vote on Executive Compensation

In 2012, as in 2011, the Company asked its shareholders, through an advisory vote, to approve the compensation of the named executive officers as described in the 2012 Proxy Statement. Similar to 2011, the 2012 advisory vote received very strong support from shareholders, garnering a 94.2% affirmative vote. The MDCC considered the vote and other input received from shareholders. For 2012, the MDCC made no significant changes to its compensation decisions and policies, in light of that strong support and because generally it continued to find the existing approach appropriate for the Company and its strategy and business in the then-current market environment. The

MDCC continues to pursue its pay-for-performance approach in determining the amounts and types of executive compensation. The MDCC will, in consultation with its independent compensation consultant, consider changes to the program as appropriate in response to input from shareholders and evolving factors such as the business environment and competition for talent. The MDCC's decision to change the RBI metrics for 2012, as described above, illustrates this ongoing process. The MDCC will also continue to monitor future advisory votes carefully and seek input from shareholders in the course of the Company's shareholder outreach efforts.

At the 2011 annual meeting, our shareholders expressed a preference that advisory votes on executive compensation occur annually in accord with the recommendation of the Board. Based on the results of this vote, the Board implemented an advisory vote on executive compensation annually until the next frequency vote is conducted, which shall occur no later than the Company's annual meeting in 2017.

#### Shareholder Outreach and Engagement

In 2012, we continued to engage in a dialogue with many of our shareholders to solicit their input on a range of topics related to executive compensation and governance matters. Our outreach efforts in 2012 resulted in conversations with representatives of institutional shareholders that in the aggregate own more than 35% of the Company's outstanding shares. In addition to our outreach to institutional shareholders, we have

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also engaged in direct conversations and correspondence with a number of other investors, proxy advisory services and corporate governance research firms. The Governance and Nominating Committee and the MDCC have been provided with feedback regarding these outreach and engagement efforts. The MDCC considered such feedback in conjunction with its review of the 2012 advisory vote on executive compensation. We plan to continue with these efforts in the coming year.

### How We Determine and Assess Executive Compensation

We design our compensation program with a view to retaining and attracting executive leadership of a caliber and level of experience necessary to manage our complex, global businesses effectively. Given the length of our programs, contracts and business cycles, it is especially important for us to retain our executive talent over a number of years to provide continuity of management in a highly competitive industry. Our Board bears the ultimate responsibility for approving the compensation of our named executive officers. The MDCC assists the Board in discharging this responsibility. Information about the MDCC and its composition, responsibilities and operations can be found on page 12 under the heading "The Board of Directors and Board Committees - Management Development and Compensation Committee."

### Independent Compensation Consultant

In 2012, the MDCC retained Pearl Meyer & Partners (PM&P), a compensation consulting firm, to obtain information on compensation levels, programs and practices within certain peer groups and the broader market, provide the MDCC with a report on compensation trends among our peers and the broader market, perform a pay-for-performance assessment and perform related services. PM&P's work product provides one source of input to the MDCC's compensation decision making process, combined with information and analyses the MDCC receives from management and the Committee's own judgment and experience.

The MDCC has had a formal compensation consultant independence policy since 2009 to ensure that it receives independent and unbiased advice and analyses from its consultant. Additionally, the MDCC's charter has required an annual assessment by the MDCC of the independence of the outside compensation consultant. Both the policy and the charter have been amended to incorporate new NYSE standards, due to be effective on July 1, 2013, establishing specific independence factors which must be considered by the MDCC before selecting any compensation adviser. Applying these factors as now reflected in the amended policy and charter, the MDCC has determined that PM&P continues to be independent pursuant to the policy, and that PM&P's work for the MDCC does not raise any conflict of interest. The policy requires the pre-approval of any services proposed to be provided by the consultant to the Company. The MDCC's pre-approval review is intended to

ensure that the provision of non-MDCC services to the Company will not impair the consultant's independence. As a guideline to avoid any actual or perceived conflict of interest or bias, the policy limits the fees paid by the Company for such non-MDCC services to no more than 1% of the consulting firm's annual gross revenues and prohibits altogether the provision of services to Company officers and directors. In accordance with the policy, the MDCC pre-approved the Company's acquisition from PM&P of certain industry compensation surveys which PM&P makes available generally to companies for a fee. The fees paid to PM&P for these surveys were less than \$10,000, and well below 1% of PM&P's 2012 annual gross revenues.

### Management of Compensation-Related Risk

We have designed our compensation program to avoid excessive risk-taking. While risk is inherent in numerous aspects of our business operations, we believe our compensation program does not unduly effect these inherent business risks and has been appropriately designed to manage compensation-related risk. The following are some of the features of our program designed to help us appropriately manage compensation-related risk:

An assortment of vehicles for delivering compensation, both fixed and variable, and including cash and equity-based measures with different time horizons, to focus our executives on specific objectives that help us achieve our business plans and create an alignment with long-term shareholder interests;

Diversification of incentive-related risk by employing a variety of performance measures;

A balanced weighting of the various performance measures to avoid excessive attention to achievement of one measure over another;

Fixed maximum award levels for performance-based awards;

Guidelines designed to assure the independence of our compensation consultant, who advises the MDCC as described above;

A clawback policy and equity grant procedures, as described below on pages 40 and 41; and

Incentive compensation to named executive officers based on individual performance and overall Company performance.

As discussed beginning on page 8, the MDCC has reviewed with management the design and operation of our incentive compensation arrangements for all employees, including executive officers, for the purpose of determining whether such programs might encourage inappropriate risk-taking that would

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be reasonably likely to have a material adverse effect on the Company. The MDCC concluded that the Company's compensation plans, programs and policies, considered as a whole, including applicable risk-mitigation features, are not reasonably likely to have a material adverse effect on the Company.

Key Considerations Related to Executive Compensation

Our determinations and assessments of executive compensation are primarily driven by two considerations:

Company and individual performance in five areas - financial, operational, customer satisfaction, people and "Six Sigma"; and

Market competitiveness of our compensation program.

Company and Individual Performance

In addition to market competitiveness, we use a number of factors to determine our compensation levels and to customize our compensation program to most accurately recognize Company and individual performance and contribution to the enterprise. We consistently review performance in these five areas:

Financial - we focus on financial metrics that are good indicators of whether the Company and our businesses are achieving their annual or longer-term business objectives; bookings, sales, operating income, free cash flow and return on invested capital are measures used to gauge financial performance;

Operational - we evaluate product development and program execution through the use of tools designed to measure operational efficiencies, such as Integrated Product Development Systems and the Earned Value Management System;

Customer satisfaction - we measure customer satisfaction through the use of customer satisfaction surveys, performance against program cost and schedule indices, annual customer performance assessment reports and through customer award fees;

People - we assess our executives' development of people, leadership behavior, ethical conduct, employee opinion survey results and the development of an inclusive workforce; and

"Six Sigma" - we look to see how well the Company, a business or an individual has used Raytheon Six Sigma, a continuous process improvement effort designed to reduce costs and improve efficiency.

Collectively, we consider these five factors to provide a measurable assessment of executive performance that will build

value for our shareholders. We look to each of them, to varying degrees, to make the most of our executive compensation decisions, from setting base salaries to providing annual and longer-term rewards.

Market Data

We consider the compensation levels, programs and practices of certain other companies to assist us in setting our executive compensation so that it is market competitive. We use two peer groups for these purposes:

A core peer group, which consists of companies that are either aerospace and defense companies or that have substantial aerospace or defense businesses. We also consider a company's complexity, operations, revenues, net income and market capitalization. We compete to varying degrees for business and talent with the companies in this core peer group. The companies comprising the core peer group are as follows:

The Boeing Company	General Dynamics Corporation
L-3 Communications Holdings, Inc.	Honeywell International, Inc.
Northrop Grumman Corporation	Lockheed Martin Corporation
Textron Inc.	United Technologies Corporation

A broader peer group, comprised of our core peer group and seven additional companies from other industries, which we selected on the basis of the comparability of their complexity, operations, revenues, net income and market capitalization to ours. The broader peer group companies are as follows:

3M Company	Emerson Electric Co.
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Caterpillar Inc.	Eaton Corporation
General Dynamics Corporation	Illinois Tool Works Inc.
Honeywell International, Inc.	L-3 Communications Holdings, Inc.
Johnson Controls, Inc.	Lockheed Martin Corporation
Northrop Grumman Corporation	Motorola Solutions, Inc.
Textron Inc.	United Technologies Corporation
The Boeing Company	

We review the peer groups annually to ensure that we have the appropriate marketplace focus. As our strategy changes, we



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leverage our capabilities into other markets, or significant changes occur to a company or companies within the peer groups, we may change the companies within them. In 2012, Goodrich Corporation was acquired by United Technologies Corporation. This change within our core peer group, in addition to other considerations, led to a more focused review of our peer groups. Based on recommendations from PM&P resulting from such review, the MDCC made several changes to the peer groups effective for 2013. Goodrich Corporation was removed from the core peer group. Rockwell Collins was also removed due to size considerations. ITT Corporation was removed from the broader peer group because it spun off its defense business in 2012, while Eaton Corporation and Illinois Tool Works were added given the similarities to Raytheon in their complexity, operations, revenues, net incomes and market capitalizations.

The MDCC obtains information on the compensation levels, programs and practices of the companies within the core and broader peer groups. Statistical techniques, such as regression analysis, typically are used to adjust the data for differences in company size. The MDCC also considers market survey data for companies outside of our core and broader peer groups as a general indicator of relevant market conditions and pay practices and as a broader reference point. This market survey data was developed by national compensation consulting firms and provided to the MDCC by PM&P, its independent compensation consultant.

The MDCC establishes and evaluates compensation levels for our named executive officers based on the market data, as well as other factors, as discussed below. While aggregate target and actual pay levels are analyzed and measured against market data, individual and Company performance can result in compensation for any one individual that varies from the market median. In 2012, PM&P also provided the MDCC with a report on peer compensation trends (levels, mix, vehicles and metrics), which is used to help set pay levels and design programs.

