

RAYTHEON CO/
Form PRE 14A
April 12, 2016
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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 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))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Raytheon Company

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April [], 2016

Dear Raytheon Shareholder,

I am pleased to invite you to attend Raytheon's 2016 Annual Meeting of Shareholders on Thursday, May 26, 2016. The meeting will be held at 11:00 a.m. Eastern Time at Westfields Marriott Washington Dulles, 14750 Conference Center Drive, Chantilly, Virginia 20151. For your convenience, we are pleased to offer a live webcast (audio only) of the meeting at www.raytheon.com/ir.

As reflected in this proxy statement, Raytheon continues to demonstrate its commitment to sound governance practices. Under the Board's oversight, the Company continues to take meaningful measures to engage with our shareholders and promote Board accountability and transparency. As discussed in more detail in this proxy statement, these measures include the recent adoption of a proxy access by-law, expansion of our website disclosure regarding political expenditures and lobbying activities, and enhancement of executive compensation and other disclosures, as well as significant Board refreshment over the past several years, with two new directors added in 2015.

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,

THOMAS A. KENNEDY

Chairman and Chief Executive Officer

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RAYTHEON COMPANY

870 Winter Street, Waltham, Massachusetts 02451

PROXY STATEMENT FOR 2016 ANNUAL MEETING OF SHAREHOLDERS

PROXY SUMMARY

The Board of Directors of Raytheon Company is soliciting your proxy for the 2016 Annual Meeting of Shareholders. This section summarizes certain information contained elsewhere in this proxy statement. The proxy statement contains all of the information that you should consider and we encourage you to read it in its entirety. This Proxy Summary provides an overview of the following:

Annual Meeting logistics, the matters to be voted upon, and the Board's recommendation on each matter

Governance Highlights

Executive Compensation

Annual Meeting of Shareholders

Time: 11:00 a.m. Eastern Time

Date: Thursday, May 26, 2016

Place: Westfields Marriott Washington Dulles, 14750 Conference Center Drive, Chantilly, Virginia 20151

Record Date: Shareholders of record at the close of business on Tuesday, April 5, 2016 are entitled to notice of and to vote at the meeting.

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.

Meeting Agenda and Voting Matters

Proposal	Board's Voting Recommendation	Page Reference (for more detail)
No. 1 <i>Election of ten directors nominated by the Company's Board.</i>	FOR	pp. 17 - 22
	(each nominee)	

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No. 2	<i>Advisory vote to approve named executive officer compensation.</i>	FOR	pp. 56
No. 3	<i>Ratification of the independent auditors.</i>	FOR	pp. 58
No. 4	<i>Amendment to the Company's By-Laws to designate the Delaware Court of Chancery as the exclusive forum for certain legal actions.</i>	FOR	pp. 59
No. 5	<i>Shareholder proposal on share repurchase preference policy.</i>	AGAINST	pp. 60 61
No. 6	<i>Shareholder proposal regarding proxy access by-law.</i>	AGAINST	pp. 62 64

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Governance Highlights

Major elements of our governance profile are enumerated below and discussed in greater detail in this proxy statement.

Recent Developments:

Adoption of Proxy Access By-Law (3% ownership/3 year holding period/cap of 20% of Board, not less than two)

Significant expansion of website disclosure on Company political expenditures and lobbying activities

Board refreshment with two new directors added in 2015 (with a total of six added and four retired in the last five years)

Independence

All directors are independent other than the Chairman and CEO

Independent directors meet in executive session at the end of Board and committee meetings

***Independent Lead
Director
Accountability***

Rigorous compensation consultant independence policy

Fully independent and empowered Lead Director with broadly defined leadership authority and responsibilities

Annual election of all directors and majority voting in uncontested elections

Annual shareholder advisory vote to approve named executive officer compensation

Annual Board evaluation of CEO performance led by the Management Development and Compensation Committee (MDCC)

