RAYTHEON CO/
Form 10-Q
October 27, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended October 2, 2011

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

For the transition period from to

Commission File Number 1-13699

RAYTHEON COMPANY
(Exact name of registrant as specified in its charter)

Delaware	95-1778500
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes S No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes S No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No S

Number of shares of common stock outstanding as of October 24, 2011 was 346,100,000.

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Cautionary Note Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of federal securities laws, including information regarding our financial outlook, future plans, objectives, business prospects, trends and anticipated financial performance including with respect to our liquidity and capital resources, our pension expense and funding, the impact of new accounting pronouncements, our unrecognized tax benefits and the outcome of legal and administrative proceedings, claims, investigations, commitments and contingencies, as well as information regarding domestic and international defense spending and budgets. You can identify these statements by the fact that they include words such as “will,” “believe,” “anticipate,” “expect,” “estimate,” “intend,” “plan,” or variations of these words or sin expressions. These forward-looking statements are not statements of historical facts and represent only our current expectations regarding such matters. These statements inherently involve a wide range of known and unknown uncertainties. Our actual actions and results could differ materially from what is expressed or implied by these statements. Specific factors that could cause such a difference include, but are not limited to, those set forth under Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2010 and other important factors disclosed previously and from time to time in our other filings with the Securities and Exchange Commission (SEC). Given these factors, as well as other variables that may affect our operating results, you should not rely on forward-looking statements, assume that past financial performance will be a reliable indicator of future performance nor use historical trends to anticipate results or trends in future periods. We expressly disclaim any obligation or intention to provide updates to the forward-looking statements and the estimates and assumptions associated with them.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
RAYTHEON COMPANY
CONSOLIDATED BALANCE SHEETS

(In millions, except per share amounts)	(Unaudited) Oct 2, 2011	Dec 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$2,405	$3,638
Contracts in process, net	4,987	4,414
Inventories	423	363
Deferred taxes	148	266
Prepaid expenses and other current assets	149	141
Total current assets	8,112	8,822
Property, plant and equipment, net	1,958	2,003
Deferred taxes	121	106
Goodwill	12,468	12,045
Other assets, net	1,461	1,446
Total assets	$24,120	$24,422
LIABILITIES AND EQUITY		
Current liabilities		
Advance payments and billings in excess of costs incurred	$2,044	$2,201
Accounts payable	1,349	1,538
Accrued employee compensation	1,080	901
Other accrued expenses	1,273	1,320
Total current liabilities	5,746	5,960
Accrued retiree benefits and other long-term liabilities	3,992	4,815
Deferred taxes	363	147
Long-term debt	3,612	3,610
Commitments and contingencies (Note 8)		
Equity		
Raytheon Company stockholders' equity		
Common stock, par value, $0.01 per share, 1,450 shares authorized, 346 and 359 shares outstanding at October 2, 2011 and December 31, 2010, respectively, after deducting 156 and 136 treasury shares at October 2, 2011 and December 31, 2010, respectively.	3	4
Additional paid-in capital	11,640	11,406
Accumulated other comprehensive loss	(4,808)	(5,146)
Treasury stock, at cost	(7,838)	(6,900)
Retained earnings	11,258	10,390
Total Raytheon Company stockholders' equity	10,255	9,754
Noncontrolling interests in subsidiaries	152	136
Total equity	10,407	9,890
Total liabilities and equity	$24,120	$24,422

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

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RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended		Nine Months Ended	
(In millions, except per share amounts)	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011	Sep 26, 2010
Net sales				
Products	$5,131	$5,278	$15,441	$15,560
Services	1,001	994	2,975	2,738
Total net sales	6,132	6,272	18,416	18,298
Operating expenses				
Cost of sales - products	3,982	4,119	12,186	12,426
Cost of sales - services	844	856	2,486	2,371
Administrative and selling expenses	428	394	1,293	1,216
Research and development expenses	153	154	454	482
Total operating expenses	5,407	5,523	16,419	16,495
Operating income	725	749	1,997	1,803
Interest expense	41	33	127	98
Interest income	(5)	(3)	(14)	(10)
Other (income) expense	14	(7)	15	(2)
Non-operating (income) expense, net	50	23	128	86
Income from continuing operations before taxes	675	726	1,869	1,717
Federal and foreign income taxes	166	77	527	388
Income from continuing operations	509	649	1,342	1,329
Income (loss) from discontinued operations, net of tax	1	88	2	76
Net income	510	737	1,344	1,405
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	9	9	21	24
Net income attributable to Raytheon Company	$501	$728	$1,323	$1,381
Basic earnings (loss) per share attributable to Raytheon Company common stockholders:				
Income from continuing operations	$1.43	$1.72	$3.73	$3.47
Income (loss) from discontinued operations, net of tax	—	0.24	—	0.20
Net income	1.43	1.96	3.73	3.67
Diluted earnings (loss) per share attributable to Raytheon Company common stockholders:				
Income from continuing operations	1.43	1.71	3.71	3.43
Income (loss) from discontinued operations, net of tax	—	0.23	—	0.20
Net income	1.43	1.94	3.71	3.63
Amounts attributable to Raytheon Company common stockholders:				
Income from continuing operations	$500	$640	$1,321	$1,305
Income (loss) from discontinued operations, net of tax	1	88	2	76
Net income	$501	$728	$1,323	$1,381

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

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RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

Nine months ended October 2, 2011 and September 26, 2010 (In millions)	Common stock	Additional paid-in capital	Accumulated other comprehensive (loss)	Treasury stock	Retained earnings	Total Raytheon Company stockholders' equity	Noncontrolling interests in subsidiaries	Total equity
Balance at December 31, 2009	$4	$ 10,991	$ (4,824)	$(5,446)	$9,102	$ 9,827	$ 112	$9,939
Net income					1,381	1,381	24	1,405
Other comprehensive income (loss)								
Amortization of unfunded projected benefit obligation			279			279		279
Impact to revalue unfunded projected benefit obligation			(89)			(89)		(89)
Foreign exchange translation			(27)			(27)		(27)
Cash flow hedges			(17)			(17)		(17)
Unrealized gain on investments			(2)			(2)		(2)
Comprehensive (loss) income						1,525	24	1,549
Dividends declared					(418)	(418)		(418)
Distributions and other activity related to noncontrolling interests							(9)	(9)
Common stock plans activity		118				118		118
Warrants exercised		250				250		250
Treasury stock activity				(1,202)		(1,202)		(1,202)
Balance at September 26, 2010	$4	$ 11,359	$ (4,680)	$(6,648)	$10,065	$ 10,100	$ 127	$10,227
Balance at December 31, 2010	$4	$ 11,406	$ (5,146)	$(6,900)	$10,390	$ 9,754	$ 136	$9,890
Net income					1,323	1,323	21	1,344
Other comprehensive income (loss)								
Amortization of unfunded projected benefit obligation			392			392		392
Impact to revalue unfunded projected			(49)			(49)		(49)

benefit obligation								
Foreign exchange translation			(2)			(2)		(2)
Cash flow hedges			(3)			(3)		(3)
Comprehensive (loss) income						1,661	21	1,682
Dividends declared					(455)	(455)		(455)
Distributions and other activity related to noncontrolling interests							(5)	(5)
Common stock plans activity	(1)	111		(1)		109		109
Warrants exercised		123				123		123
Treasury stock activity				(937)		(937)		(937)
Balance at October 2, 2011	$3	$ 11,640	$ (4,808)	$(7,838)	$11,258	$ 10,255	$ 152	$10,407