### 2012 Review of Compensation

PM&P provided the MDCC with a marketplace assessment of our named executive officers' 2012 compensation in comparison to compensation for comparable positions within the market. PM&P looked at the market in terms of: base salaries;

total cash compensation (which includes base salary and annual incentive award); and

total direct compensation (which includes base salary, annual incentive award and long-term incentive opportunity).

This assessment showed that:

The 2012 base salaries for our named executive

officers, on average, fell between the 50th and the 75th percentiles of the market;

Total cash compensation for our named executive officers, on average, fell slightly below the 50th percentile; and

Total direct compensation for our named executive officers, on average, fell between the 50th and the 75<sup>th</sup> percentiles of the market.

PM&P also assisted the MDCC with a pay-for-performance analysis, which assessed the correlation between our short-term pay (annual incentive award) and short-term performance and our long-term pay and long-term performance relative to the peer groups using 2011 data. Rather than looking at current compensation opportunities (current salary, target annual incentive award and present value of long-term incentives), this analysis focused on realized or realizable pay in relation to past performance. For 2011, PM&P concluded that Raytheon continues to exhibit alignment between relative pay and relative performance on a short-term basis and delivered pay commensurate with that performance. It also determined that Raytheon's pay relative to its peers is in alignment with its long-term performance (based on TSR, operating income and net sales growth over the three-year period), in the aggregate. A similar 2012 pay-for-performance assessment will be performed in 2013 once peer group performance data is available.

The MDCC also periodically reviews the formulas that determine benefits under our retirement plans, perquisites and our severance arrangements so that we can be sure that these plans integrate appropriately into our total compensation strategy. We provide benefits under these plans that are comparable to our peer group companies in order to offer employment packages that attract highly-qualified executives to join us and to keep our compensation competitive in order to retain such executives.

### Elements of Our Compensation Program

Our executive compensation program is designed to meet the objectives discussed in the Executive Summary, including tying a significant portion of each executive's compensation to Company and individual performance. As discussed in more detail below, our 2012 program successfully met our pay-for-performance objectives.

Our program consists primarily of the following integrated elements: base salary, annual incentive awards and long-term achievement opportunities (LTPP and restricted stock awards), which together make up an executive's total direct compensation in a given year or performance period. The program is rounded out with perquisites and other executive benefits, including retirement and severance benefits.

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### Allocation of Total Direct Compensation

The MDCC annually reviews the relative mix of our compensation elements to those of the market for comparable positions. Specifically, we review the total direct compensation opportunity (i.e., the sum of salary, target annual and target long-term incentives) in the following categories:

Fixed versus variable

Short-term versus long-term

Cash versus equity-based

See the charts and tables on pages 26 and 27 for a further description of the mix of our compensation elements and the allocations of total direct compensation opportunities for fiscal year 2012.

Just as our shareholders put their money at risk when they invest in our Company, a significant portion of our executives' compensation is at risk, and that risk increases with the executive's level of responsibility. We also balance the short- and long-term focus of our executives and align their interests with those of our shareholders by making sure that a significant portion of their compensation is equity-based and subject to stock price performance. In addition, to reinforce this direct link with shareholders' interests, we require our executive officers to own and retain a meaningful amount of our stock. See page 38 for a discussion of our Stock Ownership and Retention Guidelines.

### Base Salary

Base salary is the one fixed component of our executives' total direct compensation that is not at risk based on Company performance and/or stock price variations. The MDCC reviews the base salaries of our executive officers annually and whenever an executive changes position. Our CEO makes salary recommendations to the MDCC with respect to his direct reports. To maintain competitive levels, we refer to the market median of base salaries for comparable positions in setting our named executive officers' base salaries. However, we also consider the executive's:

Experience for the position;

Personal contribution to the financial and operational performance of the Company and its businesses; and

Contribution in the areas of operational improvements, customer satisfaction, effective management of human resources and "Six Sigma."

These other factors could cause any one executive officer's base salary to be above or below the market median for a comparable position. Annual merit-based salary increases are an integral part of the annual performance management process and

are used to reward and reinforce desired behaviors and maintain competitive marketplace positions.

Based on the MDCC's review of market data and the foregoing individual factors, four of our named executive officers received a 3.4% base salary increase in 2012. Mr. Yuse received a 10.0% increase in an effort to bring his base salary closer to the 50<sup>th</sup> percentile. The 2012 base salaries for our named executive officers, on average, fell between the 50<sup>th</sup> and 75<sup>th</sup> percentiles of the market.

### Annual Incentives

Annual incentive awards provide a direct link between executive compensation and the achievement of financial, operational and individual goals over a one-year period. Unlike base salary, which is fixed, our executives' annual incentive award is at risk based on how well the Company and the executive perform.

We award annual incentives under our Results-Based Incentive (RBI) Plan to focus our executive officers on attaining pre-established annual performance goals. The RBI incentive for our named executive officers is variable in two respects.

First, the funding of an overall RBI incentive pool is dependent on the Company's success in achieving specified financial performance goals, as described below.

Second, the size of the executive's incentive payout from the funded pool depends on actual performance against pre-established individual performance objectives, which can be below target or, for exceptional individual performance, as much as 200% of target.

Target Opportunities. We generally set the target RBI amount for each executive at the median of our peer groups' annual cash incentives for employees in similar positions. In order to encourage and reward extraordinary performance, our RBI awards are structured so that the actual payout under an executive officer's award can approach

or exceed the 75<sup>th</sup> percentile if such executive exceeds individual performance objectives.

We use the sum of target awards to determine the overall funding of the RBI incentive pool, as described below, but the targets are not entirely determinative of what any one participant's actual RBI incentive payout will be.

**Funding the RBI Pool.** The pool of available funds to pay our RBI awards is based on the extent to which the Company and our businesses meet or exceed predetermined goals under selected financial metrics, which are set by the MDCC at the beginning of the performance year. For 2012, the MDCC discontinued use of ROIC as a financial metric, as discussed in

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the Executive Summary on page 29, and selected the four financial metrics, weighted as identified below, for purposes of funding an overall pool for the RBI plan:

Bookings - 20% - a forward-looking metric that measures the value of new contracts awarded to us during the year and an indicator of potential future growth.

Net Sales - 30% - a growth metric that measures our revenue for the current year.

Free Cash Flow (FCF) - 20% - a measure of the cash that is generated in a given year that we can use to make strategic investments to grow our businesses or return to our shareholders.

Operating Income from Continuing Operations - 30% - a measure of our profit from continuing operations for the year, before interest and taxes, and after certain non-operational adjustments.

FCF and Operating Income from Continuing Operations are non-GAAP financial measures and are calculated as follows:

FCF is operating cash flow from continuing operations less capital spending and internal use software spending, excluding the impact of changes to cash flow from pension and post-retirement benefits-related items and other similar non-operational items.

Operating Income from Continuing Operations is operating income from continuing operations, excluding the FAS/CAS pension and post-retirement benefits expense/income and, from time to time, certain other items.

Considered in the aggregate for 2012, the four metrics were strong indicators of our overall performance and our ability to create shareholder value. These measures were balanced among long-term and short-term performance, growth and efficiency and have been aligned with our business strategies. For example, we continue to focus on growing our business in core defense and new markets, both domestic and international, and our success in this area should be reflected in our bookings in the shorter-term and net sales in the longer-term. In addition to growing our business, we maintain a strong focus on program execution in order to maximize operating income and cash.

For each financial metric, we set a specific target performance goal and a defined performance range around the target. The performance range consists of a threshold - or minimum performance level - and a maximum performance level. If the threshold performance level for a financial metric is not achieved, then we do not allocate funds to the RBI funding pool based on that metric. Funding of the pool for any one metric is capped once performance achieves or exceeds the maximum performance level set for that metric. We also

establish a funding range around the target for each financial metric of 75% to 150% of target. If Company performance falls within the performance range (e.g., between the threshold and maximum performance levels), the funding amount is based on the corresponding funding range. A total Company RBI funding percentage is determined based on the overall performance of the Company against each of these financial metrics. The RBI payouts to all of our named executive officers, including those who are leaders of individual businesses, are based on the total Company RBI funding percentage. In addition to the financial metrics, the MDCC has given our CEO the authority to increase or decrease funding of the RBI pool based on an assessment of an individual business' performance on criteria such as customer satisfaction, growth, people and productivity.

The following table summarizes the performance target, and the corresponding total Company RBI funding percentage, for 2012:

Financial Metric	Performance Target	RBI Funding	
Bookings	\$25.36B	104.5	%
Net Sales	\$24.51B	99.0	%
Free Cash Flow	\$1.20B	116.3	%
Operating Income from Continuing Operations	\$2.99B	121.3	%
Overall Funding Level %		110.2	%

The Company had a solid operating performance in 2012. We exceeded target on three of the four metrics and were very close to target in the other, resulting in a total Company RBI funding percentage of 110.2%.

The RBI financial metric targets for a performance year are based on our annual operating plan for that year. The annual operating plan represents management's view of the potential performance of the Company as a whole and its individual businesses for the coming year based on identified challenges, risks and opportunities. The annual plan is built using a rigorous "bottom up" approach. Each business' proposed plan is carefully considered and scrutinized by management through multiple reviews. Often management requires the businesses to increase or "stretch" their plan financial targets and incorporate other changes. Based on the annual plans of the businesses, management prepares the Company's annual operating plan which is finalized after review, assessment and approval by the Board. In addition, consistent with past practice, Company performance against these financial metric targets, which are established at the beginning of the year and based on anticipated operational performance during the year, is adjusted to account for the impact of certain matters not factored into the annual operating plan, such as acquisitions and dispositions that occur after the applicable targets are established, and certain non-operational items.