Restatement Clawback Policy

No poison pill

***Alignment with
Shareholder Interests***

Periodic Board review of the Company's ethics program

Pay-for-performance executive compensation program

Contemporary stock ownership and retention guidelines for directors and officers

Shareholder Access

Prohibition on director and officer hedging and derivative transactions

Multiple channels to communicate with the Board and the Audit Committee

Active Company outreach and engagement with shareholders throughout the year

Shareholders may include nominees in the Company's Annual Meeting proxy materials (Proxy Access)

Shareholders authorized to call special meetings of shareholders

Board Practices

Shareholders authorized to take actions by written consent
Robust annual Board and committee self-evaluation process, including a mid-year review and independent director discussions in executive session

Mandatory director retirement at age 74

Periodic MDCC and full Board review of executive succession planning

Balanced and diverse Board composition

Regular refreshment of the Board, with the addition of six directors and departure of four directors in the last five years

Risk Oversight

Limits on outside public company board service
Regular Board oversight of the Company's risk management generally, including its enterprise risk management process

Certain risks overseen by each Board committee based on the committee's role and responsibilities, including, by way of example, review by the Audit Committee of risks related to financial reporting, internal audit, auditor independence and related legal areas, by the MDCC of compensation program related risks, and by the Public Affairs Committee of areas of regulatory compliance, social responsibility and environmental matters

Transparency

Clear and understandable disclosure regarding the Company's executive compensation program and governance, as well as detailed and accurate financial reporting

Robust voluntary website disclosure regarding Company political expenditures and lobbying activities

Annual Corporate Responsibility Report highlighting the Company's values, culture and commitment to corporate responsibility, including governance, sustainability, ethics and business conduct, safety and wellness, and community support

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Executive Compensation

2015 Named Executive Officers (NEOs). For 2015, our NEOs were:

Thomas A. Kennedy, Chairman and Chief Executive Officer;

Anthony F. O'Brien, Vice President and Chief Financial Officer;

David C. Wajsgas, Vice President, and President of our Intelligence, Information and Services (IIS) business;

Frank R. Jimenez, Vice President, General Counsel and Corporate Secretary;

Richard R. Yuse, Vice President, and President of our Space and Airborne Systems (SAS) business; and

Taylor W. Lawrence, Vice President, and President of our Missiles Systems (MS) business. Mr. Wajsgas served as CFO prior to Mr. O'Brien's appointment as CFO in March 2015.

Our Compensation Objectives. Our executive compensation program reflects a commitment to:

Retain and attract highly-qualified executives;

Motivate our executives to achieve our overall business objectives;

Reward performance; and

Align our executives' interests with those of our shareholders.

How We Determine and Assess Executive Compensation. The MDCC oversees, approves and assesses the effectiveness of our compensation program in relation to our compensation philosophy and the market. In setting our executive compensation program and practices, the MDCC considers input from its independent compensation consultant, Pearl Meyer & Partners, shareholders and management. The MDCC also considers other factors including market data, risk considerations, executives' experience levels and macroeconomic and organizational considerations.

Elements of Our Compensation Program. Our program consists primarily of the following total direct compensation elements:

Base salary;

Annual cash incentive awards (Results-Based Incentive, or RBI, awards); and

Long-term equity incentive awards consisting of performance-based restricted stock units (under our Long-Term Performance Plan, or LTPP) and time-based restricted stock/restricted stock units (Restricted Stock).

The executive compensation program is rounded out with certain perquisites and other executive benefits.

The table below illustrates how each element of the program addresses our compensation objectives:

Retain & Attract Talent		Pay for Company Performance	
ü Base Salary			
ü RBI	ü Restricted Stock	ü RBI	ü LTPP
ü LTPP	ü Perks & Other Benefits		
Pay for Individual Performance		Align with Shareholder Interests	
	ü RBI	ü LTPP	ü Restricted Stock

Under our program, a significant portion of our executives' compensation is at risk, and that risk increases with each 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 ensuring that a significant portion of their compensation is equity-based and subject to stock price performance. See pages iv and 29 for a discussion of our total direct compensation mix. 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 37 for a discussion of our Stock Ownership and Retention Guidelines.