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

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RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended	
(In millions)	Oct 2, 2011	Sep 26, 2010
Cash flows from operating activities		
Net income	$1,344	$1,405
(Income) loss from discontinued operations, net of tax	(2)	(76)
Income from continuing operations	1,342	1,329
Adjustments to reconcile to net cash provided by (used in) operating activities from continuing operations, net of the effect of acquisitions and divestitures		
Depreciation and amortization	331	311
Stock-based compensation	72	88
Deferred income taxes	84	268
Collection of financing receivables	20	31
Tax benefit from stock-based awards	(14)	(18)
Changes in assets and liabilities		
Contracts in process, net and advance payments and billings in excess of costs incurred	(677)	(273)
Inventories	(51)	31
Prepaid expenses and other current assets	(4)	(2)
Accounts payable	(199)	13
Income taxes receivable / payable	74	94
Accrued employee compensation	162	27
Other accrued expenses	(82)	67
Other long-term liabilities	(55)	(355)
Pension and other postretirement benefit plans	(260)	(489)
Other, net	94	(52)
Net cash provided by (used in) operating activities from continuing operations	837	1,070
Net cash provided by (used in) operating activities from discontinued operations	(48)	7
Net cash provided by (used in) operating activities	789	1,077
Cash flows from investing activities		
Additions to property, plant and equipment	(197)	(184)
Proceeds from sales of property, plant and equipment	27	2
Additions to capitalized internal use software	(74)	(45)
Payments for purchases of acquired companies, net of cash acquired	(551)	(12)
Other	—	(1)
Net cash provided by (used in) investing activities	(795)	(240)
Cash flows from financing activities		
Dividends paid	(440)	(401)
Repurchases of common stock	(937)	(1,200)
Proceeds from warrants exercised	123	250
Activity under common stock plans	20	12
Tax benefit from stock-based awards	14	18
Other	(7)	(9)
Net cash provided by (used in) financing activities	(1,227)	(1,330)
Net increase (decrease) in cash and cash equivalents	(1,233)	(493)
Cash and cash equivalents at beginning of the year	3,638	2,642
Cash and cash equivalents at end of period	$2,405	$2,149

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

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RAYTHEON COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1: Basis of Presentation

We prepared the accompanying unaudited consolidated financial statements of Raytheon Company and all wholly-owned and majority-owned domestic and otherwise controlled foreign subsidiaries on the same basis as our annual audited financial statements.

In the opinion of management, our financial statements reflect all adjustments, which are of a normal recurring nature, necessary for presentation of financial statements for interim periods in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and with the instructions to Form 10-Q in Article 10 of Securities and Exchange Commission (SEC) Regulation S-X. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates, and any such differences may be material to our financial statements. In addition, we reclassified certain prior year amounts to conform with our current year presentation. As used in this report, the terms “we,” “us,” “our,” “Raytheon” and the “Company” mean Raytheon Company and its subsidiaries, unless the context indicates another meaning.

We condensed or omitted certain information and footnote disclosures normally included in our annual audited financial statements, which we prepared in accordance with GAAP. Our quarterly financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010.

We have evaluated subsequent events through the time of filing our Quarterly Report on Form 10-Q with the SEC.

2: Inventories

Inventories consisted of the following at:

(In millions)	Oct 2, 2011	Dec 31, 2010
Materials and purchased parts	$64	$63
Work in process	342	278
Finished goods	17	22
Total	$423	$363

We capitalize costs incurred in advance of contract award or funding in inventories if we determine contract award or funding is probable. To the extent these are pre-contract costs, start-up costs have been excluded. We included capitalized pre-contract and other deferred costs of $179 million and $116 million in inventories as work in process at October 2, 2011 and December 31, 2010, respectively.

3: Accounting Standards

New pronouncements issued but not effective until after October 2, 2011 are not expected to have a material impact on our financial position, results of operations or liquidity.

4: Acquisitions

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

On June 14, 2011, we acquired substantially all the assets of Ktech Corporation (Ktech) for $51 million in cash, exclusive of retention and management incentive payments. Ktech is in the business of pulsed power, directed energy, information technology and advanced manufacturing. The acquisition is part of our strategy to extend and enhance our Missile Systems (MS) offerings. In connection with this transaction we have recorded $35 million of goodwill related to expected synergies from combining operations and the value of the existing workforce, and $8 million of intangible assets. Pro-forma financial information has not been provided for this acquisition since it is not material.

On January 31, 2011, we acquired Applied Signal Technology, Inc., subsequently renamed Raytheon Applied Signal Technology, Inc. (RAST), for $500 million in cash, net of $25 million of cash and cash equivalents acquired, and exclusive of retention and management incentive payments. RAST provides advanced intelligence, surveillance and reconnaissance

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solutions to enhance global security. The acquisition is part of our strategy to extend and enhance our Space and Airborne Systems (SAS) offerings related to certain classified and Department of Defense markets. Pro forma financial information has not been provided for this acquisition since it is not material.
We allocated the purchase price for this acquisition as follows:

(In millions)	Purchase Price Allocation
Current assets	$ 72
Other non-current assets	3
Property and equipment	15
Goodwill	387
Intangible assets	89
Current liabilities	(29)
Other long-term liabilities	(37)
Fair value of net assets acquired	$ 500

In connection with this acquisition, we recorded $387 million of goodwill, all of which was allocated to the Company's SAS segment, primarily related to expected synergies from combining operations and the value of RAST's assembled workforce, and $89 million in intangible assets, primarily related to contractual relationships, license agreements and trade names with a weighted average life of 7 years.
In January 2010, we acquired substantially all of the assets of an Australian company, Compucat Research Pty. Ltd., at Intelligence and Information Systems (IIS) for $12 million in cash, which enhances our information security and cybersecurity capabilities. In connection with this acquisition, we recorded $4 million of goodwill and $2 million of intangible assets.
A rollforward of our goodwill by segment was as follows:

(In millions)	Integrated Defense Systems	Intelligence and Information Systems	Missile Systems	Network Centric Systems	Space and Airborne Systems	Technical Services	Total
Balance at December 31, 2010	$765	$ 1,698	$3,432	$2,616	$2,663	$871	$12,045
Acquisitions	—	—	35	—	387	—	422
Effect of foreign exchange rates and other	—	1	—	—	—	—	1
Balance at October 2, 2011	$765	$ 1,699	$3,467	$2,616	$3,050	$871	$12,468

5: Discontinued Operations
In pursuing our business strategies, we have divested certain non-core businesses, investments and assets when appropriate. All residual activity relating to our previously disposed businesses appears in discontinued operations. We retained certain assets and liabilities of our previously disposed businesses. At October 2, 2011 and December 31, 2010, we had $28 million and $41 million, respectively, of assets primarily related to our retained interest in general aviation finance receivables previously sold by Raytheon Aircraft Company (Raytheon Aircraft). At October 2, 2011 and December 31, 2010, we had $52 million and $113 million, respectively, of liabilities primarily related to certain environmental and product liabilities, non-income tax obligations, various contract obligations and aircraft lease obligations. We also retained certain U.K. pension assets and obligations for a limited number of U.K. pension plan participants as part of the Raytheon Aircraft sale, which we include in our pension disclosures.

In the divestiture of Flight Options LLC (Flight Options), Raytheon agreed to indemnify Flight Options in the event Flight Options was assessed and paid excise taxes. In the fourth quarter of 2010, Internal Revenue Service (IRS) appeals proceedings failed to resolve the federal excise tax dispute, and as a result, the IRS assessed Flight Options for excise taxes. As a result, in the fourth quarter of 2010 we recorded a $39 million charge, net of federal tax benefit, in discontinued operations. In the first quarter of 2011, Flight Options paid the assessment. On behalf of Flight Options, we intend to vigorously contest the matter through litigation and, if successful, we would be entitled to recover substantially all of the amounts paid. We also have certain

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income tax obligations relating to disposed businesses.

6: Fair Value Measurements

The estimated fair value of certain financial instruments, including cash and cash equivalents, approximates the carrying value due to their short maturities. The estimated fair value of notes receivable approximates the carrying value based principally on their underlying interest rates and terms, maturities, collateral and credit status of the receivables. The carrying value of long-term debt of $3,612 million and $3,610 million at October 2, 2011 and December 31, 2010, respectively, was recorded at amortized cost. The estimated fair value of long-term debt of $4,146 million and $3,783 million at October 2, 2011 and December 31, 2010, respectively, was based on quoted market prices.

We did not have any significant nonfinancial assets or nonfinancial liabilities that would be recognized or disclosed at fair value on a recurring basis as of October 2, 2011 and December 31, 2010. We did not have any transfers of assets or liabilities between levels of the fair value hierarchy during the nine months ended October 2, 2011 or the year ended December 31, 2010.

Assets and liabilities measured at fair value on a recurring basis consisted of the following at:

(In millions)	Level 1	Level 2	Level 3	Balances at Oct. 2, 2011
Assets				
Marketable securities	$348	$—	$—	$348
Foreign currency forward contracts	28	—	—	28
Liabilities				
Deferred compensation	218	—	—	218
Foreign currency forward contracts	37	—	—	37

(In millions)	Level 1	Level 2	Level 3	Balances at Dec. 31, 2010
Assets				
Marketable securities	$344	$—	$—	$344
Foreign currency forward contracts	45	—	—	45
Liabilities				
Deferred compensation	215	—	—	215
Foreign currency forward contracts	41	—	—	41

7: Derivative Financial Instruments

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

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

	Asset Derivatives		Liability Derivatives	
(In millions)	Oct 2, 2011	Dec 31, 2010	Oct 2, 2011	Dec 31, 2010
Derivatives designated as hedging instruments	$15	$32	$22	$28
Derivatives not designated as hedging instruments	13	13	15	13
Total	$28	$45	$37	$41

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We recognized the following pretax gains (losses) related to foreign currency forward contracts designated as cash flow hedges:

	Three Months Ended		Nine Months Ended	
(In millions)	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011	Sep 26, 2010
Effective Portion				
Gain (loss) recognized in accumulated other comprehensive loss (AOCL)	$(12)	$8	$(1)	$2
Gain (loss) reclassified from AOCL to net sales	—	1	1	2
Gain (loss) reclassified from AOCL to cost of sales	4	4	10	27
Amount excluded from effectiveness assessment and ineffective portion				
Gain (loss) recognized in cost of sales	$—	$—	$—	$—

We recognized the following pretax gains (losses) related to foreign currency forward contracts not designated as cash flow hedges:

	Three Months Ended		Nine Months Ended	
(In millions)	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011	Sep 26, 2010
Gain (loss) recognized in cost of sales	$(4)	$(2)	$3	$(7)

There were no interest rate swaps outstanding at October 2, 2011 or December 31, 2010.

The notional amounts of outstanding foreign currency forward contracts consisted of the following at:

	Oct 2, 2011		Dec 31, 2010	
(In millions)	Buy	Sell	Buy	Sell
British Pounds	$336	$286	$370	$296
Canadian Dollars	180	66	220	51
Euros	149	33	165	32
All other	97	15	85	39
Total	$762	$400	$840	$418

Buy amounts represent the U.S. Dollar equivalent of commitments to purchase foreign currencies and sell amounts represent the U.S. Dollar equivalent of commitments to sell foreign currencies. Foreign currency forward contracts that do not involve U.S. Dollars have been converted to U.S. Dollars for disclosure purposes.

Our foreign currency forward contracts contain off-set, or netting provisions, to mitigate credit risk in the event of counterparty default, including payment default and cross default. At October 2, 2011, and December 31, 2010, these netting provisions effectively reduced our exposure to approximately $11 million and $4 million, respectively, which is spread across numerous highly rated counterparties.

