

RAYTHEON CO/  
Form 10-Q  
April 23, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 29, 2009**

**.. 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)**

Edgar Filing: RAYTHEON CO/ - Form 10-Q

**Delaware**  
(State or other jurisdiction of

**95-1778500**  
(I.R.S. Employer  
Identification No.)

incorporation or organization)

**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  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  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

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

Number of shares of common stock outstanding as of April 17, 2009 was 394,071,000.

**Table of Contents**

**RAYTHEON COMPANY**

**TABLE OF CONTENTS**

|   | <b>Page</b> |
|---|-------------|
| <b>PART I</b>   |             |
| <b><u>FINANCIAL INFORMATION</u></b>   |             |
| Item 1. <u>Consolidated Financial Statements</u>  |             |
| <u>Consolidated Balance Sheets (Unaudited) at March 29, 2009 and December 31, 2008</u>                                | 4           |
| <u>Consolidated Statements of Operations (Unaudited) for the Three Months Ended March 29, 2009 and March 30, 2008</u> | 5           |
| <u>Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended March 29, 2009 and March 30, 2008</u> | 6           |
| <u>Notes to Consolidated Financial Statements (Unaudited)</u>   | 7           |
| <u>Report of Independent Registered Public Accounting Firm</u>  | 22          |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                  | 23          |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | 35          |
| Item 4. <u>Controls and Procedures</u>  | 37          |
| <b>PART II</b>  |             |
| <b><u>OTHER INFORMATION</u></b>   |             |
| Item 1. <u>Legal Proceedings</u>  | 37          |
| Item 1A. <u>Risk Factors</u>  | 38          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 38          |
| Item 6. <u>Exhibits</u>   | 38          |
| <u>Signatures</u>   | 39          |

**Table of Contents**

**Cautionary Note Regarding Forward-Looking Statements**

This Form 10-Q contains forward-looking statements including information regarding our 2009 financial outlook, future plans, objectives, business prospects, the impact of certain liabilities and anticipated financial performance. You can identify these statements by the fact that they include words such as will, believe, anticipate, expect, estimate, intend, plan, outlook or variations of these words or similar expressions. 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. 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, 2008 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.

**Table of Contents**

## PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS  
RAYTHEON COMPANY

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| (In millions, except per share amounts)  | March 29, 2009 | Dec. 31, 2008 |
|--|----------------|---------------|
| <b>ASSETS</b>  |                |               |
| Current assets   |                |               |
| Cash and cash equivalents  | \$ 2,210       | \$ 2,259      |
| Accounts receivable, net   | 106            | 105           |
| Contracts in process   | 4,257          | 3,793         |
| Inventories  | 275            | 325           |
| Current tax asset  | 13             | 441           |
| Deferred taxes   | 390            | 395           |
| Prepaid expenses and other current assets  | 88             | 99            |
| Total current assets   | 7,339          | 7,417         |
| Property, plant and equipment, net   | 1,981          | 2,024         |
| Deferred taxes   | 704            | 735           |
| Prepaid retiree benefits   | 64             | 56            |
| Goodwill   | 11,661         | 11,662        |
| Other assets, net  | 1,130          | 1,240         |
| Total assets   | \$ 22,879      | \$ 23,134     |
| <b>LIABILITIES AND EQUITY</b>  |                |               |
| Current liabilities  |                |               |
| Advance payments and billings in excess of costs incurred  | \$ 1,794       | \$ 1,970      |
| Accounts payable   | 1,209          | 1,201         |
| Accrued employee compensation  | 567            | 913           |
| Other accrued expenses   | 1,098          | 1,065         |
| Total current liabilities  | 4,668          | 5,149         |
| Accrued retiree benefits and other long-term liabilities   | 6,614          | 6,488         |
| Long-term debt   | 2,297          | 2,309         |
| Commitments and contingencies (Note 9)   |                |               |
| <b>Equity</b>  |                |               |
| Common stock, par value, \$0.01 per share, 1,450 shares authorized, 394 shares and 400 shares outstanding at March 29, 2009 and December 31, 2008, respectively, after deducting 87 treasury shares and 81 treasury shares at March 29, 2009 and December 31, 2008, respectively | 4              | 4             |
| Additional paid-in capital   | 10,866         | 10,873        |
| Accumulated other comprehensive loss   | (5,132)        | (5,182)       |
| Treasury stock, at cost  | (4,523)        | (4,254)       |
| Retained earnings  | 7,976          | 7,646         |
| Total Raytheon Company stockholders' equity  | 9,191          | 9,087         |
| Noncontrolling interest in subsidiaries  | 109            | 101           |
| Total equity   | 9,300          | 9,188         |

Edgar Filing: RAYTHEON CO/ - Form 10-Q

|                              |    |        |    |        |
|------------------------------|----|--------|----|--------|
| Total liabilities and equity | \$ | 22,879 | \$ | 23,134 |
|------------------------------|----|--------|----|--------|

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

**Table of Contents**

RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| (In millions, except per share amounts)   | Three Months Ended |                |
|---|--------------------|----------------|
|   | March 29, 2009     | March 30, 2008 |
| Net sales   | \$ 5,884           | \$ 5,354       |
| Operating expenses  |                    |                |
| Cost of sales   | 4,697              | 4,258          |
| Administrative and selling expenses   | 364                | 380            |
| Research and development expenses   | 111                | 107            |
| Total operating expenses  | 5,172              | 4,745          |
| Operating income  | 712                | 609            |
| Interest expense  | 32                 | 34             |
| Interest income   | (4)                | (23)           |
| Other expense, net  | 5                  | 5              |
| Non-operating expense, net  | 33                 | 16             |
| Income from continuing operations before taxes  | 679                | 593            |
| Federal and foreign income taxes  | 222                | 192            |
| Income from continuing operations   | 457                | 401            |
| Income (loss) from discontinued operations, net of tax                                  | 3                  | (2)            |
| Net income  | 460                | 399            |
| Less: Net income attributable to noncontrolling interests                               | 8                  | 1              |
| Net income attributable to Raytheon Company   | \$ 452             | \$ 398         |
| Basic earnings (loss) per share attributable to Raytheon Company common stockholders:   |                    |                |
| Income from continuing operations   | \$ 1.12            | \$ 0.94        |
| Discontinued operations   | 0.01               | (0.01)         |
| Net income  | 1.13               | 0.94           |
| Diluted earnings (loss) per share attributable to Raytheon Company common stockholders: |                    |                |
| Income from continuing operations   | \$ 1.11            | \$ 0.92        |
| Discontinued operations   | 0.01               | (0.01)         |
| Net income  | 1.12               | 0.92           |
| Amounts attributable to Raytheon Company common stockholders:                           |                    |                |
| Income from continuing operations   | \$ 449             | \$ 400         |
| Income (loss) from discontinued operations  | 3                  | (2)            |
| Net income  | \$ 452             | \$ 398         |