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Individual Performance Objectives. Individual performance is directly reflected in an executive's RBI award. While combined Company and individual business performance determines funding of the overall RBI pool, individual RBI awards reflect an assessment of an executive's contribution to our achievement of the financial performance goals, plus the executive's achievement of individual performance objectives. If an executive under-performs in relation to his objectives, the RBI award could fall below the funded target level or even be zero if threshold performance is not achieved. On the other hand, an executive who exceeds his performance objectives could receive up to 200% of target. Individual performance objectives are established annually in writing for top executives and include primarily quantifiable objectives with some subjective measures also included. In the case of our CEO, at the beginning of a review period, the MDCC recommends, and the full Board (excluding the CEO) approves, a statement of the CEO's objectives. In connection with his annual performance evaluation, our CEO provides to the MDCC a written self-appraisal, assessing his performance against these objectives. The MDCC discusses the CEO's performance and provides a preliminary performance evaluation. The MDCC's preliminary evaluation is then discussed with all of the independent directors in an Executive Session of the Board, at which time each Director has an opportunity to provide input. Based on this evaluation, the MDCC recommends, and the full Board (excluding the CEO) approves, the CEO's RBI award and other compensation. The CEO receives performance feedback directly from the Lead Director and the Chair of the MDCC.

A similar process is followed for the named executive officers other than the CEO. In the case of the other executive officers, our CEO provides input to the MDCC both with regard to the establishment of performance objectives and the determination of success in meeting those objectives.

Examples of individual performance objectives for our named executive officers for 2012 include:

Financial objectives within the individual's business or functional area;

Successfully managing human resources and developing a stronger organization within the individual's business or functional area;

Improving employee opinion survey results;

Achieving exemplary regulatory compliance;

Increasing energy efficiency and successfully implementing workplace safety initiatives;

Demonstrating effective leadership behaviors; and

Promoting a culture of innovation through respect and inclusion.

This individual assessment promotes accountability for each executive's performance and helps differentiate our executives' compensation based on performance. Thus, while the target incentive award for each executive is set with reference to the marketplace median for his position, in order to encourage and reward extraordinary performance, our RBI awards are structured so that the actual payout under an executive officer's award can approach or exceed the 75<sup>th</sup> percentile if such executive exceeds his individual performance objectives.

Based on Company, business and individual performance in 2012 our named executive officers, other than Mr. Crowley, received RBI amounts that were above the funded RBI target level. A summary of our named executive officers' 2012 performance follows:

William Swanson

Mr. Swanson, as Chief Executive Officer, has led the Company's successful transformation into a consistent, predictable performer with a strong focus on operating performance, program execution, productivity and shareholder returns. In 2012, Raytheon maintained a strong balance sheet, delivered solid operating results in a challenging economic environment and exceeded its business plan. The Company's total shareholder return for 2012 outperformed the S&P 500 and was the highest for large cap defense prime contractors. Under Mr. Swanson's leadership, the Company continued to be recognized as a well-managed company by investors and customers and as a leader in the areas of corporate governance, corporate responsibility and leadership development. Mr. Swanson continued to drive a culture of diversity and inclusion and in 2012 was recognized for the seventh year by the Human Rights Campaign (HRC) Corporate Equality Index (CEI) with a score of 100 percent and included in HRC's Best Places to Work list. Raytheon also continued to be a leader in the industry in health and safety and recorded its best annual safety performance in 2012.

David Wajsgras

Under the leadership of Mr. Wajsgras, as Chief Financial Officer, the Company's performance exceeded its 2012 goals in bookings, operating profits, free cash flow and return on invested capital. The Company' operating margin performance continued to be among the best in the industry, driven by strong operational performance and cost reduction initiatives. In 2012, the Company continued to successfully execute a balanced capital deployment strategy, including a 16% increase to the annual dividend, as well as stock repurchases and discretionary pension contributions. Further, the Company issued \$1.1 billion in long-term debt, which was used primarily for the early retirement of 2014 and 2015 maturities, and lengthened the weighted average debt maturity structure to approximately 13 years. Additionally, he guided the successful completion of several technology based acquisitions.

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### Jay Stephens

As General Counsel and Corporate Secretary, Mr. Stephens contributed to the Company's successful performance in 2012 by providing broad-based business guidance beyond the traditional role of General Counsel. He provided leadership of the Company's governance and compliance practices to position the Company as a leader in corporate responsibility and contemporary governance while enhancing the Company's reputation and successfully managing its risk profile. He provided proactive compliance leadership across a range of regulatory environments to support the Company's global growth strategy while successfully mitigating risks and resolving regulatory and commercial exposures. In 2012, under his leadership the Company was recognized for its leading governance practices, innovative corporate responsibility disclosure, leading sustainability program, outstanding safety performance, and creative ethics communications and education initiatives.

### Daniel Crowley

Since joining Raytheon as President of the Network Centric Systems (NCS) business in November 2010, Mr. Crowley has continued to reshape the business and focus on international expansion, particularly in the Middle East. Under his leadership, NCS has become a leading provider of protected satellite communication systems to the U.S. armed forces, including the U.S. Navy Multiband Terminal (NMT), as well as an alternate development contract on the Family of Advanced Beyond-line-of-sight Terminals (FAB-T) program with the U.S. Air Force. Although NCS did not achieve its 2012 business plan, Mr. Crowley was instrumental in numerous contract awards for NCS in 2012 including enhanced Thermal Weapon Sights for the U.S. Army and a Command, Control, Communications, Computers and Intelligence (C4I) system to the Kingdom of Saudi Arabia.

### Richard Yuse

Under Mr. Yuse's leadership as President of Raytheon's Space and Airborne Systems (SAS) business, SAS performed well in 2012, with net sales, operating profit, bookings and free cash flow exceeding its goals. In 2012, SAS also successfully demonstrated and deployed next generation sensors and mission system solutions that represent significant increases in operational effectiveness and are critical to both near-term and long-term SAS business growth. Mr. Yuse successfully led efforts to increase and ensure the exportability of SAS products, a critical initiative for future SAS growth in international markets. Additionally, SAS received the Secretary of Defense Performance-Based Logistics Award in 2012 for its advanced maritime surveillance radar system.

At the end of the year, our CEO recommends to the MDCC the RBI awards for our executive officers other than himself. The full Board of Directors (excluding the CEO) approves all of

our named executive officers' annual RBI awards, based on a recommendation from the MDCC. The 2012 Grants of Plan-Based Awards table on page 46 shows the threshold, target and maximum RBI awards that each of our named executive officers was eligible to receive for 2012. Their actual RBI awards earned for 2012 are shown in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table on page 43. The actual 2012 RBI payments to our named executive officers were, on average, at the 50<sup>th</sup> percentile of the market.

### Long-Term Incentives

Our long-term incentive opportunities reward Company leaders and assist with the retention of these leaders. By aligning financial rewards with the economic interests of our shareholders, leaders are encouraged to work toward achieving our long-term strategic objectives. Our named executive officers receive long-term incentive awards in the form of performance-vesting restricted stock units pursuant to our Long-Term Performance Plan (LTPP) and restricted stock awards that vest on a specified time schedule. While we do not follow a formula allocation as between the two forms of long-term incentives, we more heavily weight the performance-based awards under the LTPP.

We target our named executive officers' long-term incentives, on average, between the 50<sup>th</sup> and 75<sup>th</sup> percentiles of the market for long-term incentives for employees in similar positions. The 2012 Grants of Plan-Based Awards table on page 46 shows the LTPP and restricted stock awards that were granted to each of our named executive officers for 2012.

LTPP. We award performance-based restricted stock units pursuant to the LTPP under our 2010 Stock Plan (awards prior to May 27, 2010 were under our 2001 Stock Plan) to encourage both retention and targeted performance. The LTPP provides awards of restricted stock units that vest at the end of a three-year performance cycle based upon the

achievement of specific pre-established levels of Company performance. Stock units may be settled in our common stock or in cash, at the discretion of the MDCC. The LTPP awards are granted annually in independent over-lapping three-year cycles, which provides continuity of opportunity and marketplace consistency.

The performance goals for the 2012 - 2014, 2011 - 2013, and 2010 - 2012 performance cycles are based on the following weighted metrics:

Performance Cycle	ROIC		CFCF		TSR		Total	
2012 - 2014	50	%	25	%	25	%	100	%
2011 - 2013	50	%	25	%	25	%	100	%
2010 - 2012	50	%	25	%	25	%	100	%

We have used the same performance metrics since 2006 and the same weightings since 2007. In each case, the goals are independent and additive, which means that if we miss the threshold performance as to one measure, no credit would apply

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to that element, but could be made up for by above-target performance in another area.

Return on Invested Capital (ROIC) measures how efficiently and effectively we use capital.

Cumulative Free Cash Flow (CFCF) measures, on a cumulative basis, the cash that is generated over the three-year performance cycle, which we can use to make strategic investments to grow our businesses or return to our shareholders. The calculation of CFCF is essentially the same as the FCF calculation described above under the discussion of the RBI plan.

Total Shareholder Return (TSR) compares our stock price appreciation, including reinvested dividends, over the performance period to our peers' stock performance over the same period and provides a percentage ranking.

Like CFCF and TSR, ROIC is a non-GAAP financial measure and is calculated as follows:

ROIC is (a) (i) income from continuing operations, excluding (ii) the after-tax effect of the FAS/CAS pension and post-retirement benefits expense/income and, from time to time, certain other items, plus (iii) after-tax net interest expense plus (iv) one-third of operating lease expense after-tax (estimate of interest portion of operating lease expense) divided by (b)(i) average invested capital after capitalizing operating leases (operating lease expense times a multiplier of 8), adding (ii) financial guarantees, less net investment in discontinued operations, and adding back (iii) the liability for defined benefit pension and other post-retirement benefit plans, net of tax and excluding (iv) other similar non-operational items. Such calculation also includes certain variations due to averaging the metric over the three-year performance cycle.

In 2011, we adjusted the ROIC definition from the prior year's definition to exclude any change from pension contributions. This adjustment eliminates all of the non-operational pension impact from the calculation in order to more clearly reflect the underlying business performance.

We selected these three non-GAAP financial performance measures because they are good indicators of the Company's overall performance and, we believe, lead to the creation of long-term value for our shareholders. They also reflect input from our investors. For example, CFCF is a useful measure because our ability to generate cash efficiently will continue to be critical to our ability to fund our operations, grow our business, prudently manage our debt levels, and, going forward, will be useful in the development of technology and making

acquisitions to meet our strategic objectives.