8: Commitments and Contingencies

Environmental Matters - We are involved in various stages of investigation and cleanup related to remediation of various environmental sites. Our total estimated liability for environmental remediation costs includes the use of a discount rate and considers that a portion of these costs is eligible for future recovery through the pricing of our products and services to the U.S. Government. We consider such recovery probable based on government contracting regulations and our long history of receiving reimbursement for such costs and accordingly have recorded the estimated future recovery of these costs from the U.S. Government within contracts in process. Our estimates of total remediation costs - undiscounted, weighted average risk-free rate, total remediation costs - discounted and recoverable portion were as follows:

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(In millions, except percentages)	Oct 2, 2011	Dec 31, 2010
Total remediation costs – undiscounted	$228	$225
Weighted average risk-free rate	5.7 %	5.6 %
Total remediation costs – discounted	$158	$152
Recoverable portion	110	107

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

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

Financing Arrangements and Other - We issue guarantees and banks and surety companies issue, on our behalf, letters of credit and surety bonds to meet various bid, performance, warranty, retention and advance payment obligations of us or our affiliates. These instruments expire on various dates through 2021. Additional guarantees of project performance for which there is no stated value also remain outstanding. The stated values outstanding at October 2, 2011 and December 31, 2010 were as follows:

(In millions)	Oct 2, 2011	Dec 31, 2010
Guarantees	$244	$281
Letters of Credit	1,308	1,067
Surety Bonds	233	213

Included in guarantees and letters of credit were $97 million and $260 million, respectively, at October 2, 2011, and $134 million and $256 million, respectively, at December 31, 2010, related to our joint venture in Thales-Raytheon Systems Co. Ltd. (TRS). We provide these guarantees and letters of credit to TRS and other affiliates to assist these entities in obtaining financing on more favorable terms, making bids on contracts and performing their contractual obligations. While we expect these entities to satisfy their loans, project performance and other contractual obligations, their failure to do so may result in a future obligation to us. We periodically evaluate the risk of TRS and other affiliates failing to satisfy their loans, project performance and meet other contractual obligations described above. At October 2, 2011, we believe the risk that TRS and other affiliates will not be able to perform or meet their obligations is minimal for the foreseeable future based on their current financial condition. All obligations were current at October 2, 2011. At October 2, 2011 and December 31, 2010, we had an estimated liability of $6 million and $9 million, respectively, related to guarantees and letters of credit.

Included in letters of credit at December 31, 2010 was approximately $80 million provided by Raytheon Systems Limited (RSL) to the UK Border Agency (UKBA) in connection with a UKBA program. On April 6, 2011, the UKBA drew approximately $80 million on the letters of credit as described below.

In 1997, we provided a first loss guarantee of $133 million on $1.3 billion of U.S. Export-Import Bank loans (maturing in 2015) to the Brazilian Government related to Network Centric Systems' System for the Vigilance of the Amazon program. Loan repayments by the Brazilian Government were current at October 2, 2011.

We have entered into industrial cooperation agreements, sometimes referred to as offset agreements, as a condition to obtaining orders for our products and services from certain customers in foreign countries. At October 2, 2011, the aggregate amount of our offset agreements had an outstanding notional value of approximately $5 billion. These agreements are designed to return economic value to the foreign country by requiring the contractor to engage in activities supporting local defense or commercial industries, promoting a balance of trade, developing in-country technology capabilities, or addressing other local development priorities. Offset agreements may be satisfied through activities that do not require a direct cash payment, including transferring technology, providing manufacturing, training and other consulting support to in-country projects, and the purchase by third parties (e.g., our vendors) of supplies from in-country vendors. These agreements may also be satisfied through our use of cash for activities such as subcontracting with local partners, purchasing supplies from in-country vendors, providing financial support for in-country projects, and making investments in local ventures. Such activities may also vary country-by-country depending upon requirements as dictated by their governments. We typically do not commit to offset agreements until orders for our products or services are definitive. The amounts ultimately applied against our offset agreements are based on negotiations with the customers and typically require cash outlays that represent only a fraction of the notional value in the offset agreements. Offset programs usually extend over several or more years and may provide for penalties in the event we fail to perform in accordance with offset requirements. We have historically not been required to pay

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any such penalties.

Government contractors are subject to many levels of audit and investigation. Agencies that oversee contract performance include: the Defense Contract Audit Agency, the Defense Contract Management Agency, the Inspector General of the Department of Defense and other departments and agencies, the Government Accountability Office, the Department of Justice and Congressional Committees. The Department of Justice has, from time to time, convened grand juries to investigate possible irregularities by us. We also provide products and services to customers outside of the U.S. and those sales are subject to local government laws, regulations and procurement policies and practices. Our compliance with such local government regulations or any applicable U.S. Government regulations (e.g., the Foreign Corrupt Practices Act and the International Traffic in Arms Regulations) may also be investigated or audited. We do not expect these audits and investigations to have a material adverse effect on our financial position, results of operations or liquidity, either individually or in the aggregate.

We are currently conducting a self-initiated internal review of certain of our international operations, focusing on compliance with the Foreign Corrupt Practices Act. In the course of the review, we have identified several possible areas of concern relating to payments made in connection with certain international operations related to a jurisdiction where we do business. We have voluntarily contacted the SEC and the Department of Justice to advise both agencies that an internal review is underway. Because the internal review is ongoing, we cannot predict the ultimate consequences of the review. Based on the information available to date, we do not believe that the results of this review will have a material adverse effect on our financial position, results of operations or liquidity.

On July 22, 2010, RSL was notified by the UKBA that it had been terminated for cause on a program. The termination notice included allegations that RSL had failed to perform on certain key milestones and other matters in addition to claiming entitlement to recovery of certain losses incurred and previous payments made to RSL. We believe that RSL performed well and delivered substantial capabilities to the UKBA under the program, which has been operating successfully and providing actionable information since live operations began in May 2009. As a result of the termination notice, we adjusted our estimated amount of revenue and costs under the program in the second quarter of 2010 (UKBA Program Adjustment). The impact of the UKBA Program Adjustment reduced IIS' total net sales and operating income by $316 million and $395 million, respectively, for the nine months ended September 26, 2010. The UKBA Program Adjustment also reduced total company diluted earnings per share from continuing operations by $0.72 in the nine months ended September 26, 2010. On July 29, 2010, RSL filed a dispute notice on the grounds that the termination by the UKBA was not valid. On August 18, 2010, the UKBA initiated arbitration proceedings on this issue. On March 22, 2011, the UKBA gave notice that it had presented a demand to draw on the approximately $80 million of letters of credit provided by RSL upon the signing of the contract with the UKBA in 2007. On March 23, 2011, the UKBA submitted a detailed claim in the arbitration of approximately £350 million (approximately $550 million based on foreign exchange rates as of October 2, 2011) for damages and clawback of previous payments, plus interest and arbitration costs, excluding any credit for capability delivered or draw on the letters of credit. The UKBA also asserted that additional amounts may be detailed in the claim in the future if estimates of its damages change, and for continuing post-termination losses and any re-procurement costs, which have not been quantified. In June 2011, RSL submitted in the arbitration its defenses to the UKBA claim as well as substantial counterclaims in the amount of approximately £500 million (approximately $780 million based on foreign exchange rates as of October 2, 2011) against the UKBA for the collection of receivables and damages. On October 3, 2011, the UKBA filed its reply to RSL's counterclaims, and increased its claim amount by approximately £32 million, to include additional civil service and post termination costs, and approximately £33 million for interest, raising the total gross amount of the UKBA claim for damages and clawback of previous payments to approximately £415 million (approximately $650 million based on foreign exchange rates as of October 2, 2011). RSL intends to pursue vigorously the collection of all receivables for the program and damages in connection with the wrongful termination and will mount a strong defense to the UKBA's alleged claims for losses and previous payments. RSL has also settled substantially all subcontractor claims, novated all key subcontracts to the UKBA and agreed with the UKBA that RSL's exit obligations to operate the previously delivered capability would end in April 2011. Effective April 15, 2011, the UKBA took over responsibility for operating the previously delivered capability.