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





**Table of Contents**

RAYTHEON COMPANY

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| (In millions)  | Three Months Ended |                |
|--|--------------------|----------------|
|  | March 29, 2009     | March 30, 2008 |
| <b>Cash flows from operating activities</b>  |                    |                |
| Net income   | \$ 460             | \$ 399         |
| (Income) loss from discontinued operations, net of tax   | (3)                | 2              |
| Income from continuing operations  | 457                | 401            |
| Adjustments to reconcile to net cash provided by operating activities from continuing operations, net of the effect of acquisitions and divestitures |                    |                |
| Depreciation and amortization  | 97                 | 92             |
| Deferred income taxes  | 71                 | 32             |
| Collection of financing receivables  | 9                  | 20             |
| Tax benefit from stock-based awards  | (1)                | (18)           |
| Net income attributable to noncontrolling interests  | (8)                | (1)            |
| Changes in assets and liabilities  |                    |                |
| Accounts receivable, net   | (1)                | (2)            |
| Contracts in process and advance payments and billings in excess of costs incurred   | (605)              | (194)          |
| Inventories  | 48                 | 2              |
| Prepaid expenses and other current assets  | (11)               | (4)            |
| Accounts payable   | 7                  | (135)          |
| Income taxes receivable / payable  | 496                | 153            |
| Accrued employee compensation  | (347)              | (333)          |
| Other accrued expenses   | (29)               | (37)           |
| Pension and other, net   | 228                | 91             |
| Net cash provided by operating activities from continuing operations   | 411                | 67             |
| Net cash used in operating activities from discontinued operations   | (6)                | (10)           |
| Net cash provided by operating activities  | 405                | 57             |
| <b>Cash flows from investing activities</b>  |                    |                |
| Additions to property, plant and equipment   | (33)               | (43)           |
| Additions to capitalized internal use software   | (13)               | (17)           |
| Other, net   |                    | (1)            |
| Net cash used in investing activities  | (46)               | (61)           |
| <b>Cash flows from financing activities</b>  |                    |                |
| Dividends paid   | (112)              | (109)          |
| Repurchases of common stock  | (300)              | (340)          |
| Proceeds under common stock plans  | 3                  | 67             |
| Tax benefit from stock-based awards  | 1                  | 18             |
| Net cash used in financing activities  | (408)              | (364)          |
| Net decrease in cash and cash equivalents  | (49)               | (368)          |
| Cash and cash equivalents at beginning of the year   | 2,259              | 2,655          |
| Cash and cash equivalents at end of period   | \$ 2,210           | \$ 2,287       |

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

**Table of Contents**

RAYTHEON COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**1. Basis of Presentation**

We prepared the accompanying unaudited consolidated financial statements (Financial Statements) of Raytheon Company on the same basis as our annual consolidated financial statements, which included the adoption on January 1, 2008 of Emerging Issues Task Force (EITF) No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements and EITF No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements, except for the adoptions in the first quarter of 2009 of: Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160); Financial Accounting Standards Board (FASB) Staff Position EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP EITF No. 03-6-1); SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS No. 161); SFAS No. 141(R), Business Combinations, which will be applied prospectively to business combinations with acquisition dates on or after January 1, 2009; and SFAS No. 157, Fair Value Measurements (SFAS No. 157), for all nonfinancial assets and nonfinancial liabilities not recognized or disclosed at fair value in the consolidated financial statement on a recurring basis.

The impact of SFAS No. 160 is discussed in more detail in Note 6, Noncontrolling Interests. The impact of FSP EITF No. 03-6-1, is discussed in Note 10, Stockholders' Equity. The disclosures required by SFAS No. 161 are presented in Note 8, Derivative Financial Instruments.

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 SEC Regulation S-X. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions 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. 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 context indicates otherwise.

We condensed or omitted certain information and footnote disclosures normally included in our annual consolidated 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, 2008.

**2. Inventories**

Inventories consisted of the following at:

| (In millions)                 | March 29, 2009 | Dec. 31, 2008 |
|-------------------------------|----------------|---------------|
| Materials and purchased parts | \$ 56          | \$ 56         |
| Work in process               | 181            | 224           |
| Finished goods                | 38             | 45            |
| Total                         | \$ 275         | \$ 325        |

We capitalize costs incurred in advance of contract award or funding in Inventories if we determine the contract award or funding is probable. These precontract costs exclude any start-up costs. We included capitalized precontract and other deferred costs of \$56 million and \$85 million in Inventories as work in process at March 29, 2009 and December 31, 2008, respectively.

**3. Product Warranty**

We provide product warranties in conjunction with certain product sales where revenue is recognized upon delivery.



**Table of Contents**

Activity related to warranty accruals was as follows:

| (In millions)                  | Three Months Ended |                |
|--------------------------------|--------------------|----------------|
|                                | March 29, 2009     | March 30, 2008 |
| Balance at beginning of period | \$ 39              | \$ 47          |
| Provisions for warranties      | 3                  | 2              |
| Warranty services provided     | (3)                | (3)            |
| Balance at end of period       | \$ 39              | \$ 46          |

We account for costs incurred under warranty provisions performed under long-term contracts as contract costs using the cost-to-cost measure of progress and exclude these costs from the table above, as the estimation of these costs is an integral part of the pricing determination on these long-term contracts.

**4. Accounting Standards**

New pronouncements issued but not effective until after March 29, 2009, are not expected to have a material effect on our financial position, results of operations or liquidity.

**5. Discontinued Operations**

Results from discontinued operations were as follows:

| (In millions)                 | Three Months Ended   |                |                         |                |
|-------------------------------|----------------------|----------------|-------------------------|----------------|
|                               | Pretax Income (Loss) |                | After-tax Income (Loss) |                |
|                               | March 29, 2009       | March 30, 2008 | March 29, 2009          | March 30, 2008 |
| Raytheon Aircraft             | \$ 3                 | \$             | \$ 4                    | \$             |
| Flight Options                |                      | (1)            |                         | (1)            |
| Other Discontinued Operations |                      | (2)            | (1)                     | (1)            |
| Total                         | \$ 3                 | \$ (3)         | \$ 3                    | \$ (2)         |

In 2007, we sold our Raytheon Aircraft Company (Raytheon Aircraft) and Flight Options LLC (Flight Options) businesses. As a result, we present Raytheon Aircraft, Flight Options and our other previously disposed businesses (Other Discontinued Operations) as discontinued operations for all periods. All residual activity relating to our disposed businesses appears in discontinued operations.

We retained certain assets and liabilities of these disposed businesses. At March 29, 2009 and December 31, 2008, we had \$71 million in non-current assets primarily related to our subordinated retained interest in general aviation finance receivables previously sold by Raytheon Aircraft. At March 29, 2009 and December 31, 2008, we had \$69 million and \$77 million of liabilities, respectively, primarily in current liabilities related to certain environmental and product liabilities, aircraft lease obligations, non-income tax obligations and various contract obligations. We also have certain income tax obligations relating to these disposed businesses, which we include in our income tax disclosures. The Internal Revenue Service (IRS) concluded a federal excise tax audit and assessed us additional excise tax related to the treatment of certain Flight Options customer fees and charges, which we have appealed. We continue to believe that an unfavorable outcome is not probable and expect that any potential liability will not have a material adverse effect on our financial position, results of operations or liquidity. 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.

**6. Noncontrolling Interests**

On January 1, 2009, we adopted SFAS No. 160, which changed the accounting and reporting for minority interests by recharacterizing them as noncontrolling interests and classifying them as a component of Equity in our consolidated balance sheet. As required by SFAS No. 160, our

## Edgar Filing: RAYTHEON CO/ - Form 10-Q

consolidated statements of operations include Net income, which represents Net income attributable to Raytheon Company and Net income attributable to noncontrolling interests, and a new line item titled Net income attributable to Raytheon Company, which is equal to the prior definition of Net income.

## **Table of Contents**

SFAS No. 160 also requires enhanced disclosures to clearly distinguish between our interests and the interests of noncontrolling owners. Our primary noncontrolling interest relates to Thales-Raytheon Systems Co. LLC (TRS LLC), which we control and consolidate, and is a component in computing the operating results of our Network Centric Systems segment (NCS). The effect of this standard was an increase in NCS Operating income by \$8 million and \$1 million for the three months ended March 29, 2009 and March 30, 2008, respectively, and a corresponding increase in operating margin of 0.7% and 0.1% for the three months ended March 29, 2009 and March 30, 2008, respectively.