We use comparative TSR as one of our metrics because investors recognize it as an appropriate measure to incentivize executives. We use the core peer group rather than the broader peer group for this comparison because the TSR of our peer aerospace and defense companies is more relevant to our performance. TSR can be variable for a number of reasons not wholly related to our performance. Factors related to our business and the businesses of the peer companies contributing to this variability include the impact of extraordinary events on financial results, commercial and defense business mix, and the impact of economic and business factors depending on business mix. Due to the acquisition of Goodrich Corporation by United Technologies Corporation in 2012, Goodrich was not included in the TSR calculation for the performance cycle completed in 2012.

In setting the performance levels for each of these metrics in the LTPP, we start with our five-year strategic plan. The five-year plan represents management's long-term view of the potential performance of the Company for such period, based on identified future challenges, risks and opportunities, and is reviewed by the Board of Directors. We take the three relevant years within the five-year strategic plan and derive a three-year set of financial targets. This set of targets is reviewed by the MDCC and is used for setting the three-year LTPP target performance metrics. The LTPP targets are established at the beginning of each three-year cycle when the performance results are substantially uncertain. We do not make changes in the LTPP targets as a result of subsequent revisions to our business projections. However, due to the recent and continuing environment of economic and industry uncertainty, and the challenges of setting three-year performance targets in this environment, the MDCC provided for the possibility of adjustments to performance for the 2011 - 2013, 2012 - 2014 and 2013 - 2015 LTPP performance cycles. Such potential adjustments are intended to take into account differences between the conditions reasonably assumed when metrics were established and the actual conditions that might take place during such performance cycles. The conditions generally relate to Department of Defense budget and contract award uncertainties, and are regarded as largely outside the control of the Company. The potential adjustments were predetermined using clearly articulated objective criteria

established at the time of the MDCC's approval of the performance metrics for the plan period and made subject to a cap. The performance criteria are not subject to further adjustment, although the MDCC retained discretion to adjust awards downward in compliance with Section 162(m) of the U.S. Internal Revenue Code.

Given that the LTPP financial metric targets are long-term estimates of potential Company performance, it is difficult to predict accurately whether they will be met as the Company's performance during the period will be impacted by a wide range of known and unknown factors, including geo-political events,

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macroeconomic conditions and other matters beyond our control. As a result of these factors, it is too early to tell how our future financial performance will affect future LTPP awards.

The following table summarizes our performance in the three performance metrics and the corresponding funding for such metrics for the 2010 - 2012 LTPP award cycle.

Performance Metric and Weighting	Performance Against Targets	Metric Funding	
CFCF (25%)	\$6,438 million (pre-established target of \$5,938 million and maximum of \$7,438 million)	31.3	%
TSR (25%)	Ranked seventh within our core peer group (with funding dependent on our relative rank compared to our core peer group of 9 companies, including ourselves)	16.7	%
ROIC (50%)	13.20% (pre-established target of 12.84% and maximum of 14.48%)	50.0	%
		98.0	%

While target was not achieved for TSR, out-performance on CFCF and ROIC resulted in a combined factor of 98.0% of target being earned and paid out in shares of common stock for the 2010 - 2012 award cycle.

**Restricted Stock.** Restricted stock awards with time-based vesting schedules provide a strong retentive complement to the LTPP, while still keeping focus on creating shareholder value. Restricted stock awards also encourage executive officers to manage the Company from the perspective of an owner with an equity stake in our business. Restricted stock awards granted to our named executive officers in 2012 vest in three equal tranches on each of the second, third and fourth anniversaries of the grant date, provided the executive is then still employed by the Company. The two-year vesting period for the first tranche, and the four-year vesting period for the entire award, are effective ways to promote retention of our executives. In 2004, we changed the primary form of our broad-based equity compensation from stock options to restricted stock. There have been no stock options granted since 2005.

**Stock Ownership and Retention Guidelines**

To reinforce our culture and expectation of long-term share ownership, we have implemented stock ownership guidelines for our elected officers. (See the following table.) These guidelines are designed to ensure sustained, meaningful executive share ownership, align executive long-term interests with shareholder interests, and demonstrate our officers' commitment to enhancing long-term shareholder value. The MDCC regularly reviews attainment of these ownership levels by our elected officers. As of December 31, 2012, each of our named executive officers had met or exceeded his stock ownership requirements.

**Stock Ownership and Retention Guidelines for Elected Officers**

Ownership Guidelines	CEO:	5 x base salary
	Senior Vice Presidents:	3 x base salary
	Business Presidents:	3 x base salary
	Elected Vice Presidents:	1 x base salary

Time to Meet Requirements	5 years from date on which guidelines become applicable to the officer. Officers may not dispose of Company stock until attaining ownership thresholds and thereafter must maintain specified ownership levels.
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**Policy Against Hedging with Respect to Company Stock**

In order to assure alignment with the long-term interests of our other shareholders, under the Company's Insider Trading Policy, our officers, as well as other employees and non-employee directors, may not engage in short sales of Company stock or transactions in any derivative of a Company security, including, but not limited to, puts, calls and options (other than the receipt and exercise of options that might be granted by the Company pursuant to a Company compensation plan).

#### Perquisites and Other Executive Benefits

While a relatively small portion of our executives' total direct compensation opportunities, perquisites and other executive benefits are important to ensure competitiveness at the senior leadership level. Access to quality health care and other benefits protects the health and well-being of our employees and their families. In addition, under our executive perquisite policy, we provide our executive officers a car allowance (upon termination of any prior Company lease), financial planning services and life insurance coverage benefits. We also provide other perquisites to certain executives in limited circumstances

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due to our security and personal safety requirements. Individually and in the aggregate, the perquisites we provide to our named executive officers are comparable in scope to those provided by the companies in our peer groups, particularly in the core peer group of aerospace and defense companies. In keeping with contemporary governance practices, we changed our perquisites policy to transition all car leases to car allowances as leases terminate. All executives have now transitioned from leased vehicles to car allowances. In 2011, we also eliminated the following perquisites previously provided to certain executives after a separation: car allowances, excess liability insurance, financial planning services and executive physicals.

### Retirement Benefits and Deferred Compensation

**Retirement Benefits.** Retirement benefits also fulfill an important role within our overall executive compensation objective because they provide an element of financial security that promotes retention. Our retirement program, including the amount of benefit, is comparable to those offered by the companies in our peer groups and, as a result, ensures that our executive compensation remains competitive.

We maintain the following broad-based retirement plans in which our named executive officers are eligible to participate, along with a majority of our employees:

the Raytheon Savings and Investment Plan (RAYSIP), a tax-qualified defined contribution retirement plan (401(k) plan); and

the Raytheon Company Pension Plan for Salaried Employees, a tax-qualified, non-contributory defined benefit pension plan that covers most of our salaried employees and executive officers, including Messrs. Swanson, Wajsgras, Stephens and Yuse.

We also maintain the Raytheon Excess Pension Plan for employees who qualify, including our named executive officers other than Mr. Crowley. The Raytheon Excess Pension Plan is a nonqualified excess pension plan which provides benefits that would have been provided to a participant under the tax-qualified pension plan but for compensation limits imposed under the U.S. Internal Revenue Code (IRC).

We also sponsor the tax-qualified Retirement Income Savings Program (RISP) within RAYSIP. Employees who joined the Company after December 31, 2006 are eligible for RISP, in lieu of one of our defined benefit pension plans. Participation begins after one year of employment. Raytheon contributes from 2.5% to 9% of eligible compensation to the participant's RISP account based on date of hire, age on date of hire and years of service. Participants direct the investment of their RISP account from among RAYSIP's investment options. For participants in the tax-qualified RISP, we also maintain the nonqualified RISP within the Deferred Compensation Plan (as discussed below) for

contributions on compensation over the IRC compensation limit. Participants vest in the tax-qualified and nonqualified RISP accounts after three years of service to the Company. Mr. Crowley is the only named executive officer who participates in the RISP.

In addition, certain senior executives, including our named executive officers, are eligible to participate in the Raytheon Company Supplemental Executive Retirement Plan (SERP). The SERP is designed to replicate, but not exceed, the retirement benefit that a mid-career person joining the Company would achieve under the qualified and excess pension plans had such person begun his or her career with Raytheon. The SERP benefit (up to 50% of final average earnings for a participant who retires after age 60 with at least 15 years of service to the Company) is offset by amounts payable under our other Company pension plans, any prior employer plan, Social Security and, in the case of Mr. Crowley, the annuity value of his account in the RISP.

Mr. Swanson and Mr. Yuse will not receive a payment under the SERP because of their longstanding service with Raytheon (41 years for Mr. Swanson and 37 years for Mr. Yuse). Were either of them to retire, his pension benefit under the formula in our qualified and excess pension plans exceeds the maximum 50% of final average earnings that the SERP would provide. Because the SERP has offsets for the pension plan benefits, there would be no excess benefit payable under the SERP. Our other named executive officers could be eligible for SERP benefits, depending on when they retire.

Each of the above retirement plans, including the SERP, is described in more detail under the heading "Pension Benefits" beginning on page 51.

Deferred Compensation Plan. We maintain the Raytheon Deferred Compensation Plan under which a select group of management or highly compensated employees, including our named executive officers, may elect to defer up to 50% of their salary and up to 90% of their annual RBI plan awards and receive tax-deferred returns on those deferrals. The account balances in this plan are unfunded and represent money that the participants have previously earned and voluntarily elect to defer in order to accumulate tax-deferred returns. Plan participants can allocate their account balances among substantially the same investment options available under our qualified RAYSIP, which also accumulate on a tax-deferred basis. We make a matching contribution of up to 4% of deferrable compensation. In addition, for participants in the tax-qualified RISP, we make contributions from 2.5% to 9% of compensation over the IRC compensation limit. The provision of this deferral opportunity is a competitive practice in the marketplace. For more information on our Deferred Compensation Plan, see "Nonqualified Deferred Compensation" on page 53.