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2015 Total Direct Compensation Mix. Of the three primary categories of total direct compensation, our executive compensation is heavily weighted towards the variable, performance-based elements, and towards the long-term and equity-based elements, as illustrated by the tables below, which set forth the percentage of total target compensation corresponding to each compensation element's target levels and the total direct compensation opportunities for 2015.

Total Direct Compensation Opportunity – CEO⁽¹⁾	
Fixed 11% (Base Salary)	Variable 89% (RBI + Long-Term Incentive Value ⁽²⁾)
Short-Term 32% (Base Salary + RBI)	Long-Term 68% (Long-Term Incentive Value ⁽²⁾)
Cash 32% (Base Salary + RBI)	Equity-Based 68% (Long-Term Incentive Value ⁽²⁾)

(1) Total direct compensation opportunity does not include perquisites and other benefits.

(2) Long-Term Incentive Value consists of LTPP and Restricted Stock.

Total Direct Compensation Opportunity – Other NEOs⁽¹⁾	
Fixed 20% (Base Salary)	Variable 80% (RBI + Long-Term Incentive Value ⁽²⁾)
Short-Term 39% (Base Salary + RBI)	Long-Term 61% (Long-Term Incentive Value ⁽²⁾)
Cash 39% (Base Salary + RBI)	Equity-Based 61% (Long-Term Incentive Value ⁽²⁾)

(1) Average allocation for the NEOs other than the CEO. Total direct compensation opportunity does not include perquisites and other benefits.

(2) Long-Term Incentive Value consists of LTPP and Restricted Stock. Restricted Stock excludes a one-time Restricted Stock award to Mr. Jimenez in 2015. See Summary Compensation Table on page 40 for more information.

2015 Company Performance. In 2015, we returned to growth and delivered strong operating performance. The Company achieved:

Strong bookings of \$25.2 billion, up from \$24.1 billion the prior year;

Solid operating cash flow from continuing operations of \$2.3 billion for the year, after a \$200 million pretax discretionary pension plan contribution; and

A book-to-bill ratio of 1.09 for the year;

Full-year net sales of \$23.2 billion, up 2% from the prior year;

Continued strong growth in the Company's international business, which increased by 9% over the prior year and represented 31% of our total annual sales.

Full-year diluted earnings per share from continuing operations of \$6.75;

We focused on topline growth in 2015 while continuing to maintain our strong operating margins. Our bookings and revenue performance in 2015 was driven by strong global demand for the Company's innovative products and services. We also successfully executed on our strategy to extend our significant cyber capabilities into the commercial markets by creating Forcepoint, a new commercial cybersecurity joint venture company, formed by acquiring Websense from Vista Equity Partners, combining it with Raytheon Cyber Products and selling a minority interest in the combined company to Vista Equity Partners. In addition, we continued our focus on operational performance and enhancing our competitiveness through program execution, cost reduction efforts and efficiencies, while also continuing to make investments to develop discriminating technologies and differentiated capabilities. Our performance drove significant shareholder value in 2015, with total shareholder return for 2015 of 17.54%, considerably outperforming the S&P 500.

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2015 RBI and LTPP Results. The following table illustrates the results of our 2015 RBI and 2013-2015 LTPP programs, which closely tie each individual executive's compensation with the Company's performance. See pages 30 to 35 for a discussion of these plans.

Compensation Element	Performance Metrics/Weightings	Results Achieved
2015 RBI	Bookings (20%); net sales (30%); free cash flow (FCF) (20%); and operating income from continuing operations (30%).	We exceeded our pre-established 2015 targets on all RBI metrics, resulting in an overall funding level of 112.4% of target.
2013-2015 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 targets on all LTPP metrics, resulting in a payout equal to 179.2% of target.

2015 Total Direct Compensation. Our 2015 executive compensation program successfully met our pay-for-performance objectives. In addition, our executives' compensation reflects market competitiveness as discussed in more detail beginning on page 28. The table below summarizes the 2013-2015 compensation provided to our NEOs and reflects the view of the MDCC with respect to their annual compensation decisions for those executives during those years. The table differs from the Summary Compensation Table required by the Securities and Exchange Commission (SEC), which appears on page 40, and is not a substitute for that table.