Upon adoption of SFAS No. 160, we have presented the noncontrolling interest in TRS LLC and the related equity method investment in Thales-Raytheon Systems Co. Ltd. (TRS) net of any obligations or interests of Raytheon. The effect at December 31, 2008 was a reduction in the balance of the equity investment in TRS by \$162 million with a corresponding decrease in the reported noncontrolling interest to \$101 million, which was subsequently reclassified as a component of Equity.

### **7. Fair Value Measurements**

The estimated fair value of certain financial instruments, including cash, cash equivalents and short-term debt approximates their carrying value due to their short maturities and varying interest rates. The estimated fair value of notes receivable approximates the carrying value based principally on the underlying interest rates and terms, maturities, collateral and credit status of the receivables. The estimated fair value of Long-term debt of approximately \$2.4 billion and \$2.5 billion at March 29, 2009 and December 31, 2008, respectively, was based on quoted market prices.

On January 1, 2009 we adopted SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities not recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of SFAS No. 157 for those assets and liabilities did not have a material impact on our financial position, results of operations or liquidity. We did not have any nonfinancial assets or nonfinancial liabilities that would be recognized or disclosed at fair value on a recurring basis as of March 29, 2009.

SFAS No. 157 provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. SFAS No. 157 defines fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required by SFAS No. 157, as well as the assets and liabilities that we value using those levels of inputs.

- Level 1:** Quoted prices in active markets for identical assets or liabilities. Our Level 1 assets are investments in marketable securities held in Rabbi Trusts that we use to pay benefits under certain of our non-qualified deferred compensation plans. Our Level 1 liabilities include our obligations to pay certain non-qualified deferred compensation plan benefits. Under these non-qualified deferred compensation plans, participants designate investment options (primarily mutual funds) to serve as the basis for measurement of the notional value of their accounts. We also include foreign exchange forward contracts that we trade in an active exchange market in our Level 1 assets and liabilities.
- Level 2:** Observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or we corroborate by observable market data for substantially the full term of the related assets or liabilities. Our Level 2 assets are interest rate swaps, which were terminated in the first quarter of 2009, whose fair value we determined using a pricing model predicated upon observable market inputs.
- Level 3:** Unobservable inputs supported by little or no market activity that are significant to the fair value of the assets or liabilities. Our Level 3 asset relates to our subordinated retained interest in general aviation finance receivables (Subordinated Retained Interest) that we sold in previous years, for which the underlying aircraft serve as collateral. We estimated the fair value for this asset based on the present value of the future expected cash flows using certain unobservable inputs, including the collection periods for the underlying receivables and a credit adjusted rate of 4.5% at March 29, 2009 and 4.4% at December 31, 2008. These unobservable inputs reflect our suppositions about the assumptions market participants would use in pricing this asset.

**Table of Contents**

The following tables set forth the financial assets and liabilities that we measured at fair value on a recurring basis by level within the fair value hierarchy. As required by SFAS No. 157, we classify assets and liabilities measured at fair value in their entirety based on the lowest level of input that is significant to their fair value measurement. Assets and liabilities measured at fair value on a recurring basis consisted of the following:

| (In millions)                      | Level 1 | Level 2 | Level 3 | Balances at<br>March 29, 2009 |
|------------------------------------|---------|---------|---------|-------------------------------|
| <b>Assets</b>                      |         |         |         |                               |
| Marketable securities (1)          | \$ 201  | \$      | \$      | \$ 201                        |
| Foreign exchange forward contracts | 72      |         |         | 72                            |
| Subordinated Retained Interest     |         |         | 66      | 66                            |
| <b>Liabilities</b>                 |         |         |         |                               |
| Deferred compensation (2)          | 131     |         |         | 131                           |
| Foreign exchange forward contracts | 84      |         |         | 84                            |

| (In millions)                      | Level<br>1 | Level<br>2 | Level<br>3 | Balances at<br>Dec. 31, 2008 |
|------------------------------------|------------|------------|------------|------------------------------|
| <b>Assets</b>                      |            |            |            |                              |
| Marketable securities (1)          | \$ 220     | \$         | \$         | \$ 220                       |
| Foreign exchange forward contracts | 81         |            |            | 81                           |
| Subordinated Retained Interest     |            |            | 66         | 66                           |
| Interest rate swaps                |            | 48         |            | 48                           |
| <b>Liabilities</b>                 |            |            |            |                              |
| Deferred compensation (2)          | 150        |            |            | 150                          |
| Foreign exchange forward contracts | 107        |            |            | 107                          |

(1) Investments in marketable securities held in Rabbi Trusts associated with certain of our non-qualified deferred compensation plans, which we include in Other assets, net.

(2) Obligations to pay benefits under certain of our non-qualified deferred compensation plans, which we include in Accrued retiree benefits and other long-term liabilities.

Activity of our Subordinated Retained Interest that we reflect in discontinued operations was as follows:

| (In millions)  | Three Months Ended |                |
|--|--------------------|----------------|
|  | March 29, 2009     | March 30, 2008 |
| Balance at beginning of period                         | \$ 66              | \$ 63          |
| Total gains (realized/unrealized)                      |                    |                |
| Included in Income (loss) from discontinued operations |                    | 1              |
| Included in Other comprehensive income (loss)          |                    | 2              |
| Balance at end of period                               | \$ 66              | \$ 66          |

**8. Derivative Financial Instruments**

On January 1, 2009, we adopted SFAS No. 161, which requires enhanced disclosures regarding an entity's derivative and hedging activities as provided below.

Our primary market exposures are to interest rates and foreign exchange rates. 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 the foreign currencies are denominated in currencies of major industrial countries. We do not hold or issue derivative financial instruments for trading or speculative purposes.

We recognize all derivative financial instruments as either assets or liabilities at fair value in the consolidated balance sheet. We designate foreign currency forward contracts as cash flow hedges of forecasted purchases and sales denominated in foreign currencies, and interest rate



swaps as fair value hedges of our fixed-rate financing obligations. We classify the cash flows from these instruments in the same category as the cash flows from the items being hedged.

**Table of Contents**

**Cash flow hedges** - We enter into foreign currency forward contracts with commercial banks to fix the foreign currency exchange rates on specific commitments and payments to vendors and customer receipts. Our foreign currency hedges are transaction driven and directly relate to a particular asset, liability or transaction for which commitments are in place. For foreign currency forward contracts designated and qualified for cash flow hedge accounting, the effective portion of the gain or loss on the derivative is recorded in Accumulated other comprehensive loss, net of tax, and reclassified into earnings in the same period or periods during which the hedged revenue or cost of sales transaction affects earnings. We expect approximately \$11 million of after-tax net unrealized losses, included in our Accumulated other comprehensive loss at March 29, 2009, to be reclassified into earnings at then-current values over the next twelve months as the underlying hedged transactions occur. Realized gains and losses resulting from these cash flow hedges offset the foreign exchange gains and losses on the underlying transactions being hedged. Gains and losses on derivatives not designated for hedge accounting, or representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, are recognized in earnings currently.