At RSL’s request, on March 29, 2011, the Arbitration Tribunal issued an interim order restraining the UKBA from drawing down on the letters of credit pending a hearing on the issue. Following the hearing, the Tribunal lifted the restraint on the basis that, at this early stage of the proceedings, the Tribunal had not heard the evidence needed to decide the merits of whether the contractual conditions for a drawdown had been established. The Tribunal also concluded that any decision on the UKBA’s right to call on the letters of credit is inextricably intertwined with the ultimate decision on the merits in the arbitration. The Tribunal also preserved RSL’s right to claim damages should RSL later establish that the drawdown was not valid. As a result, on April 6, 2011, the UKBA drew the $80 million on the letters of credit.

As a result of the Tribunal’s decision that the letters of credit are inextricably intertwined with the ultimate decision on the merits in the arbitration, we were no longer able to evaluate, independently from the overall claim, the probability of recovery of any amounts drawn on the letters of credit. We therefore recorded $80 million of costs related to the UKBA drawdown,

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which is included in IIS' operating expenses in the first quarter of 2011. The receivables and other assets remaining under the program for technology and services delivered decreased by $30 million from approximately $70 million at December 31, 2010 to approximately $40 million at October 2, 2011 which was impacted by collections on certain outstanding receivables. We believe the remaining receivables and other assets are probable of recovery in litigation or arbitration. We currently do not believe it is probable that RSL is liable for losses, previous payments (which includes the $80 million related to the drawdown on the letters of credit), clawback or other claims asserted by the UKBA either in its March 2011 arbitration filing or its October 2011 reply. Due to the inherent uncertainties in litigation and arbitration and the complexity and technical nature of actual and potential claims and counterclaims, it is reasonably possible that the ultimate amount of any resolution of the termination could be less or greater than the amounts we have recorded. For the same reasons, at this time, we are unable to estimate a range of the possible loss or recovery, if any, beyond the claim and counterclaim amounts. If we fail to collect the receivable balances or are required to make payments against claims or other losses asserted by the UKBA in excess of the amounts we have recorded, it could have a material adverse effect on our financial position, results of operations or liquidity. Arbitration hearings are scheduled to commence in late 2012 and we expect to have a decision in 2013.

In addition, various other claims and legal proceedings generally incidental to the normal course of business are pending or threatened against us. We do not expect any additional liability from these proceedings to have a material adverse effect on our financial position, results of operations or liquidity.

Product Warranty – We provide product warranties in conjunction with certain product sales for which we recognize revenue upon delivery.

Activity related to our product warranty accruals was as follows:

	Three Months Ended		Nine Months Ended	
(In millions)	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011	Sep 26, 2010
Balance at beginning of period	$43	$40	$43	$39
Provisions for warranties	1	7	6	13
Warranty services provided	(3)	(7)	(8)	(12)
Balance at end of period	$41	$40	$41	$40

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

9: Stockholders' Equity

Repurchases of our common stock under our share repurchase programs were as follows:

	Nine Months Ended	
(In millions)	Oct 2, 2011	Sep 26, 2010
Amount of stock repurchased	$937	$1,200
Shares of stock repurchased	20.1	23.7

In March 2010, our Board of Directors authorized the repurchase of $2.0 billion of our outstanding common stock. In September 2011, our Board of Directors authorized the repurchase of up to an additional $2.0 billion of our outstanding common stock. At October 2, 2011, we had approximately $2.5 billion available under these repurchase programs. Share repurchases will take place from time to time at management's discretion depending on market conditions.

In March 2011, our Board of Directors authorized a 15% increase to our annual dividend payout rate from $1.50 to $1.72 per share. Our Board of Directors also declared three dividends totaling $1.29 per share during the nine months ended October 2, 2011, compared to three dividends totaling $1.125 per share during the nine months ended September 26, 2010. Dividends are subject to quarterly approval by our Board of Directors.

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The changes in shares of our common stock outstanding for the nine months ended October 2, 2011 were as follows:

(In millions)	Shares
Balance at December 31, 2010	359.4
Warrants exercised	3.3
Stock plan activity	3.3
Treasury stock repurchases	(20.1)
Balance at October 2, 2011	345.9

Earnings Per Share (EPS)

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

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

	Three Months Ended		Nine Months Ended	
	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011	Sep 26, 2010
Basic EPS attributable to Raytheon Company common stockholders:				
Distributed earnings	$0.42	$0.37	$1.28	$1.11
Undistributed earnings	1.01	1.35	2.45	2.36
Total	$1.43	$1.72	$3.73	$3.47
Diluted EPS attributable to Raytheon Company common stockholders:				
Distributed earnings	$0.42	$0.36	$1.28	$1.10
Undistributed earnings	1.01	1.35	2.43	2.33
Total	$1.43	$1.71	$3.71	$3.43

Basic EPS from discontinued operations attributable to Raytheon Company common stockholders and unvested share-based payment awards were a loss of less than $0.01 and income of $0.24 for the three months ended October 2, 2011 and September 26, 2010, respectively, and were income of less than $0.01 and $0.20 for the nine months ended October 2, 2011 and September 26, 2010, respectively. Diluted EPS from discontinued operations attributable to Raytheon Company common stockholders and unvested share-based payment awards was a loss of less than $0.01 and income of $0.23 for the three months ended October 2, 2011 and September 26, 2010, respectively, and income of less than $0.01 and $0.20 for the nine months ended October 2, 2011 and September 26, 2010, respectively.