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### Severance Pay Arrangements

Our employees, including our named executive officers, are employees at-will and do not have long-term employment contracts with the Company. The at-will employment status of our employees affords us the necessary flexibility to remove employees when appropriate under the circumstances. However, in order to retain and attract highly-qualified executives who may otherwise desire the protection of long-term employment contracts, we offer specified severance benefits under our executive severance guidelines. Such benefits provide protection for our executives who, upon joining the Company, may forfeit substantial pay and benefits earned from a previous employer. For our named executive officers, other than Mr. Crowley, the severance benefits under these guidelines provide a multiple of base salary and target annual incentive award (2.99 for our CEO and 2.0 for the other named executive officers) and continuation of welfare benefit and pension plans, other than the SERP, for 3 and 2 years, respectively. In 2009, we changed our guidelines prospectively for new officers first elected on or after January 1, 2010, such as Mr. Crowley, to reduce these multiples to 2.0 for the CEO and 1.0 for other officers. At the same time, we also eliminated the following post-separation perquisites previously provided to certain executives: car allowances, excess liability insurance, financial planning services and executive physicals.

Separate from our executive severance guidelines, we have change-in-control agreements with our executive officers that have been reviewed and approved by the MDCC. Changes in corporate control are often accompanied by changes in the corporate culture and job losses, especially at executive levels. If a transaction affecting corporate control of Raytheon were under consideration, we expect that our executives would naturally be faced with personal uncertainties and distractions about how this might affect their continued employment by the Company. By entering into change-in-control agreements before any such transaction is contemplated, we hope to focus our executives' full attention and dedication on our shareholders' best interests, despite any threatened or pending change-in-control, and to encourage our executives to stay with the Company until the transaction is completed. The agreements do this by providing a meaningful severance benefit in the event that a change-in-control occurs and, within the 24 months after the change-in-control, the executive is either terminated without cause or resigns due to a material reduction in compensation or a material change in the executive's job duties without his consent. These agreements are not intended to provide a windfall to our executives occasioned by a change-in-control. The agreements provide for a "double trigger" such that an executive would only receive severance benefits upon a qualifying termination following a change-in-control, and not simply upon a change-in-control. Furthermore, any benefit received by an executive under a change-in-control agreement would be reduced by the severance benefit he or she may earn under our severance guidelines as described above, so that there would be no duplication of benefits.

Our change-in-control agreements no longer provide tax gross-up protection for excise taxes that might apply in the event of a change-in-control. We have also eliminated the following perquisites upon a qualifying termination within 24 months after a change-in-control: car allowances, excess liability insurance, financial planning services and executive physicals. Our severance programs, including the conditions under which such benefits are triggered and the amount of such benefits, are comparable to those provided by the companies in our peer groups. The MDCC's independent consultant has confirmed that our change-in-control and other severance arrangements are competitive in our industry. For more information on our executive severance policy and the terms of our change-in-control agreements, see "Potential Payments Upon Termination or Change-in-Control" beginning on page 54.

### Enhancements in Governance

In recent years, the Company has adopted a number of important governance enhancements related to its executive compensation program. In 2009, the MDCC adopted a formal policy to ensure that it will continue to receive independent and unbiased advice and analyses from its compensation consultant. At the same time, the Board amended the MDCC charter in a complimentary fashion to require an annual MDCC assessment of the independence of its outside compensation consultant and the pre-approval of any services proposed to be provided by such consultant to the Company. Early in 2013, both the policy and the charter were amended to incorporate new NYSE standards to be effective on July 1, 2013 establishing the specific independence factors which must be considered before selecting any compensation committee adviser. The policy, as amended, requires the MDCC to assess annually the independence of its compensation consultant, considering all relevant factors including those enumerated in the

NYSE standards and, further, prohibits the consultant from providing certain services either to our executive officers and directors, personally, or to the Company (other than the MDCC). The services to the Company subject to this prohibition are advice to management related to executive and director compensation, employee compensation and employee benefits.

As part of the independence assessment mandated by the policy, the MDCC reviews any services proposed to be provided by the consultant to the Company not otherwise prohibited under the policy and considers whether the provision of such non-MDCC services to the Company will impair the consultant's independence. Such non-MDCC services may be provided only with the MDCC's pre-approval. Additionally, as a guideline to avoid any actual or perceived conflict of interest or bias, the policy limits the fees paid by the Company for such non-MDCC services to no more than 1% of the consulting firm's annual gross revenues.

The Board amended the Company's Governance Principles in 2008 to add a Restatement Clawback Policy. This policy gives

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the Board the right to recover RBI payments, LTPP awards and restricted stock awards made on or after January 1, 2009 to any elected officer, to the extent that such payments or awards were inflated due to erroneous financial statements substantially caused by the executive's knowing or intentionally fraudulent or illegal conduct. The policy is designed to maximize the likelihood that the Company will be successful if it seeks to recover the portion of an executive's incentive compensation attributable to inflated financial results caused by the executive's malfeasance. The Board amended its Governance Principles in 2009 to clarify stock retention requirements in the Stock Ownership and Retention Guidelines. The clarifications implement existing Company policy under which executive officers and directors may not dispose of Company stock until attaining ownership thresholds and thereafter must maintain specified ownership levels. In 2011, the Board further revised the stock ownership guidelines applicable to directors to provide that each director is expected to own shares of Company stock with a market value of at least four times the cash component of the director's annual retainer for service on the Board.

The Board also amended the MDCC charter in 2009 to formalize the practice and responsibility of the MDCC to review succession plans for the CEO, executive officers and other elected officers of the Company and career development plans for elected officers and other key employees.

### Other Considerations

**Tax Considerations.** Under Section 162(m) of the U.S. Internal Revenue Code, there is a limit of \$1,000,000 on the amount of compensation that we may deduct in any one year with respect to compensation paid to certain of our named executive officers. However, qualified performance-based compensation will not be subject to the deduction limit if specified requirements are met. To maintain flexibility in compensating our executives, the MDCC reserves the right to use its judgment to authorize compensation payments that may be subject to the limit when the MDCC believes that such payments are appropriate. Accordingly, certain components of our executive compensation program are designed to be qualified performance-based compensation under Section 162(m) while others are not.

In 2006, the MDCC determined that compensation paid pursuant to awards under the LTPP, starting with our LTPP awards made for the 2006-2008 performance cycle, should generally be structured with a goal that they be tax deductible pursuant to Section 162(m). As a result, we obtained shareholder approval of the performance goals that may be used with respect to the LTPP at our 2006 annual meeting of shareholders, and we operate the LTPP intending to comply with the Section 162(m) exemption. The MDCC again made this determination with

respect to the 2010 Stock Plan which was approved by the shareholders at the 2010 Annual Meeting of Shareholders. However, neither our annual RBI awards nor our time-based restricted stock awards are eligible for the performance-based compensation exemption from Section 162(m). In the case of our RBI awards, we believe that the ability to exercise judgment about our executives' individual performance in certain areas that do not easily lend themselves to specific objective measurement, such as effective management of human resources, ethical business behavior and leadership competencies, outweighs the cost to us of the loss of a tax deduction imposed by the limits of Section 162(m).

**Other Considerations.** Many of our government contracts are cost-reimbursable contracts under which we are reimbursed for our allowable costs. These types of contracts are subject to special regulations about what are and are not allowable costs, which we sometimes take into consideration in structuring our compensation program. For example, since compensation in the form of time-based restricted stock is an allowable cost and stock options are not, in 2004 we began to consistently use restricted stock awards in our executive compensation program rather than stock options.

### Equity Grant Practices

Historically, we have not timed the grant of equity awards to coincide with, precede or follow the release of material non-public information. We have an internal policy on equity grant practices, approved by the MDCC, which provides, among other things, that equity awards shall be approved only at regularly scheduled meetings of the MDCC or Board, that equity awards granted to new employees or directors or promoted employees shall be considered by the MDCC or Board at a regularly scheduled meeting subsequent to the hire or promotion date, and that equity awards shall not be granted with a retroactive effective date.

### Agreed-Upon Procedures on Compensation Tables

As part of the Company's annual governance procedures, our independent registered public accounting firm is engaged to perform certain agreed-upon procedures determined by the Company and the Audit Committee of our Board, with respect to the information provided in the compensation tables related to the named executive officers.

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MANAGEMENT DEVELOPMENT AND COMPENSATION COMMITTEE REPORT

The Management Development and Compensation Committee is comprised entirely of independent directors. The Committee has reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K. Based on such review and discussions, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

Submitted by the Management Development and Compensation Committee

Frederic M. Poses, Chairman,

Vernon E. Clark, John M. Deutch and Ronald L. Skates

The above report of the Management Development and Compensation Committee does not constitute soliciting material and shall not be deemed to be incorporated by reference into any other filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, including by any general statement incorporating this proxy statement, except to the extent we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such Acts.