The fair value amounts in the consolidated balance sheet at March 29, 2009, related to our foreign currency forward contracts were as follows:

| (In millions)                                     | Asset Derivatives      |              | Liability Derivatives  |              |
|---|------------------------|--------------|------------------------|--------------|
|   | Balance Sheet Location | Fair Value   | Balance Sheet Location | Fair Value   |
| Derivatives designated as hedging instruments     | Other assets, net      | \$ 57        | Other accrued expenses | \$ 68        |
| Derivatives not designated as hedging instruments | Other assets, net      | 15           | Other accrued expenses | 16           |
| <b>Total</b>                                      |                        | <b>\$ 72</b> |                        | <b>\$ 84</b> |

The derivative gains and losses in the consolidated statement of operations for the three months ended March 29, 2009, related to our foreign currency forward contracts were as follows:

| Derivatives in Cash Flow Hedging Relationships<br>(In millions) | Pretax Loss Recognized in Other Comprehensive Income on Effective Portion of Derivative Amount | Pretax Loss on Effective Portion of Derivative Reclassified from Accumulated Other Comprehensive Loss Location | Pretax Loss on Effective Portion of Derivative Reclassified from Accumulated Other Comprehensive Loss Amount | Ineffective Portion of Gain on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income Location | Ineffective Portion of Gain on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income Amount |
|---|--|--|--|--|--|
|   | Foreign currency forward contracts   | \$ 8   | Net sales  | \$ 4   | Cost of sales  |
|   |  | Cost of sales  | 17   |  |  |
| <b>Derivatives Not Designated as Hedging Instruments</b>        |  |  |  | <b>Location of Amounts Recognized in Income on Derivative</b>  | <b>Amount Recognized in Income on Derivative</b>   |
| Foreign currency forward contracts                              |  |  |  | Cost of sales  | \$   |

**Table of Contents**

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

| (In millions)      | March 29, 2009 |        | Dec. 31, 2008 |        |
|--------------------|----------------|--------|---------------|--------|
|                    | Buy            | Sell   | Buy           | Sell   |
| British Pounds     | \$ 409         | \$ 513 | \$ 382        | \$ 489 |
| Canadian Dollars   | 222            | 24     | 189           | 27     |
| Australian Dollars | 83             | 3      | 98            | 8      |
| European Euros     | 73             | 1      | 87            | 1      |
| All other          | 39             | 26     | 48            | 32     |
| Total              | \$ 826         | \$ 567 | \$ 804        | \$ 557 |

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 exchange contracts that do not involve U.S. Dollars have been converted to U.S. Dollars for disclosure purposes.

Our foreign exchange forward contracts contain offset, or netting provisions, to mitigate credit risk in the event of counterparty default, including payment default and cross default. At March 29, 2009, these netting provisions effectively reduced our net exposure to approximately \$12 million, which is spread across several counterparties.

**Fair value hedges** - We enter into interest rate swap agreements with commercial and investment banks to manage interest rates associated with our financing arrangements. The \$575 million notional value of the interest rate swaps that were outstanding at December 31, 2008 effectively converted \$250 million of our 4.85% Notes due 2011 and \$325 million of our 5.375% Notes due 2013 to variable-rate debt based on the six-month LIBOR. We terminated these interest rate swaps in the three months ended March 29, 2009 and collected cash of \$37 million related to the early termination. We will include the amortization of the \$37 million gain in interest expense over the remaining life of the related debt. In the three months ended March 29, 2009, we recorded \$2 million related to the amortization of the gain on the termination of our interest rate swaps.

**9. Commitments and Contingencies**

We are involved in various stages of investigation and cleanup related to remediation of various environmental sites. Our estimate of total environmental remediation costs was \$193 million and \$157 million at March 29, 2009 and December 31, 2008, respectively. Discounted at a weighted-average risk-free rate of 5.7%, we estimated the liability at March 29, 2009 to be \$133 million before U.S. Government recovery and had this amount accrued. Discounted at a weighted-average risk-free rate of 5.7%, we estimated the liability at December 31, 2008 to be \$105 million before U.S. Government recovery and had this amount accrued. A portion of these costs are 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. Accordingly, we recorded \$95 million and \$69 million in Contracts in process through March 29, 2009 and December 31, 2008, respectively, for the estimated future recovery of these costs from the U.S. Government. We also lease certain government-owned properties and are generally not liable for environmental remediation at these sites; as a result, we generally do not reflect the provision for these costs in our consolidated financial statements. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative cleanup methods and technologies, the uncertainty of insurance coverage and the unresolved extent of our responsibility, it is difficult to determine the ultimate outcome of 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.

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. Approximately \$278 million, \$1,010 million and \$111 million of these guarantees, letters of credit and surety bonds, respectively, for which there were stated values, were outstanding at March 29, 2009, and \$281 million, \$1,012 million and \$111 million, respectively, were outstanding at December 31, 2008. These instruments expire on various dates through 2015. Additional guarantees of project performance for which there is no stated value also remain outstanding.

Included in guarantees and letters of credit described above were \$56 million and \$173 million, respectively, at March 29, 2009, and \$59 million and \$180 million, respectively, at December 31, 2008, related to our joint venture in TRS.



---

**Table of Contents**

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 for us. At March 29, 2009 and December 31, 2008, we had recorded an estimated liability of \$2 million related to these guarantees and letters of credit. We periodically evaluate the risk of TRS and other affiliates failing to satisfy their loans, project performance and other contractual obligations described above. At March 29, 2009, 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 March 29, 2009.

Also included in guarantees and letters of credit described above were \$86 million and \$6 million, respectively, at March 29, 2009 and December 31, 2008, related to discontinued operations.

Our residual turbo-prop commuter aircraft portfolio has exposure to outstanding financing arrangements with the aircraft serving as collateral. We have sold and leased commuter aircraft globally to thinly capitalized companies whose financial condition could be significantly affected by a number of factors, including rising fuel and other costs, industry consolidation, declining commercial aviation market conditions and the U.S. Government budget for the Essential Air Service program. Based on recent economic trends, including tightening credit markets and volatile fuel costs, these companies may increasingly experience difficulties meeting their financial commitments. At March 29, 2009 and December 31, 2008, our exposure on commuter aircraft assets held as inventory, collateral on notes or as leased assets, was approximately \$160 million relating to 125 aircraft and approximately \$170 million relating to 127 aircraft, respectively. The carrying value of our commuter aircraft portfolio assumes an orderly disposition of these assets, consistent with our historical experience and strategy. 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.

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 (SIVAM) program. Loan repayments by the Brazilian Government were current at March 29, 2009.

Government contractors are subject to many levels of audit and investigation. Agencies that oversee contract performance include: the Defense Contract Audit 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.

In 2006, Technical Services recorded a profit adjustment related to certain program costs which may be deemed unrecoverable. Although not expected to be material, we may incur additional charges as we continue to assess and engage in discussions regarding this matter.

In May 2006, international arbitration hearings commenced against us as the successor to the Hughes Electronics defense business in connection with certain claims brought in 2004 relating to an alleged 1995 Workshare Agreement. The asserted claims involve breach of contract, intellectual property infringement and other related matters. The arbitrator stayed the liability decision on certain of the claims while the parties engage in settlement discussions. The ultimate resolution of this matter, however, remains uncertain and difficult to predict. We believe that we have meritorious defenses to these claims and intend to continue to contest them vigorously. An adverse resolution of this matter could have a material effect on our results of operations.

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.

**Table of Contents****10. Stockholders Equity**

In the three months ended March 29, 2009, we repurchased 6.8 million shares of our common stock for \$300 million, compared to 5.5 million shares for \$340 million in the three months ended March 30, 2008. As of March 29, 2009, we had \$1.8 billion available under our stock repurchase program.