The amount of income from continuing operations attributable to participating securities was $8 million and $10 million for the three months ended October 2, 2011 and September 26, 2010, respectively, and was $22 million and $21 million for the nine months ended October 2, 2011 and September 26, 2010, respectively. The amount of income (loss) from discontinued operations attributable to participating securities was a loss of less than $1 million for the three months and nine months ended October 2, 2011 and income of $1 million for the three months and nine months ended September 26, 2010. The amount of net income attributable to participating securities was $8 million and $12 million for the three months ended October 2, 2011 and September 26, 2010, respectively, and was $22 million for the nine months ended October 2, 2011 and September 26, 2010.

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

	Three Months Ended		Nine Months Ended	
(In millions)	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011	Sep 26, 2010
Shares for basic EPS (including 5.9 participating securities for the three months ended October 2, 2011 and September 26, 2010 and 5.8 and 6.0 for the nine months ended October 2, 2011 and September 26, 2010)	350.5	371.7	354.3	375.9
Dilutive effect of stock options and LTPP	0.9	1.8	1.4	2.6
Dilutive effect of warrants	—	1.0	0.7	2.2
Shares for diluted EPS	351.4	374.5	356.4	380.7

The following stock options with exercise prices less than the average market price were included in our calculations of EPS and stock options with exercise prices greater than the average market price were excluded from our calculation of EPS, as the effect in including them would be anti-dilutive:

	Three Months Ended		Nine Months Ended	
(In millions)	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011	Sep 26, 2010
Stock options included in calculations of EPS	2.0	6.8	4.5	6.8
Stock options excluded from calculation of EPS	2.5	—	—	—

Warrants to purchase 5.3 million shares of our common stock, with an exercise price of $37.50 per share and an expiration date in June 2011, were outstanding and included in our calculations of diluted EPS at September 26, 2010. As of October 2, 2011, all of these warrants had expired or been exercised.

Stock-based compensation plans

Restricted stock activity for the nine months ended October 2, 2011 was as follows:

(In millions)	Shares
Outstanding unvested at December 31, 2010	5.4
Granted	2.1
Vested	(1.6)
Forfeited	(0.2)
Outstanding unvested at October 2, 2011	5.7

During the nine months ended October 2, 2011 and September 26, 2010, we issued 0.5 million and 0.8 million shares, respectively, of our common stock in connection with the vesting of our 2008-2010 and 2007-2009 Long-Term Performance Plan (LTPP) awards. During the same periods, we also granted our 2011-2013 and 2010-2012 LTPP awards with an aggregate target award of 0.5 million and 0.4 million units, respectively.

The performance goals for the 2011-2013 LTPP award are independent of each other and based on three metrics, as defined in the award agreements: return on invested capital, weighted at 50%; total shareholder return relative to a peer group, weighted at 25%; and cumulative free cash flow, weighted at 25%. The ultimate award, which is determined at the end of the three-year cycle, can range from zero to 200% of the target award and includes dividend equivalents, which are not included in the aggregate target award numbers.

10: Pension and Other Employee Benefits

We have pension plans covering the majority of our employees, including certain employees in foreign countries. We also provide certain health care and life insurance benefits to retired employees through other postretirement benefit plans.

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The components of net periodic pension expense were as follows:

(In millions)	Three Months Ended Oct 2, 2011	Three Months Ended Sep 26, 2010	Nine Months Ended Oct 2, 2011	Nine Months Ended Sep 26, 2010
Service cost	$107	$114	$353	$332
Interest cost	270	269	801	794
Expected return on plan assets	(315)	(303)	(953)	(912)
Amortization of prior service cost	2	4	9	10
Recognized net actuarial loss	196	158	594	447
Net periodic pension expense	$260	$242	$804	$671

Our net periodic pension expense included expense from foreign benefit plans of $2 million and $6 million in the three months ended October 2, 2011 and September 26, 2010, respectively, and $9 million and $16 million in the nine months ended October 2, 2011 and September 26, 2010, respectively.

The components of net periodic cost (income) related to our other postretirement benefit plans were as follows:

(In millions)	Three Months Ended Oct 2, 2011	Three Months Ended Sep 26, 2010	Nine Months Ended Oct 2, 2011	Nine Months Ended Sep 26, 2010
Service cost	$2	$2	$6	$7
Interest cost	10	12	31	36
Expected return on plan assets	(9)	(9)	(26)	(24)
Amortization of transition asset	1	1	3	3
Amortization of prior service cost	(2)	(11)	(7)	(34)
Recognized net actuarial loss	1	—	2	3
Net periodic cost (income)	$3	$(5)	$9	$(9)

Long-term pension and other postretirement benefit plan liabilities were $3,333 million and $325 million, respectively, at October 2, 2011, and $4,093 million and $339 million, respectively, at December 31, 2010.

On a periodic basis, generally planned annually in the third quarter, we update our actuarial estimate of the unfunded projected benefit obligation with final census and investment valuation data for the end of the prior year. As a result of this update, in the three and nine months ended October 2, 2011, we recorded a $125 million increase and a $12 million decrease to the unfunded projected benefit obligation for our pension and other postretirement benefit plans, respectively, with a corresponding net after-tax increase of $73 million to AOCL. As a result of this update, our annual FAS/CAS Pension Adjustment (as described in Note 12) changed by $27 million of reduced expense, $16 million of which was recorded in the three and nine months ended October 2, 2011.

We make both required and discretionary contributions to our pension plans. Required contributions are primarily determined under ERISA rules and are affected by the actual return on plan assets and plan funded status. Effective January 1, 2011, we are subject to the funding requirements under the Pension Protection Act of 2006 (PPA), which amended ERISA. Under the PPA, we are required to fully fund our pension plans over a rolling seven-year period as determined annually based upon the funded status at the beginning of the year. We made required contributions of $1,073 million and $1,151 million during the nine months ended October 2, 2011 and September 26, 2010, respectively, to our pension and other postretirement benefit plans. We did not make any discretionary contributions to our pension plans during the nine months ended October 2, 2011 and September 26, 2010, however, we periodically evaluate whether to make discretionary contributions.

11: Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. The Internal Revenue Service (IRS) has completed their examination of our tax returns through 2008. During the third quarter of 2011, we received final approval from the IRS and the U.S. Congressional Joint Committee on Taxation of a Minimum Tax Refund claim for the 2006-2008 IRS examination cycle (2011 Tax Settlement). As a result, our unrecognized tax benefits decreased by approximately $60 million, inclusive of $14 million of interest, all of which increased our earnings.

We are currently under IRS examination for the 2009 and 2010 tax years. The IRS selected Raytheon to participate in the Compliance Assurance Process (CAP) program for 2011. CAP is a method of identifying and resolving tax issues through open, cooperative, and transparent interaction with the IRS prior to the filing of a return. Through the CAP program, we expect

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to achieve tax certainty sooner and with less administrative burden than conventional post-filing examinations. This program will most likely shorten and narrow the scope of the the post-filing examinations. We are also under audit by multiple state and foreign tax authorities.