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## Summary Compensation Table

The following table sets forth the compensation for each of our named executive officers for the fiscal years ended December 31, 2010, 2011 and 2012, other than Mr. Crowley who first became a named executive officer in 2011. The table below was prepared in accordance with SEC requirements. The total compensation presented below does not necessarily reflect the actual total compensation received by our named executive officers or the Company's view of their total compensation opportunities in 2010-2012. More specifically, the amounts under "Stock Awards" do not represent the actual amounts paid to or realized by our named executive officers for these awards during 2010-2012 and simply represent the aggregate grant date fair value of awards granted in those years for financial reporting purposes. The Long-Term Performance Plan awards are subject to future Company performance and, like the restricted stock awards, are subject to future vesting periods. Likewise, the amounts under "Change in Pension Value and Nonqualified Deferred Compensation Earnings," which represent the change in the actuarial present values of such officers' accumulated pension benefits based on the same assumptions we use for financial reporting purposes, do not reflect amounts paid to or realized by our named executive officers during 2010-2012, nor does the MDCC consider such changes in pension benefits as an element of its annual compensation decisions. For information regarding the named executive officers' compensation opportunities in 2010-2012, see our supplemental table on page 28 in "Compensation Discussion and Analysis." The supplemental table is not a substitute for the required table below.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards <sup>(1)</sup> (\$)	Option Awards Plan (\$)	Non-Equity Incentive Compensation <sup>(2)</sup> (\$)	Change in Pension Value and Non- qualified Deferred Compensation Earnings <sup>(3)(4)</sup> (\$)	All Other Compensation <sup>(5)</sup> (\$)	Total Compensation <sup>(6)</sup> (\$)
William H. Swanson Chairman and Chief Executive Officer	2012	\$1,414,421	\$—	\$11,346,745	\$—	\$3,400,000	\$2,416,710	\$446,160	\$19,024,036
	2011	1,369,704	—	10,290,873	—	3,000,000	1,770,447	439,546	16,870,570
	2010	1,327,622	—	10,457,745	—	2,800,000	3,517,671	488,921	18,591,959
David C. Wajsgas Senior Vice President and Chief Financial Officer	2012	\$871,800	\$—	\$2,429,367	\$—	\$1,000,000	\$600,782	\$138,098	\$5,040,047
	2011	844,245	—	2,318,452	—	865,000	477,304	131,395	4,636,396
	2010	818,315	—	2,251,086	—	800,000	301,159	122,674	4,293,234
Jay B. Stephens Senior Vice President, General Counsel and Secretary	2012	\$762,979	\$—	\$2,227,106	\$—	\$950,000	\$856,563	\$122,096	\$4,918,744
	2011	738,863	—	2,167,063	—	755,000	713,881	120,110	4,494,917
	2010	716,170	—	2,201,078	—	720,000	979,424	111,259	4,727,931
Daniel J. Crowley Vice President, and President, Network Centric Systems	2012	\$691,028	\$—	\$2,178,258	\$—	\$575,000	\$—	\$118,595	\$3,562,881
	2011	667,000	—	2,067,765	—	500,000	—	117,231	3,351,996
Richard R. Yuse Vice President, and President, Space and Airborne Systems	2012	\$556,680	\$—	\$2,178,258	\$—	\$675,000	\$1,168,838	\$137,132	\$4,715,908
	2011	506,072	—	2,067,765	—	600,000	1,225,932	177,853	4,577,622
	2010	456,088	—	1,534,026	—	500,000	974,314	382,151	3,846,579

Amounts represent the aggregate grant date fair values of restricted stock and Long-Term Performance Plan (LTPP) awards granted in 2012, 2011 and 2010, respectively, in accordance with the accounting standard for share-based payments, disregarding for this purpose the estimate of forfeitures related to service-based vesting conditions. Values for LTPP awards, which are subject to performance conditions, are computed based upon the probable outcome of the performance conditions as of the grant date of such awards. The values of the 2012 - 2014 (1) LTPP awards at the grant date of such awards, assuming the highest level of performance conditions will be achieved during the three-year performance cycle, are as follows: Mr. Swanson - \$13,293,512; Mr. Wajsgras - \$2,658,743; Mr. Stephens - \$2,454,193; Mr. Crowley - \$2,556,468; and Mr. Yuse - \$2,556,468. For more information on potential payouts under the 2012 - 2014 LTPP awards, see "2012 Grants of Plan-Based Awards" on page 46.

The grant date fair values of restricted stock awards are based on the stock price on the date of grant and the number of shares (or the intrinsic value method). The grant date fair values of LTPP awards are calculated using the intrinsic value method for the CFCF and ROIC portions of the awards and the Monte Carlo simulation method for the total stockholder return portion of the awards. For more information on the assumptions used by us in calculating the grant date fair values for restricted stock and LTPP

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awards, see Note 13: Stock-based Compensation Plans to our financial statements in our 2012 Form 10-K. A description of the material terms and conditions of the stock awards granted to the named executive officers in 2012 can be found on page 48 under the heading "2012 Grants of Plan-Based Awards - Equity Awards."

(2) Represents amounts earned pursuant to RBI awards for 2010, 2011 and 2012 but which were paid in 2011, 2012 and 2013, respectively. A description of the material terms and conditions of the 2012 RBI awards can be found beginning on page 46 under the heading "2012 Grants of Plan-Based Awards - Non-Equity Incentive Plan Awards."

(3) The amounts represent the aggregate change in the actuarial present value of the named executive officer's accumulated benefit under all defined benefit and actuarial pension plans (including supplemental plans) from the end of the preceding year to the end of the reported year. Generally, these amounts represent the change in value of the named executive officer's benefit due to an additional year of service, changes in compensation and changes in the discount rate. The amounts were computed using the same assumptions we used for financial reporting purposes under the accounting standard for employers' accounting for pensions. Actual amounts paid under our plans are based on assumptions contained in the plans, which may be different than the assumptions used for financial statement reporting purposes.

(4) None of the named executive officers received any earnings on their deferred compensation based on above-market or preferential rates (as defined by the SEC). For more information on our Deferred Compensation Plan, see "Nonqualified Deferred Compensation" on page 53.

(5) All Other Compensation amounts include, as applicable, (a) the value of perquisites and personal benefits (as defined by the SEC), (b) the amount of tax gross-ups, (c) the amount of Raytheon contributions to qualified and nonqualified defined contribution plans, (d) the value of insurance premiums paid and (e) certain other payments or items of compensation. Where the value of the items reported in a particular category for a named executive officer exceeded \$10,000 in 2012, those items are identified and quantified below.

(a) Perquisites and Personal Benefits

Under our executive perquisites policy, each of the named executive officers is entitled to receive certain perquisites, including a car allowance of up to \$18,000 per year, other than our CEO who is entitled to a \$25,000 allowance, financial planning services of up to \$15,000 per year, and participation in the Executive Health Program (benefits of up to \$2,000 per year).

Mr. Swanson's amount includes an aggregate of \$217,705 for personal use of Raytheon aircraft, personal use of a Raytheon-leased car for a portion of 2012 until the end of the applicable lease term, a car allowance for a portion of 2012, certain driving services, financial planning services, home security system expenses and certain travel and incidental expenses relating to his spouse attending Raytheon-related events at our request.

Mr. Wajsglas' amount includes an aggregate of \$40,663 for a car allowance, financial planning services, certain travel and incidental expenses relating to his spouse attending Raytheon-related events at our request and an executive physical.

Mr. Stephens' amount includes an aggregate of \$32,673 for a car allowance, financial planning services, certain travel and incidental expenses relating to his spouse attending Raytheon-related events at our request and an executive physical.

Mr. Crowley's amount includes an aggregate of \$31,820 for a car allowance and certain travel and incidental expenses relating to his spouse attending Raytheon-related events at our request.

Mr. Yuse's amount includes an aggregate of \$49,940 for a car allowance, financial planning services and certain travel and incidental expenses relating to his spouse attending Raytheon-related events at our request.

Personal use of corporate aircraft - For reasons of security and personal safety, we require Mr. Swanson generally to use Raytheon aircraft for all air travel, including for personal purposes. We determined our incremental cost for the personal use of corporate aircraft as follows:



We derived an average variable operating cost per hour for such aircraft based on fuel, aircraft maintenance, landing, parking, and catering costs, certain taxes and certain other miscellaneous fees and costs, and the hours flown. Since our corporate aircraft are used primarily for business travel, we did not include fixed costs for such aircraft that generally do not change with usage, such as pilots' and other employees' salaries, purchase costs of aircraft and certain hangar expenses.

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In determining the number of hours that an aircraft was used for personal purposes, we did not include the flight time of any "deadhead" flight, e.g., a return flight on which no passenger was aboard.

For trips that involved mixed personal and business usage, we determined the total variable cost attributable to personal use by subtracting the total variable cost of a "business-only" trip from the total variable cost of the whole trip (both personal and business).

In 2012, we incurred incremental costs of \$137,577 for personal use of Raytheon aircraft by Mr. Swanson. As noted above, this amount was calculated without deadhead flights. Based on our average variable operating cost per hour (as derived above), these deadhead flights would have amounted to an additional \$106,449 for Mr. Swanson.

Personal use of automobiles - In 2010, we amended our executive perquisites policy to provide that upon completion of a vehicle lease, all our executive officers would transition to car allowances. Messrs. Wajsgras, Stephens, Crowley and Yuse receive car allowances, and Mr. Swanson transitioned to an allowance in the second quarter of 2012. The named executive officers also have access to a pool of Raytheon vehicles and drivers which are generally available for various corporate purposes and which may be used in limited circumstances for uses that may have a personal element. For reasons of security and personal safety, Mr. Swanson frequently travels in Raytheon-provided vehicles operated by Raytheon-provided drivers for business and personal (primarily commuting) purposes. We determined our incremental cost for personal travel in Raytheon-provided vehicles operated by Raytheon-provided drivers as follows:

We determined our total annual cost for each pooled vehicle used by such executives for personal purposes and then allocated such total cost based on the total miles driven in the year and the number of miles driven for each executive for personal purposes, as tracked by our administrators.

We determined our total cost for each driver and then allocated such amount based on the total hours worked and the estimated number of hours that such driver drove the executive for personal purposes.

**(b) Tax Gross-Ups**

In limited circumstances, we make certain items of imputed income to our named executive officers tax-neutral to them. In 2012, we made the following amounts in tax gross-up payments relating to imputed income as a result of the executive's spouse attending Raytheon-related events at our request: Mr. Swanson - \$21,663 and Mr. Yuse - \$17,360. Consistent with prior years, Mr. Swanson did not receive any tax gross-ups for his personal use of Raytheon aircraft.