In March 2009, our Board of Directors authorized an 11% increase to our annual dividend payout rate from \$1.12 to \$1.24 per share. We declared a dividend of \$0.31 per share during the three months ended March 29, 2009, compared to a dividend of \$0.28 per share for the three months ended March 30, 2008. Dividends are subject to quarterly approval by our Board of Directors.

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

| (In millions)                | Shares |
|------------------------------|--------|
| Balance at December 31, 2008 | 400.1  |
| Common stock plan activity   | 0.9    |
| Treasury stock activity      | (7.1)  |
| Balance at March 29, 2009    | 393.9  |

**Earnings Per Share**

We compute basic earnings per share (EPS) attributable to Raytheon Company common stockholders by dividing income from continuing operations attributable to Raytheon Company common stockholders, income from discontinued operations attributable to Raytheon Company common stockholders and Net income attributable to Raytheon Company, by the weighted-average common shares outstanding including participating securities outstanding, as discussed below, during the period. Diluted EPS reflects the potential dilution beyond shares for basic EPS that could occur if securities or other contracts to issue common stock were exercised, converted into common stock or resulted in the issuance of common stock that would have shared in our earnings. We compute basic and diluted EPS using actual income from continuing operations attributable to Raytheon Company common stockholders, income from discontinued operations attributable to Raytheon Company common stockholders, net income attributable to Raytheon Company, and the actual weighted-average shares and participating securities outstanding rather than the numbers presented within our consolidated statement of operations, which are rounded to the nearest million. As a result, it may not be possible to recalculate EPS as presented on our consolidated statement of operations. Furthermore, it may not be possible to recalculate EPS attributable to Raytheon Company stockholders by adjusting EPS from continuing operations by EPS from discontinued operations.

On January 1, 2009 we adopted FSP EITF No. 03-6-1, which requires us to include all unvested stock awards which contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, in the number of shares outstanding in our basic and diluted EPS calculations. As a result, we have included all of these outstanding restricted stock and Long-Term Performance Plan (LTTP) awards in our calculation of basic and diluted EPS for current and prior periods. FSP EITF No. 03-6-1 also requires additional disclosure of EPS for common stock and unvested share-based payment awards, separately disclosing distributed and undistributed earnings. Distributed earnings represent common stock dividends and dividends earned on unvested share-based payment awards of retirement eligible employees. Undistributed earnings represent earnings that were available for distribution but were not distributed. Common Stock and Unvested share-based payment awards earn dividends equally as shown in the table below:

**Table of Contents**

Earnings per share from continuing operations attributable to Raytheon Company common stockholders was as follows:

|   | Three Months Ended  |   |
|---|---|---|
|   | March 29, 2009<br>Common Stock<br>including<br>Unvested share-<br>based payment<br>awards | March 30, 2008<br>Common Stock<br>including<br>Unvested share-<br>based payment<br>awards |
| Basic EPS attributable to Raytheon Company common stockholders:   |   |   |
| Distributed earnings  | \$ 0.31   | \$ 0.28   |
| Undistributed earnings  | 0.81  | 0.66  |
| Total   | \$ 1.12   | \$ 0.94   |
| Diluted EPS attributable to Raytheon Company common stockholders: |   |   |
| Distributed earnings  | \$ 0.30   | \$ 0.27   |
| Undistributed earnings  | 0.81  | 0.65  |
| Total   | \$ 1.11   | \$ 0.92   |

Earnings (loss) per share from discontinued operations attributable to Raytheon Company common stockholders was as follows:

|   | Three Months Ended  |   |
|---|---|---|
|   | March 29, 2009<br>Common Stock<br>including<br>Unvested share-<br>based payment<br>awards | March 30, 2008<br>Common Stock<br>including<br>Unvested share-<br>based payment<br>awards |
| Basic EPS attributable to Raytheon Company common stockholders:   |   |   |
| Distributed earnings  | \$  | \$  |
| Undistributed earnings (loss)                                     | 0.01  | (0.01)  |
| Total   | \$ 0.01   | \$ (0.01)   |
| Diluted EPS attributable to Raytheon Company common stockholders: |   |   |
| Distributed earnings  | \$  | \$  |
| Undistributed earnings (loss)                                     | 0.01  | (0.01)  |
| Total   | \$ 0.01   | \$ (0.01)   |

Earnings per share attributable to Raytheon Company common stockholders was as follows:

|  | Three Months Ended  |   |
|--|---|---|
|  | March 29, 2009<br>Common Stock<br>including<br>Unvested share-<br>based payment<br>awards | March 30, 2008<br>Common Stock<br>including<br>Unvested share-<br>based payment<br>awards |

Edgar Filing: RAYTHEON CO/ - Form 10-Q

|   |         |    |      |
|---|---------|----|------|
| Basic EPS attributable to Raytheon Company common stockholders:   |         |    |      |
| Distributed earnings  | \$ 0.31 | \$ | 0.28 |
| Undistributed earnings  | 0.82    |    | 0.66 |
| Total   | \$ 1.13 | \$ | 0.94 |
| Diluted EPS attributable to Raytheon Company common stockholders: |         |    |      |
| Distributed earnings  | \$ 0.30 | \$ | 0.27 |
| Undistributed earnings  | 0.82    |    | 0.65 |
| Total   | \$ 1.12 | \$ | 0.92 |

The amount of Income from continuing operations and net income attributable to participating securities was \$6 million and \$5 million for the three months ended March 29, 2009 and March 30, 2008, respectively. The amount of income (loss) from discontinued operations attributable to participating securities was less than \$1 million for three months ended March 29, 2009 and March 30, 2008.



**Table of Contents**

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

| (In millions)  | Three Months Ended |                |
|--|--------------------|----------------|
|  | March 29, 2009     | March 30, 2008 |
| Shares for basic EPS (including 5.3 million and 5.7 million participating securities at March 29, 2009 and March 30, 2008, respectively) | 399.0              | 423.8          |
| Dilutive effect of stock options and LTPP  | 3.2                | 5.9            |
| Dilutive effect of warrants  | 1.8                | 5.0            |
| Shares for diluted EPS   | 404.0              | 434.7          |

Stock options to purchase 6.4 million and 12.1 million shares of common stock outstanding in the three months ended March 29, 2009 and March 30, 2008, respectively, had exercise prices that were less than the average market price of our common stock during the respective periods. We included these options in our calculation of diluted EPS.

We did not include stock options to purchase 6.0 million and 2.6 million shares of common stock outstanding in our computation of diluted EPS in the three months ended March 29, 2009 and March 30, 2008, respectively, as the effect of such options would be anti-dilutive.

In June 2006, we issued 12.0 million warrants to purchase our common stock, of which 12.0 million were outstanding at March 29, 2009 and March 30, 2008, in connection with our settlement of a class action lawsuit. These warrants, expiring in 2011, were issued with an exercise price of \$37.50 per share and have been included in the calculation of diluted EPS.

**Stock-based compensation plans**

Restricted stock activity for the period was as follows:

| (In millions)                    | Shares |
|----------------------------------|--------|
| Outstanding at December 31, 2008 | 5.0    |
| Forfeited                        | (0.1)  |
| Outstanding at March 29, 2009    | 4.9    |

During the three months ended March 29, 2009 and March 30, 2008, we issued 858,723 shares and 380,953 shares, respectively, of our common stock in connection with the vesting of our 2006-2008 and 2005-2007 LTPP awards. The vesting of the 2006-2008 LTPP award was funded through treasury shares. During the same periods, we also granted our 2009-2011 and 2008-2010 LTPP awards with an aggregate target award of 495,120 and 353,190 units, respectively.

The performance goals for the 2009-2011 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 also includes dividend equivalents, which are not included in the aggregate target award numbers above.