We believe that our income tax reserves are adequate; however, amounts asserted by taxing authorities could be greater or less than amounts accrued and reflected in our consolidated balance sheets. Accordingly, we could record adjustments to the amounts for federal, foreign and state tax-related liabilities in the future as we revise estimates or as we settle or otherwise resolve the underlying matters.

The balance of our unrecognized tax benefits, exclusive of interest, was $152 million at October 2, 2011 and $188 million at December 31, 2010. If recognized, all of our unrecognized tax benefits will affect our earnings. During the nine months ended October 2, 2011, the $36 million net decrease in the balance of our unrecognized tax benefits is primarily a result of the 2011 Tax Settlement. The balance of our unrecognized tax benefits, exclusive of interest, was $184 million at September 26, 2010 and $469 million at December 31, 2009. During the nine months ended September 26, 2010, the $285 million decrease to our unrecognized tax benefits was primarily due to the resolution of the IRS' examination of our 1998-2005 tax years (2010 Tax Settlement).

We accrue interest and penalties related to unrecognized tax benefits in tax expense. At October 2, 2011 and December 31, 2010, we had $9 million and $33 million, respectively, of interest and penalties accrued related to unrecognized tax benefits, which, net of the federal tax benefit, was approximately $6 million and $23 million, respectively. The decrease in the balance is primarily as a result of the 2011 Tax Settlement. In the ordinary course of business, we may take new positions that could increase or decrease our unrecognized tax benefits in future periods.

12: Business Segment Reporting

Our reportable segments, organized based on capabilities and technologies, are: Integrated Defense Systems, Intelligence and Information Systems, Missile Systems, Network Centric Systems, Space and Airborne Systems and Technical Services. Segment net sales and operating income generally include intersegment sales and profit recorded at cost plus a specified fee, which may differ from what the selling entity would be able to obtain on sales to external customers. Corporate and Eliminations includes corporate expenses and intersegment sales and profit eliminations. Corporate expenses represent unallocated costs and certain other corporate costs not considered part of management’s evaluation of reportable segment operating performance, including the net costs associated with our residual turbo-prop commuter aircraft portfolio. We continue to have exposure to certain outstanding financing arrangements through our residual turbo-prop commuter aircraft portfolio. At October 2, 2011, our exposure on commuter aircraft assets held as inventory, collateral on notes or as leased assets decreased by $36 million to approximately $32 million relating to 37 aircraft from approximately $68 million relating to 77 aircraft at December 31, 2010. The carrying value of our commuter aircraft portfolio assumes an orderly disposition of these assets, consistent with our historical experience and strategy. We periodically evaluate potential alternative strategies for the disposal of these assets. If we were to dispose of these assets in an other than orderly manner or sell the portfolio in its entirety, the value realized would likely be less than the carrying value.

We had presented the difference between our pension expense or income under Financial Accounting Standards (FAS) in accordance with GAAP and our pension expense under U.S. Government cost accounting standards (CAS), the FAS/CAS Pension Adjustment, as a separate line in our segment results. As previously reported in the Company’s 2010 Annual Report on Form 10-K, beginning in 2011, in order to more clearly show each business’ underlying operational performance, we began treating for management reporting purposes the difference between our postretirement benefits (PRB) expense or income under FAS and our PRB expense under CAS, the FAS/CAS PRB Adjustment, consistent with the FAS/CAS Pension Adjustment, as more fully described below. Accordingly, we changed our segment presentation to exclude from each business the amounts related to the FAS/CAS PRB Adjustment, and present the FAS/CAS Adjustment, which represents the combination of the FAS/CAS Pension Adjustment and FAS/CAS PRB Adjustment, as a separate line in our segment results. Prior period segment results were revised to reflect this change.

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Revised segment operating income for the fiscal quarters and year ended 2010 were as follows:

	Three Months Ended				Year Ended
(In millions)	Mar 28, 2010	Jun 27, 2010	Sep 26, 2010	Dec 31, 2010	Dec 31, 2010
Integrated Defense Systems	$208	$218	$206	$238	$870
Intelligence and Information Systems	48	(330)	58	67	(157)
Missile Systems	157	162	161	170	650
Network Centric Systems	163	164	169	196	692
Space and Airborne Systems	156	169	188	163	676
Technical Services	67	71	77	82	297
FAS/CAS Adjustment	(42)	(44)	(52)	(49)	(187)
Corporate and Eliminations	(48)	(65)	(58)	(63)	(234)
Total	$709	$345	$749	$804	$2,607

Segment financial results were as follows:

	Three Months Ended		Nine Months Ended	
Total Net Sales (In millions)	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011	Sep 26, 2010
Integrated Defense Systems	$1,176	$1,319	$3,667	$4,007
Intelligence and Information Systems	760	735	2,262	1,937
Missile Systems	1,413	1,391	4,108	4,167
Network Centric Systems	1,104	1,227	3,360	3,608
Space and Airborne Systems	1,305	1,238	3,914	3,530
Technical Services	817	873	2,467	2,508
Corporate and Eliminations	(443)	(511)	(1,362)	(1,459)
Total	$6,132	$6,272	$18,416	$18,298

	Three Months Ended		Nine Months Ended	
Intersegment Sales (In millions)	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011	Sep 26, 2010
Integrated Defense Systems	$18	$23	$53	$75
Intelligence and Information Systems	3	2	9	11
Missile Systems	12	27	50	73
Network Centric Systems	113	129	360	360
Space and Airborne Systems	125	164	377	438
Technical Services	188	177	560	525
Total	$459	$522	$1,409	$1,482

	Three Months Ended		Nine Months Ended	
Operating Income (In millions)	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011	Sep 26, 2010
Integrated Defense Systems	$204	$206	$600	$632
Intelligence and Information Systems	58	58	85	(224)
Missile Systems	178	161	484	480
Network Centric Systems	162	169	492	496
Space and Airborne Systems	171	188	503	513
Technical Services	75	77	228	215
FAS/CAS Adjustment	(75)	(52)	(254)	(138)
Corporate and Eliminations	(48)	(58)	(141)	(171)
Total	$725	$749	$1,997	$1,803

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As described above, the FAS/CAS Pension Adjustment and FAS/CAS PRB Adjustment represent the difference between our pension and PRB expense or income under FAS and our pension and PRB expense under CAS, respectively. GAAP outlines the methodology used to determine pension and PRB expense or income for financial reporting purposes, which is not necessarily indicative of the funding requirements for pension plans that we determine by other factors. CAS prescribes the allocation to and recovery of pension and PRB costs on U.S. Government contracts. The results of each segment only include pension and PRB expense as determined under CAS that we generally recover through the pricing of our products and services to the U.S. Government.
The components of our FAS/CAS Adjustment were as follows:

	Three Months Ended		Nine Months Ended	
(in millions)	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011	Sep 26, 2010
FAS/CAS Pension Adjustment	$(76)	$(62)	$(255)	$(170)
FAS/CAS PRB Adjustment	1	10	1	32
FAS/CAS Adjustment	$(75)	$(52)	$(254)	$(138)

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

	Three Months Ended		Nine Months Ended	
(In millions)	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011	Sep 26, 2010
Intersegment profit eliminations	$(45)	$(46)	$(136)	$(133)
Corporate	(3)	(12)	(5)	(38)
Total	$(48)	$(58)	$(141)	$(171)

	Three Months Ended		Nine Months Ended	
Intersegment Operating Income (In millions)	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011	Sep 26, 2010
Integrated Defense Systems	$2	$1	$4	$5
Intelligence and Information Systems	1	—	1	1
Missile Systems	4	4	8	10
Network Centric Systems	11	11	37	29
Space and Airborne Systems	10	14	33	39
Technical Services	17	16	53	49
Total	$45	$46	$136	$133

Identifiable Assets (In millions)	Oct 2, 2011	Dec 31, 2010
Integrated Defense Systems	$1,930	$1,849
Intelligence and Information Systems	2,375	2,374
Missile Systems	5,287	4,921
Network Centric Systems	4,299	4,409
Space and Airborne Systems	4,791	4,232
Technical Services	1,400	1,376
Corporate	4,038	5,261
Total	$24,120	$24,422

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With respect to the unaudited consolidated financial information of Raytheon Company for the three and nine months ended October 2, 2011 and September 26, 2010, PricewaterhouseCoopers LLP (PricewaterhouseCoopers) reported that it has applied limited procedures in accordance with professional standards for a review of such information. Its report dated October 27, 2011, appearing below, states that the firm did not audit and does not express an opinion on that unaudited consolidated financial information. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied.

PricewaterhouseCoopers is not subject to the liability provisions of Section 11 of the Securities Act of 1933 (the Act) for its report on the unaudited consolidated financial information because that report is not a "report" or a "part" of a registration statement prepared or certified by PricewaterhouseCoopers within the meaning of Sections 7 and 11 of the Act.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Raytheon Company:

We have reviewed the accompanying consolidated balance sheet of Raytheon Company and its subsidiaries as of October 2, 2011, and the related consolidated statements of operations for the three and nine month periods ended October 2, 2011 and September 26, 2010, and the consolidated statements of cash flows and equity for the nine month periods ended October 2, 2011 and September 26, 2010. This interim financial information is the responsibility of the Company's management.

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2010, and the related consolidated statements of operations, equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 23, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2010, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Boston, Massachusetts

October 27, 2011

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

Overview

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

We operate in six segments: Integrated Defense Systems (IDS), Intelligence and Information Systems (IIS), Missile Systems (MS), Network Centric Systems (NCS), Space and Airborne Systems (SAS) and Technical Services (TS). For a more detailed description of our segments, see “Business Segments” within Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2010.

The U.S. Government continues to focus on reducing its long-term debt. In August 2011, Congress passed the Budget Control Act of 2011 which raised the debt limit, imposed certain spending caps and created a bipartisan congressional joint select committee on deficit reduction. It has been reported that the U.S. Government is considering a broad range of potential initiatives to reduce annual deficits, including changing corporate and personal tax rates, reducing mandatory or "entitlement" programs, and reducing discretionary spending. At this time, while we believe that key defense, intelligence and other programs will continue to receive budget priority, we cannot predict the initiatives ultimately implemented, their impact on future defense spending levels nor the related impact on our future results of operations.

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010 and our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

Consolidated Results of Operations

As described in our Cautionary Note Regarding Forward-Looking Statements on page 3 of this Form 10-Q, our interim period results of operations and period-to-period comparisons of such results, particularly at a segment level, may not be indicative of our future operating results. Additionally, we use a fiscal calendar, which may cause the number of work days in the current and comparable prior interim period to differ and could affect period-to-period comparisons. For example, while there were 63 workdays in the third quarters of both 2011 and 2010 there were 191 workdays in the first nine months of 2011 compared to 187 workdays in the first nine months of 2010, an increase of approximately 2%. The following discussions of comparative results among periods, including the discussion of segment results, should be viewed in this context.

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

Selected consolidated results were as follows:

	Three Months Ended		% of Total Net Sales Three Months Ended			
(In millions, except percentages and per share data)	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011		Sep 26, 2010	
Net sales						
Products	$5,131	$5,278	83.7	%	84.2	%
Services	1,001	994	16.3	%	15.8	%
Total net sales	6,132	6,272	100.0	%	100.0	%
Operating expenses						
Cost of Sales						
Cost of sales-products	3,982	4,119	64.9	%	65.7	%
Cost of sales-services	844	856	13.8	%	13.6	%

Total Cost of Sales	4,826	4,975	78.7	%	79.3	%
Administrative and selling expenses	428	394	7.0	%	6.3	%
Research and development expenses	153	154	2.5	%	2.5	%
Total operating expenses	5,407	5,523	88.2	%	88.1	%
Operating income	725	749	11.8	%	11.9	%

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Non-operating (income) expense				
Interest expense	41	33	0.7 %	0.5 %
Interest income	(5)	(3)	(0.1)%	— %
Other (income) expense	14	(7)	0.2 %	(0.1)%
Non-operating (income) expense, net	50	23	0.8 %	0.4 %
Federal and foreign income taxes	166	77	2.7 %	1.2 %
Income from continuing operations	509	649	8.3 %	10.3 %
Income (loss) from discontinued operations, net of tax	1	88	— %	1.4 %
Net income	510	737	8.3 %	11.8 %
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	9	9	0.1 %	0.1 %
Net income attributable to Raytheon Company	$501	$728	8.2 %	11.6 %
Diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders	$1.43	$1.71		
Diluted earnings per share attributable to Raytheon Company common stockholders	1.43	1.94		

	Nine Months Ended		% of Total Net Sales Nine Months Ended	
(In millions, except percentages and per share data)	Oct 2, 2011	Sep 26, 2010	Oct 2, 2011	Sep 26, 2010
Net sales				
Products	$15,441	$15,560	83.8 %	85.0 %
Services	2,975	2,738	16.2 %	15.0 %
Total net sales	18,416	18,298	100.0 %	100.0 %
Operating expenses				
Cost of Sales				
Cost of sales-products	12,186	12,426		