**(c) Contributions to Plans**

We make a 4% matching contribution to compensation deferred under our qualified RAYSIP 401(k) Plan and under our nonqualified, unfunded Deferred Compensation Plan (3% for Mr. Crowley based on his date of hire). The Deferred Compensation Plan matching contributions include our matching contribution for deferred 2012 RBI compensation earned in 2012 but made in March 2013. We also make a 4% contribution for Mr. Crowley, who is eligible for our Retirement Income Savings Program (RISP) within our qualified RAYSIP 401(k) Plan, and also contributed 4% of Mr. Crowley's 2012 RBI compensation to his RISP account. For information on our contributions under RISP and our matching contributions under the Deferred Compensation Plan, see "Nonqualified Deferred Compensation" on page 53. In 2012, we made the following contributions to qualified and nonqualified defined contribution plans for the named executive officers:

	Mr. Swanson	Mr. Wajsgras	Mr. Stephens	Mr. Crowley	Mr. Yuse
RAYSIP 401(k) Plan Match	\$10,000	\$10,000	\$10,000	\$7,500	\$10,000
RAYSIP RISP Contribution	N/A	N/A	N/A	10,000	N/A
Deferred Compensation Plan Match	182,577	64,872	58,519	13,650	39,267
Deferred Compensation Plan RISP	N/A	N/A	N/A	40,641	N/A
Total	\$192,577	\$74,872	\$68,519	\$71,791	\$49,267

**(d) Insurance Premiums**

Under our executive perquisites policy, we pay for the premiums for certain insurance policies covering our named executive officers, including basic life, executive liability and business travel and accident insurance policies. We also provide our named executive officers and certain other executives with a senior executive life insurance benefit for

which we impute income to each executive based on the amount of the annual premium for a comparable term life insurance policy and include such amount of imputed income in the value of insurance premiums paid. In 2012, the total value of insurance premiums paid for Messrs. Wajsgras, Stephens and Yuse were \$11,265, \$18,925 and \$20,565, respectively.

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## 2012 Grants of Plan-Based Awards

The following table sets forth the awards granted to each of our named executive officers under any plan during the fiscal year ended December 31, 2012.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>			Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(2)</sup>			All Other Stock Awards: Number of Shares of Stock or Units <sup>(3)</sup>	All Other Exercise Options: Number of Shares of Stock and Options <sup>(3)</sup>
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
William H. Swanson	1/25/2012	—	—	—	8,238	130,758	261,516	—	—
	5/31/2012	—	—	—	—	—	—	93,402	—
	—	\$429,212	\$2,861,414	\$5,722,829	—	—	—	—	—
David C. Wajsgras	1/25/2012	—	—	—	1,648	26,152	52,304	—	—
	5/31/2012	—	—	—	—	—	—	21,860	—
	—	\$132,276	\$881,837	\$1,763,674	—	—	—	—	—
Jay B. Stephens	1/25/2012	—	—	—	1,521	24,140	48,280	—	—
	5/31/2012	—	—	—	—	—	—	19,873	—
	—	\$115,764	\$771,763	\$1,543,526	—	—	—	—	—
Daniel J. Crowley	1/25/2012	—	—	—	1,584	25,146	50,292	—	—
	5/31/2012	—	—	—	—	—	—	17,886	—
	—	\$104,848	\$698,984	\$1,397,968	—	—	—	—	—
Richard R. Yuse	1/25/2012	—	—	—	1,584	25,146	50,292	—	—
	5/31/2012	—	—	—	—	—	—	17,886	—
	—	\$86,215	\$574,766	\$1,149,533	—	—	—	—	—

(1) Amounts represent the threshold, target and maximum payout opportunities under the 2012 RBI Program.

Amounts represent the threshold, target and maximum payouts under the 2012 - 2014 LTTP awards. LTTP payouts

(2) range from zero to 200% of target and may be paid in our common stock or in cash, at the discretion of the MDCC.

The amounts do not include any accrued dividend equivalents.

(3) Amounts represent awards of time-vesting restricted stock.

(4) Amounts represent the grant date fair value of the restricted stock and 2012 - 2014 LTTP awards granted to the named executive officer in 2012 in accordance with the accounting standard for share-based payments, disregarding for this purpose the estimate of forfeitures related to service based vesting conditions. Such

values are generally expensed by us over the employee's requisite service period, generally the vesting period of the awards. Values for the 2012 - 2014 LTPP awards, which are subject to performance conditions, are computed based upon the probable outcome of the performance conditions as of the grant date of such awards.

#### Non-Equity Incentive Plan Awards

2012 RBI Program. In 2012, each of our named executive officers received an annual award under our 2012 Results-Based Incentive (RBI) Program, which provides the executive the opportunity to earn incentive cash compensation based upon the attainment of the specific pre-established performance metrics and an assessment of his individual performance during 2012.

Target Opportunities. Each named executive officer is

assigned a pre-established individual RBI payout target expressed as a percentage of base salary, as well as threshold and maximum payout amounts. The MDCC established individual payout targets for each named executive officer based on the criteria discussed in our "Compensation Discussion and Analysis - Elements of Our Compensation Program - Annual Incentives" beginning on page 33. We use the target awards to determine the overall funding of the RBI award pool, as described below, but the targets are not entirely determinative of what any one participant's RBI award will be.

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**Funding the RBI Pool.** The pool of available funds to pay our RBI awards is based on the extent to which the Company and our businesses meet or exceed predetermined goals under selected financial metrics, which are set by the MDCC prior to the beginning of the performance year. As of January 1, 2012, Return on Invested Capital (ROIC), which had been included in the past as an equally measured metric was removed as a financial metric because the MDCC determined that discontinuing the use of ROIC for RBI, while retaining it for LTPP, was appropriate to further differentiate between long-term and short-term incentives and related performance metrics. For 2012, the MDCC selected the four financial metrics, weighted as identified below, for purposes of funding an overall pool under the RBI plan:

Bookings - 20% - a forward-looking metric that measures the value of new contracts awarded to us during the year and an indicator of potential future growth.

Net Sales - 30% - a growth metric that measures our revenue for the current year.

Free Cash Flow (FCF) - 20% - a measure of the cash that is generated in a given year that we can use to make strategic investments to grow our businesses or return to our shareholders.

Operating Income from Continuing Operations - 30% - a measure of our profit from continuing operations for the year, before interest and taxes, and after certain non-operational adjustments.

FCF and Operating Income from Continuing Operations are non-GAAP financial measures and are calculated as follows:

FCF is operating cash flow from continuing operations less capital spending and internal use software spending, excluding the impact of changes to cash flow from pension and post-retirement benefits-related items and other similar non-operational items.

Operating Income from Continuing Operations is operating income from continuing operations, excluding the FAS/CAS pension and post-retirement benefits expense/income and, from time to time, certain other items.

For each financial metric, we set a specific target performance goal and defined performance range around the target. The performance range consists of a threshold - or minimum performance level - and a maximum performance level. If the threshold performance level for a financial metric is not achieved, then we do not allocate funds to the RBI funding pool based on that metric. Funding of the pool for any one metric is capped once performance achieves or exceeds the maximum performance level set for that metric. We also establish a funding range around the target for each financial

metric of 75% to 150% of target. If Company performance falls within the performance range (e.g., between the threshold and maximum performance levels), the funding amount is based on the corresponding funding range. In addition to the four financial metrics, with the authorization of the MDCC, our CEO may increase or decrease funding of the RBI pool based on an assessment of a business unit's performance on criteria such as customer satisfaction, growth, people and productivity. Consistent with past practice, Company performance against these financial metric targets, which are established at the beginning of the year and based on anticipated operational performance during the year, is adjusted to account for the impact of certain matters not factored into the Company's annual operating plan, such as acquisitions and dispositions that occur after the applicable targets are established, and certain non-operational items. For information regarding the 2012 RBI performance targets and funding percentages, see "Compensation Discussion and Analysis - Elements of Our Compensation Program - Annual Incentives" beginning on page 33.

**Individual Performance Objectives.** Individual performance is directly reflected in what each executive receives as an RBI award. While total Company and business unit performance determines funding of the overall RBI pool, individual RBI awards reflect an assessment of an executive's contribution to our achievement of the financial performance goals, plus his achievement of individual performance objectives, including successful management of human resources, furtherance of ethical business behavior, leadership competencies, "Six Sigma" and customer satisfaction, as well as the degree of challenge in the executive's position. If an executive under-performs in relationship to his objectives, the RBI award could fall below the funded target level or even be zero if threshold performance is not achieved. On the other hand, an executive who exceeds his performance objectives could receive up to 200% of target.

Individual performance objectives are established annually in writing for top executives and primarily include quantifiable objectives with some subjective measures also included. In the case of our CEO, at the beginning of a review period, the MDCC recommends, and the full Board (excluding the CEO) approves, a statement of the CEO's objectives. In connection with his annual performance evaluation, our CEO provides to the MDCC a written self-appraisal assessing his performance against these objectives. The MDCC discusses the CEO's performance and provides a preliminary performance evaluation. The MDCC's preliminary evaluation is then discussed with all of the independent directors in an Executive Session of the Board, at which time each Director has an opportunity to provide input. Based on this evaluation, the MDCC recommends, and the full Board (excluding the CEO) approves, the CEO's RBI award and other compensation. The CEO receives performance feedback directly from the Lead Director and the Chair of the MDCC.

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A similar process is followed for the named executive officers other than the CEO. In the case of the other executive officers, our CEO provides input to the MDCC both with regard to the establishment of performance objectives and the determination of success in meeting those objectives. For information on the actual amounts paid to the named executive officers under their 2012 RBI awards, see the amounts in the "Non-Equity Incentive Plan Compensation" column in the Summary Compensation Table on page 43. For more information regarding our RBI program, see our "Compensation Discussion and Analysis" beginning on page 25.

Equity Awards

In 2012, each of our named executive officers received two equity-based awards: an award of restricted stock units under our long-term incentive compensation program called the 2012 - 2014 Long-Term Performance Plan (2012 - 2014 LTPP), and a restricted stock award.

**2012-2014 Long-Term Performance Plan.** The 2012 - 2014 LTPP operates under, and awards were made pursuant to, our 2010 Stock Plan. Under the 2012 - 2014 LTPP, each named executive officer was awarded restricted stock units that vest when specific pre-established levels of Company performance are achieved over a three-year performance cycle (2012 - 2014). Restricted stock units may be settled in our common stock or in cash, at the discretion of the MDCC.

**Target Opportunities.** Before each three-year cycle, the MDCC assigns a target number of restricted stock units to each participant. These target numbers are assigned by the MDCC based on the criteria discussed in our "Compensation Discussion and Analysis - Elements of Our Compensation Program - Long-Term Incentives" beginning on page 36.