**Table of Contents****Other comprehensive income (loss)**

The components of Other comprehensive income (loss) generally include amortization of unfunded benefit obligations, foreign exchange translation and gains and losses on effective cash flow hedges. The computation of comprehensive income was as follows:

| (In millions)  | Three Months Ended |                |
|--|--------------------|----------------|
|  | March 29, 2009     | March 30, 2008 |
| Net income   | \$ 460             | \$ 399         |
| Other comprehensive income, net of tax:                            |                    |                |
| Amortization of unfunded pension benefit obligation                | 61                 | 47             |
| Foreign exchange translation                                       | (19)               | 13             |
| Cash flow hedges   | 8                  | (9)            |
| Other, net   |                    | 2              |
| Total other comprehensive income, net of tax                       | 50                 | 53             |
| Comprehensive income   | 510                | 452            |
| Less: Comprehensive income attributable to noncontrolling interest | 8                  | 1              |
| Comprehensive income attributable to Raytheon Company              | \$ 502             | \$ 451         |

**11. 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.

The components of net periodic pension expense were as follows:

| (In millions)                      | Three Months Ended |                |
|------------------------------------|--------------------|----------------|
|                                    | March 29, 2009     | March 30, 2008 |
| Service cost                       | \$ 100             | \$ 102         |
| Interest cost                      | 257                | 254            |
| Expected return on plan assets     | (307)              | (305)          |
| Amortization of prior service cost | 3                  | 3              |
| Recognized net actuarial loss      | 100                | 77             |
| Net periodic pension expense       | \$ 153             | \$ 131         |

Our net periodic pension expense included expense from foreign benefit plans of \$4 million and \$5 million in the three months ended March 29, 2009 and March 30, 2008, respectively.

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

| (In millions)                    | Three Months Ended |                |
|----------------------------------|--------------------|----------------|
|                                  | March 29, 2009     | March 30, 2008 |
| Service cost                     | \$ 2               | \$ 3           |
| Interest cost                    | 13                 | 14             |
| Expected return on plan assets   | (7)                | (11)           |
| Amortization of transition asset | 1                  | 1              |

Edgar Filing: RAYTHEON CO/ - Form 10-Q

|                                    |        |        |
|------------------------------------|--------|--------|
| Amortization of prior service cost | (13)   | (13)   |
| Recognized net actuarial loss      | 2      |        |
| Net periodic income                | \$ (2) | \$ (6) |

We make both discretionary and required contributions to our pension plans. Required contributions are primarily determined under the Employee Retirement Income Security Act (ERISA) and are affected by the actual return on plan assets and plan funded status. As discretionary contributions are made, a funding credit is accumulated which can be used to offset future calculated required contributions. The funding credit for our pension plans was \$2.4 billion at March 29, 2009 and December 31, 2008. We did not make any discretionary contributions to our pension plans during the three months ended March 29, 2009 and March 30, 2008. We made required contributions of \$19 million and \$105 million, respectively, during the three months ended March 29, 2009 and March 30, 2008, to our pension and other postretirement benefit plans. We expect to make required contributions of approximately \$1,110 million and \$45 million to our pension and other postretirement benefit plans, respectively, in 2009. We periodically evaluate whether to make discretionary contributions.

**Table of Contents****12. Income Taxes**

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. IRS examinations of our tax returns have been completed through 2002. We have protested to the IRS Appeals Division certain proposed adjustments primarily involving benefits under the Foreign Sales Corporation (FSC) and Extraterritorial Income (ETI) exclusion regimes for 1998–2002. IRS examination of our tax returns for 2003–2005 began in March 2007. Additionally, we are under audit by a number of state tax authorities. State tax liabilities are routinely adjusted to account for any changes in federal taxable income.

We believe we adequately provide for all tax positions, however, amounts asserted by taxing authorities could be greater than amounts accrued and reflected in our consolidated balance sheet. Accordingly, we could record additional amounts for federal, foreign and state tax-related liabilities in the future as we revise estimates or we settle or otherwise resolve the underlying matters.

The balance of unrecognized tax benefits at March 29, 2009 and March 30, 2008, exclusive of interest, was \$415 million and \$343 million, respectively, of which \$315 million and \$251 million, respectively, would affect our earnings if recognized. We accrue interest and penalties related to unrecognized tax benefits in tax expense. As a result, in the three months ended March 29, 2009, we recorded \$5 million of gross interest and penalties, \$3 million net of the federal tax benefit, in tax expense. In the three months ended March 30, 2008, we recorded \$6 million of gross interest and penalties, \$4 million net of the federal tax benefit, in tax expense. At March 29, 2009 and March 30, 2008, we had \$101 million and \$76 million, respectively, of interest and penalties accrued related to unrecognized tax benefits, which, net of the federal tax benefit, was approximately \$65 million and \$50 million, respectively.

A rollforward of our unrecognized tax benefits was as follows:

| (In millions)   | Three Months Ended |                |
|---|--------------------|----------------|
|   | March 29, 2009     | March 30, 2008 |
| Unrecognized tax benefits at beginning of period          | \$ 415             | \$ 342         |
| Additional tax liability based on prior year tax position |                    | 1              |
| Unrecognized tax benefits at end of period                | \$ 415             | \$ 343         |

Although the final outcome remains uncertain, we may reach a settlement with the IRS Appeals Division in the next 12 months to resolve certain protested adjustments related to benefits claimed under the FSC and ETI regimes and certain other tax matters related to the years 1998–2002. In the next 12 months, we may also resolve similar FSC and ETI matters along with certain revenue recognition items and the allowability of certain deductions and credits for the 2003–2005 tax years. Based on the outcome of exams, appeals proceedings, Joint Committee on Taxation review, and the expiration of the statute of limitations, it is reasonably possible that within the next 12 months our unrecognized tax benefits, exclusive of interest will decrease by approximately \$195 million to \$225 million, of which approximately \$185 million to \$200 million could decrease tax expense.

We generally account for our state income tax expense as a deferred contract cost, as we can generally recover these costs through the pricing of our products and services to the U.S. Government. We include this deferred contract cost in Contracts in process until allocated to our contracts, which generally occurs upon payment or when otherwise agreed as allocable with the U.S. Government. State income taxes allocated to our contracts were \$18 million and \$30 million in the three months ended March 29, 2009 and March 30, 2008, respectively, and were included in Administrative and selling expenses.

During the three months ended March 29, 2009, we received federal tax refunds totaling \$337 million.

**13. 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



**Table of Contents**

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 commuter aircraft portfolio.