TOTAL DIRECT COMPENSATION⁽¹⁾

NEO	Year⁽²⁾	Salary	Annual Cash Incentive			Long-Term Equity Incentives		Total
			RBI⁽³⁾	Restricted Stock⁽⁴⁾	LTPP⁽⁵⁾			
Thomas A. Kennedy	2015	\$ 1,196,467	\$ 3,046,500	\$ 3,400,004	\$ 4,500,016	\$ 12,142,987		
	2014	1,057,698	2,500,000	2,999,961	4,000,034	10,557,693		
	2013	644,017	1,200,000	1,999,970	1,250,020	5,094,007		
Anthony F. O'Brien	2015	\$ 485,686	\$ 608,400	\$ 800,033	\$ 1,000,027	\$ 2,894,146		
David C. Wajsglas	2015	\$ 952,887	\$ 1,114,400	\$ 1,300,040	\$ 1,250,034	\$ 4,617,361		
	2014	929,694	1,100,000	1,549,968	1,300,032	4,879,694		
	2013	901,434	1,100,000	1,200,023	1,300,013	4,501,470		
Frank R. Jimenez	2015	\$ 627,706	\$ 764,300	\$ 800,033	\$ 1,000,027	\$ 3,192,066		
Richard R. Yuse	2015	\$ 747,763	\$ 887,100	\$ 1,300,040	\$ 1,250,034	\$ 4,184,937		
	2014	678,268	800,000	1,600,006	1,250,016	4,328,290		
	2013	631,138	700,000	1,200,023	1,250,020	3,781,181		
Taylor W. Lawrence	2015	\$ 693,474	\$ 810,900	\$ 1,300,040	\$ 1,250,034	\$ 4,054,448		

⁽¹⁾ This table reflects the elements of total direct compensation under our program and excludes (a) amounts based on the change in the actuarial present value of the executives' accumulated pension benefits and (b) the value of perquisites and personal benefits (as defined by the SEC), the amount of tax-gross ups, the amount of Raytheon

contributions to qualified and nonqualified defined contribution plans, and the value of insurance premiums paid by Raytheon, which are required to be included in the Summary Compensation Table on page 40. While the MDCC considers pension benefits, perquisites and other executive benefits in the context of its assessment of the overall competitiveness of the Company's compensation, it generally focuses on total direct compensation and the elements thereof in making compensation decisions. In addition, 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 MDCC considers these awards in proposing, recommending and approving annual compensation. In contrast, the Stock Awards column in the 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 Equity Incentives LTPP and Restricted Stock LTPP beginning on page 33. In addition, this table excludes the value of a one-time cash payment and restricted stock award granted by the Company to Mr. Jimenez in consideration of his forfeiture, at the time he joined Raytheon, of a cash bonus from his prior employer relating to 2014 and equity awards from his prior employer. See Summary Compensation Table on page 40 for more information.

(2) This table sets forth compensation information for each of the NEOs for the fiscal years ended December 31, 2015, 2014 and 2013, other than Messrs. O'Brien and Jimenez, who became NEOs in 2015 and Mr. Lawrence, who was not an NEO in 2013 or 2014.

(3) Annual RBI cash award. RBI awards are discussed under Annual Cash Incentives RBI beginning on page 30.

(4) Restricted stock/restricted stock unit awards. Restricted Stock is discussed under Long-Term Equity Incentives LTPP and Restricted Stock Restricted Stock Awards beginning on page 35.

(5) LTPP award. LTPP awards are discussed under Long-Term Equity Incentives LTPP and Restricted Stock LTPP beginning on page 33.

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Say on Pay. Since 2011, our shareholders have voted, on an advisory basis, on our executive compensation. We have consistently received strong shareholder support, as illustrated below:

		<u>Annual Meeting</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Votes Cast	FOR	Say on Pay Vote	96.5%	95.1%	96.1%	94.2%	93.3%

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RAYTHEON COMPANY

870 Winter Street, Waltham, Massachusetts 02451

PROXY STATEMENT FOR 2016 ANNUAL MEETING OF SHAREHOLDERS

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