**Performance Goals.** The MDCC approves the performance goals for each three-year cycle, the relative weightings that those goals will have for that cycle and the target level of performance for each goal. The MDCC specifies the shares or amount of cash that will be paid out in settlement of the restricted stock unit awards based on whether actual performance is at, below or above the target, subject to a maximum payout. The performance criteria for the 2012 - 2014 LTPP, which are independent of each other and are weighted as follows, are: cumulative free cash flow (CFCF) (25%); total shareholder return relative to our peer group (TSR) (25%); and Return on Invested Capital (ROIC) (50%). In each case, the goals are independent and additive, which means that if we miss the threshold performance as to one measure, no credit would apply to that element, but could be made up for by above-target performance in another area.

CFCF measures, on a cumulative basis, the cash that is generated over the three-year performance cycle, which we can use to make strategic investments to grow our businesses or return to our shareholders.

The TSR component of the LTPP compares our stock price appreciation, including reinvested dividends, over the performance cycle to our peers' stock performance over the same period and provides a percentage ranking.

ROIC measures how efficiently and effectively we use capital that is invested in our operations over the performance cycle.

CFCF, TSR and ROIC are non-GAAP financial measures. The calculation of CFCF is the FCF calculation described above under the RBI plan over a three-year performance cycle. TSR is stock price appreciation over the applicable period plus reinvested dividends paid during the applicable period. TSR is calculated using 30 trading day average stock prices at the beginning of the performance cycle and following the end of the cycle. Finally, the calculation of ROIC is (a) (i) income from continuing operations, excluding (ii) the after-tax effect of the FAS/CAS pension and post-retirement benefits expense/income and, from time to time, certain other items, plus (iii) after-tax net interest expense plus (iv) one-third of operating lease expense after-tax (estimate of interest portion of operating lease expense) divided by (b)(i) average invested capital after capitalizing operating leases (operating lease expense times a multiplier of 8), adding (ii) financial guarantees, less net investment in discontinued operations, and adding back (iii) the liability for defined benefit pension and other post-retirement benefit plans, net of tax and excluding (iv) other similar non-operational items. Such calculation also includes certain variations due to averaging the metric over the three-year performance cycle.

**Award Settlement.** Shortly after the performance results for the three-year performance cycle are determined, we settle each award in cash or stock based upon our actual performance relative to the LTPP performance goals plus an



amount equivalent to dividends that would have been paid during the performance cycle on the shares ultimately issued under the award, assuming that those dividends had been reinvested in our common stock.

For more information regarding our LTTP program, see our "Compensation Discussion and Analysis - Elements of Our Compensation Program - Long-Term Incentives" beginning on page 36.

Restricted Stock Awards. In 2012, each of our named executive officers received an award of restricted stock. The awards, which were made pursuant to our 2010 Stock Plan, vest one-third per year on each of the second, third and fourth anniversaries of the grant date, subject to the executive remaining employed by us. The holders of the restricted stock awards are entitled to any dividends paid with respect to the shares, whether vested or unvested.

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Outstanding Equity Awards at 2012 Fiscal Year-End

The following table sets forth information regarding unexercised options, unvested stock and unvested equity incentive plan awards for each of our named executive officers outstanding as of December 31, 2012.

Name	Option Awards <sup>(1)</sup>					Stock Awards		Equity Incentive Plan Awards: Number of Unearned Shares, Other Rights That Have Not Vested <sup>(3)</sup>	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested <sup>(2)</sup>
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Exercisable Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested <sup>(2)</sup> (\$)		
William H. Swanson	—	—	—	—	—	246,147 <sup>(4)</sup>	\$ 14,168,221	267,270 <sup>(5)(14)</sup>	\$ 15,384,061
David C. Wajsgras	—	—	—	—	—	62,056 <sup>(6)</sup>	3,571,943	53,868 <sup>(7)(14)</sup>	3,100,642
Jay B. Stephens	—	—	—	—	—	58,060 <sup>(8)</sup>	3,341,934	49,724 <sup>(9)(14)</sup>	2,862,113
Daniel J. Crowley	—	—	—	—	—	50,894 <sup>(10)</sup>	2,929,459	51,796 <sup>(11)(14)</sup>	2,981,378
Richard R. Yuse	—	—	—	—	—	47,286 <sup>(12)</sup>	2,721,782	51,796 <sup>(13)(14)</sup>	2,981,378

(1) As of December 31, 2012, none of our named executive officers held any outstanding options. For a further discussion, please see pages 38 and 41 in "Compensation Discussion and Analysis."

(2) Amounts are equal to \$57.56, the closing price of our common stock on the NYSE on December 31, 2012, times the number of unvested shares or units.

(3) Amounts represent the number of shares that would be issued upon vesting of awards of restricted stock units under the 2011 - 2013 LTPP and 2012 - 2014 LTPP, assuming target performance for the applicable 3-year performance cycle and settlement of such awards in shares of stock. They also include the number of shares representing accrued dividend equivalents on such LTPP awards as of December 31, 2012. Amounts do not include any shares for the 2010 - 2012 LTPP awards as the 3-year performance cycle for such awards ended as of December 31, 2012. Information on the 2010 - 2012 LTPP awards and the shares issued to the named executive officers in February 2013, including accrued dividend equivalents, is set forth in the "2012 Option Exercises and Stock Vested" table on page 50.

(4) Includes 28,344, 24,063, 24,063, 25,425, 25,425, 25,425, 31,134, 31,134 and 31,134 shares of restricted stock that vest on May 28, 2013, May 27, 2013, May 27, 2014, May 26, 2013, May 26, 2014, May 26, 2015, May 31, 2014, May 31, 2015 and May 31, 2016, respectively, subject, in each case, to Mr. Swanson remaining employed by us.

(5) Includes 124,031 and 130,758 shares for Mr. Swanson's 2011 - 2013 LTPP and 2012 - 2014 LTPP awards, respectively. Also includes 8,077 and 4,404 shares, which represent accrued dividend equivalents on such LTPP awards, respectively, as of December 31, 2012. See Note 14 below for information regarding the vesting of and payouts under these LTPP awards.

(6) Includes 7,459, 6,332, 6,333, 6,690, 6,691, 6,691, 7,286, 7,287 and 7,287 shares of restricted stock that vest on May 28, 2013, May 27, 2013, May 27, 2014, May 26, 2013, May 26, 2014, May 26, 2015, May 31, 2014, May 31,

2015 and May 31, 2016, respectively, subject, in each case, to Mr. Wajsgras remaining employed by us. Includes 25,194 and 26,152 shares for Mr. Wajsgras' 2011 - 2013 LTTP and 2012 - 2014 LTTP awards, respectively. Also includes 1,641 and 881 shares, which represent accrued dividend equivalents on such LTTP (7) awards, respectively, as of December 31, 2012. See Note 14 below for information regarding the vesting of and payouts under these LTTP awards.

Includes 7,086, 6,016, 6,016, 6,356, 6,356, 6,357, 6,624, 6,624 and 6,625 shares of restricted stock that vest on (8) May 28, 2013, May 27, 2013, May 27, 2014, May 26, 2013, May 26, 2014, May 26, 2015, May 31, 2014, May 31, 2015 and May 31, 2016, respectively, subject, in each case, to Mr. Stephens remaining employed by us.

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- (9) Includes 23,256 and 24,140 shares for Mr. Stephens' 2011 - 2013 LTPP and 2012 - 2014 LTPP awards, respectively. Also includes 1,515 and 813 shares, which represent accrued dividend equivalents on such LTPP awards, respectively, as of December 31, 2012. See Note 14 below for information regarding the vesting of and payouts under these LTPP awards.
- (10) Includes 4,944, 4,944, 7,062, 5,352, 5,353, 5,353, 5,962, 5,962 and 5,962 shares of restricted stock that vest on December 6, 2013, December 6, 2014, December 6, 2013, May 26, 2013, May 26, 2014, May 26, 2015, May 31, 2014, May 31, 2015 and May 31, 2016 respectively, subject, in each case other than as provided herein, to Mr. Crowley remaining employed by us.
- (11) Includes 24,225 and 25,146 shares for Mr. Crowley's 2011 - 2013 LTPP and 2012 - 2014 LTPP awards, respectively. Also includes 1,578 and 847 shares, which represent accrued dividend equivalents on such LTPP awards, respectively, as of December 31, 2012. See Note 14 below for information regarding the vesting of and payouts under these LTPP awards.
- (12) Includes 4,476, 4,433, 4,433, 5,352, 5,353, 5,353, 5,962, 5,962 and 5,962 shares of restricted stock that vest on May 28, 2013, May 27, 2013, May 27, 2014, May 26, 2013, May 26, 2014, May 26, 2015, May 31, 2014, May 31, 2015 and May 31, 2016, respectively, subject, in each case, to Mr. Yuse remaining employed by us.
- (13) Includes 24,225 and 25,146 shares for Mr. Yuse's 2011 - 2013 LTPP and 2012 - 2014 LTPP awards, respectively. Also includes 1,578 and 847 shares, which represent accrued dividend equivalents on such LTPP awards, respectively, as of December 31, 2012. See Note 14 below for information regarding the vesting of and payouts under these LTPP awards.
- (14) Awards of restricted stock units under the LTPP vest upon the completion of the applicable 3-year performance cycle, subject to the attainment of certain performance goals over the performance cycle and the executive remaining employed by us. These awards may be settled in shares of our common stock or cash, and the actual number of shares to be issued or cash to be paid upon settlement will be based on the extent to which we have attained or exceeded the performance goals, which performance is determined by the MDCC shortly after the completion of the 3-year performance cycle. Such awards also include dividend equivalents accrued over the 3-year performance cycle.

2012 Option Exercises and Stock Vested

The following table sets forth options exercised and stock vested for each of our named executive officers during the fiscal year ended December 31, 2012.

Name	Option Awards		Stock Awards	
	Number of Shares	Value Realized on Exercise <sup>(1)</sup> (\$)	Number of Shares	Value Realized on Vesting <sup>(2)</sup> (\$)
William H. Swanson	—	—	202,170	<sup>(3)</sup> \$11,102,852