Effective January 1, 2009, the composition of Space and Airborne Systems was changed to exclude a U.K. manufacturing facility, which now reports directly to Missile Systems. Prior period segment results were revised to reflect this reorganization for Space and Airborne Systems, Missile Systems and the corresponding amount in intersegment eliminations.

| (In millions)      | Missile Systems Revised |                  |
|--------------------|-------------------------|------------------|
|                    | Net Sales               | Operating Income |
| March 30, 2008     | \$ 1,319                | \$ 139           |
| June 29, 2008      | 1,363                   | 158              |
| September 28, 2008 | 1,360                   | 145              |
| December 31, 2008  | 1,366                   | 142              |
| Full year 2008     | \$ 5,408                | \$ 584           |

| (In millions)      | Space and Airborne Systems Revised |                  |
|--------------------|------------------------------------|------------------|
|                    | Net Sales                          | Operating Income |
| March 30, 2008     | \$ 977                             | \$ 117           |
| June 29, 2008      | 1,072                              | 141              |
| September 28, 2008 | 1,065                              | 144              |
| December 31, 2008  | 1,166                              | 167              |
| Full year 2008     | \$ 4,280                           | \$ 569           |

In addition, as discussed in Note 6, Noncontrolling Interests, on January 1, 2009, we adopted SFAS No. 160, which affected Network Centric Systems. The effects of this standard were an increase in Network Centric Systems' Operating income by \$8 million and \$1 million for the three months ended March 29, 2009 and March 30, 2008, respectively, and a corresponding increase in operating margin of 0.7% and 0.1% for the three months ended March 29, 2009 and March 30, 2008, respectively. These effects have been included below in the results for Network Centric Systems:

| (In millions)                        | Net Sales<br>Three Months Ended |                |
|--------------------------------------|---------------------------------|----------------|
|                                      | March 29, 2009                  | March 30, 2008 |
| Integrated Defense Systems           | \$ 1,262                        | \$ 1,192       |
| Intelligence and Information Systems | 784                             | 692            |
| Missile Systems                      | 1,368                           | 1,319          |
| Network Centric Systems              | 1,154                           | 1,067          |
| Space and Airborne Systems           | 1,046                           | 977            |
| Technical Services                   | 696                             | 521            |
| Corporate and Eliminations           | (426)                           | (414)          |
| Total                                | \$ 5,884                        | \$ 5,354       |

**Table of Contents**

| <b>(In millions)</b>                 | <b>Intersegment Sales</b> |                       |
|--------------------------------------|---------------------------|-----------------------|
|                                      | <b>Three Months Ended</b> |                       |
|                                      | <b>March 29, 2009</b>     | <b>March 30, 2008</b> |
| Integrated Defense Systems           | \$ 34                     | \$ 31                 |
| Intelligence and Information Systems | 4                         | 6                     |
| Missile Systems                      | 3                         | 8                     |
| Network Centric Systems              | 90                        | 94                    |
| Space and Airborne Systems           | 142                       | 132                   |
| Technical Services                   | 156                       | 154                   |
| <b>Total</b>                         | <b>\$ 429</b>             | <b>\$ 425</b>         |

| <b>(In millions)</b>                 | <b>Operating Income</b>   |                       |
|--------------------------------------|---------------------------|-----------------------|
|                                      | <b>Three Months Ended</b> |                       |
|                                      | <b>March 29, 2009</b>     | <b>March 30, 2008</b> |
| Integrated Defense Systems           | \$ 188                    | \$ 211                |
| Intelligence and Information Systems | 61                        | 52                    |
| Missile Systems                      | 158                       | 139                   |
| Network Centric Systems              | 163                       | 124                   |
| Space and Airborne Systems           | 139                       | 117                   |
| Technical Services                   | 44                        | 35                    |
| FAS/CAS Pension Adjustment           | 11                        | (33)                  |
| Corporate and Eliminations           | (52)                      | (36)                  |
| <b>Total</b>                         | <b>\$ 712</b>             | <b>\$ 609</b>         |

The FAS/CAS Pension Adjustment, which we report as a separate line item in our segment results above, represents the difference between our pension expense or income under SFAS No. 87, Employers' Accounting for Pensions (SFAS No. 87), and our pension expense under U.S. Government cost accounting standards (CAS). SFAS No. 87 outlines the methodology used to determine pension 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 costs on U.S. Government contracts and is a major factor in determining our pension funding requirements. The results of each segment only include pension expense as determined under CAS that we generally recover through the pricing of our products and services to the U.S. Government.

| <b>(In millions)</b>       | <b>Intersegment Operating Income</b> |                       |
|----------------------------|--------------------------------------|-----------------------|
|                            | <b>Three Months Ended</b>            |                       |
|                            | <b>March 29, 2009</b>                | <b>March 30, 2008</b> |
| Integrated Defense Systems | \$ 2                                 | \$ 2                  |
| Missile Systems            |                                      | 1                     |
| Network Centric Systems    | 7                                    | 8                     |
| Space and Airborne Systems | 11                                   | 12                    |
| Technical Services         | 13                                   | 13                    |
| <b>Total</b>               | <b>\$ 33</b>                         | <b>\$ 36</b>          |

**Table of Contents**

| (In millions)                        | Identifiable Assets |               |
|--------------------------------------|---------------------|---------------|
|                                      | March 29, 2009      | Dec. 31, 2008 |
| Integrated Defense Systems           | \$ 1,807            | \$ 1,858      |
| Intelligence and Information Systems | 2,383               | 2,293         |
| Missile Systems                      | 4,929               | 4,824         |
| Network Centric Systems              | 3,784               | 3,769         |
| Space and Airborne Systems           | 4,300               | 4,259         |
| Technical Services                   | 1,327               | 1,358         |
| Corporate                            | 4,349               | 4,773         |
| Total                                | \$ 22,879           | \$ 23,134     |



---

**Table of Contents**

With respect to the unaudited consolidated financial information of Raytheon Company for the three months ended March 29, 2009 and March 30, 2008, PricewaterhouseCoopers LLP (PricewaterhouseCoopers) reported that it has applied limited procedures in accordance with professional standards for a review of such information. Its report dated April 23, 2009, 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 March 29, 2009, and the related consolidated statements of operations for the three month periods ended March 29, 2009 and March 30, 2008 and the consolidated statements of cash flows for the three month periods ended March 29, 2009 and March 30, 2008. 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.

As discussed in Note 6 to the consolidated financial statements, in the three month period ended March 29, 2009, the Company changed the manner in which it accounts for, and discloses, noncontrolling interests. Also as discussed in Note 1, in the three month period ended March 29, 2009, the Company changed the manner in which it accounts for business combinations. Also as discussed in Note 10, in the three month period ended March 29, 2009, the Company changed the manner in which it calculates earnings per share. As discussed in Note 1 to the consolidated financial statements, in the three month period ended March 30, 2008, the Company changed the manner in which it accounts for obligations associated with certain life insurance arrangements.

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, 2008, and the related consolidated statements of operations, stockholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 25, 2009, we expressed an unqualified opinion on those consolidated financial statements. As discussed in Note 6 to the accompanying consolidated financial statements, the Company changed the manner in which it accounts for noncontrolling interests in the three month period ended March 29, 2009. The accompanying December 31, 2008 consolidated balance sheet reflects this change.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Boston, Massachusetts

April 23, 2009

---

**Table of Contents**

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. We serve all branches of the U.S. Military and numerous other U.S. Government agencies, the North Atlantic Treaty Organization (NATO) and many allied governments.

We operate in six business 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, 2008.

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2008 and our financial statements included in this 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 workdays in the current and comparable prior interim period to differ and could affect period-to-period comparisons. There were 61 workdays in the first quarter of 2009 compared to 63 workdays in the first quarter of 2008. The following discussions of comparative results among periods should be viewed in this context.

As discussed in Note 1, Basis of Presentation, we prepared the accompanying unaudited consolidated financial statements (Financial Statements) of Raytheon Company on the same basis as our annual consolidated financial statements, which included the adoption on January 1, 2008 of Emerging Issues Task Force (EITF) No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements and EITF No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements, except for the adoptions in the first quarter of 2009 of: Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160); Financial Accounting Standards Board (FASB) Staff Position EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP EITF No. 03-6-1); SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS No. 161); SFAS No. 141(R), Business Combinations, which will be applied prospectively to business combinations with acquisition dates on or after January 1, 2009; and SFAS No. 157, Fair Value Measurements (SFAS No. 157), for all nonfinancial assets and nonfinancial liabilities not recognized or disclosed at fair value in the consolidated financial statements on a recurring basis.

In our discussions of comparative period results, we generally express changes in Net sales in terms of volume. Volume generally refers to increases or decreases in revenues related to varying production activity or service levels on individual contracts. Volume changes will typically drive a corresponding Operating income change based on the profit rate for a particular contract. In addition to volume, changes in segment operating income are based on changes in segment operating margin, which we usually express in terms of program performance and contract mix. Changes in program performance typically relate to profit recognition associated with revisions to total estimated costs or revenues at completion that reflect improved or deteriorated operating performance or award fee rates. We record changes in estimates of contract sales, costs, including indirect cost allocations, and profits using a cumulative catch-up, which recognizes in the current period the cumulative effect of the changes in estimates on current and prior periods. Changes in contract mix reflect changes in the composition of our sales from contracts with differing profit rates.

**Table of Contents**

Selected consolidated results were as follows:

| (In millions, except percentages)                         | Three Months Ended |                | % of Net Sales |                |
|---|--------------------|----------------|----------------|----------------|
|   | March 29, 2009     | March 30, 2008 | March 29, 2009 | March 30, 2008 |
| Net sales   | \$ 5,884           | \$ 5,354       |                |                |
| Gross margin  | 1,187              | 1,096          | 20.2%          | 20.5%          |
| Administrative and selling expenses                       | 364                | 380            | 6.2            | 7.1            |
| Research and development expenses                         | 111                | 107            | 1.9            | 2.0            |
| Operating income  | 712                | 609            | 12.1           | 11.4           |
| Interest expense  | 32                 | 34             | 0.5            | 0.6            |
| Interest income   | 4                  | 23             | 0.1            | 0.4            |
| Other expense, net  | 5                  | 5              | 0.1            | 0.1            |
| Federal and foreign income taxes                          | 222                | 192            | 3.8            | 3.6            |
| Income from continuing operations                         | 457                | 401            | 7.8            | 7.5            |
| Income (loss) from discontinued operations, net of tax    | 3                  | (2)            | 0.1            |                |
| Net income  | 460                | 399            | 7.8            | 7.5            |
| Less: Net income attributable to noncontrolling interests | 8                  | 1              | 0.1            |                |
| Net income attributable to Raytheon Company               | 452                | 398            | 7.7            | 7.4            |

The overall increase in Net sales in the first quarter of 2009 was spread across all segments, as discussed below in Segment Results. Net sales to the U.S. Department of Defense (DoD) were 84% of total Net sales in the first quarter of 2009 compared to 82% of total Net sales in the first quarter of 2008 and Net sales to the U.S. Government were 88% of total Net sales in the first quarter of 2009 compared to 87% of total Net sales in the first quarter of 2008. Included in U.S. Government sales were foreign military sales of \$570 million and \$398 million in the first quarters of 2009 and 2008, respectively. Total international sales, including foreign military sales, were \$1,154 million or 19.6% of total Net sales in the first quarter of 2009 compared to \$1,044 million or 19.5% of total Net sales in the first quarter of 2008.

Gross margin included a FAS/CAS Pension Adjustment of \$11 million of income compared to \$33 million of expense in the three months ended March 29, 2009 and March 30, 2008, respectively. The FAS/CAS Pension Adjustment, which we report as a separate line item in our segment results, represents the difference between our pension expense or income under SFAS No. 87 Employers Accounting for Pensions (SFAS No. 87), and our pension expense under U.S. Government cost accounting standards (CAS). For more information on the FAS/CAS Pension Adjustment, see our discussion below in Segment Results. The results of each segment only include pension expense under CAS that we generally recover through the pricing of our products and services to the U.S. Government.

In accordance with the requirements of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, and SFAS No. 87, pension and other postretirement benefit assets and liabilities are valued annually at the end of the year for purposes of determining funded status and future year pension expense. Our long-term return on assets and discount rate assumptions are key variables in making such determinations and are discussed in more detail under Critical Accounting Estimates within Item 7 of our Form 10-K for the year ended December 31, 2008. There has been a slightly negative return on pension assets through March 29, 2009 compared to our assumption of a positive annual return of 8.75% at December 31, 2008. If the actual rate of return on plan assets continues to be below our assumed 8.75% rate of return through December 31, 2009, it would negatively impact our funded status at year-end and increase pension expense in future years. Alternatively, if the current corporate bond yield environment as of March 29, 2009 continues through December 31, 2009, it may result in a higher discount rate than our discount rate assumption of 6.5% at December 31, 2008 and positively impact our funded status at year-end. The ultimate impact on our future pension expense and funded status will be determined based upon market conditions in effect when we perform our annual valuation for the December 31, 2009 financial statements.

The changes in Operating income by segment are described below in Segment Results.

The decrease in Administrative and selling expenses as a percentage of Net sales in the first quarter of 2009 was primarily due to the timing of certain costs and cost reduction efforts.

Research and development expenses as a percentage of Net sales of in the first quarter of 2009 remained relatively consistent with the first quarter of 2008.



**Table of Contents**

The decrease in Interest expense in the first quarter of 2009 compared to the first quarter of 2008 was primarily due to \$2 million of amortization of the \$37 million gain on the termination of all our interest rate swap agreements in the first quarter of 2009.

The decrease in Interest income in the first quarter of 2009 compared to the first quarter of 2008 was primarily due to a decrease in interest rates driven by a shift in our strategy to invest in U.S. Treasury bills.

Other expense, net in the first quarter of 2009 remained consistent with the first quarter of 2008.

The effective tax rate from continuing operations was 32.7% and 32.4% in the first quarter of 2009 and 2008, respectively, reflecting the U.S. statutory rate adjusted for various permanent differences between book and tax reporting. The effective tax rate in the first quarter of 2009 was lower than the statutory rate due to manufacturing tax benefits, the research and development tax credit and certain dividend deductions, and was partially offset by various non-deductible expenses. The effective tax rate in the first quarter of 2008 was lower than the statutory rate due to manufacturing tax benefits, certain dividend deductions and tax benefits related to certain refund claims, and was partially offset by various non-deductible expenses. The effective rate in the first quarter of 2009 was 0.3% higher than the first quarter of 2008 primarily due to the tax benefits related to certain refund claims in the first quarter of 2008.

Income from continuing operations was \$457 million or \$1.11 per diluted share on 404.0 million average diluted shares outstanding in the first quarter of 2009 compared to \$401 million or \$0.92 per diluted share on 434.7 million average diluted shares outstanding in the first quarter of 2008. The increase in Income from continuing operations of \$56 million in the first quarter of 2009 compared to the first quarter of 2008 was primarily due to the following:

\$59 million of volume, net of program performance and a \$44 million lower FAS/CAS Pension Adjustment, both discussed below in Segment Results.

These were partially offset by:

\$30 million of higher taxes related primarily to our higher income and higher net interest expense of \$17 million.

Net income was \$460 million in the first quarter 2009 compared to \$399 million in the first quarter of 2008. Net income attributable to noncontrolling interests was \$8 million in the first quarter of 2009 compared to \$1 million in the first quarter of 2008.

Net income attributable to Raytheon Company common stockholders was \$452 million or \$1.12 per diluted share in the first quarter of 2009 compared to \$398 million or \$0.92 per diluted share in the first quarter of 2008.

**Segment Results**

Segment financial results were as follows:

| Net Sales (In millions)              | Three Months Ended |                |
|--------------------------------------|--------------------|----------------|
|                                      | March 29, 2009     | March 30, 2008 |
| Integrated Defense Systems           | \$ 1,262           | \$ 1,192       |
| Intelligence and Information Systems | 784                | 692            |
| Missile Systems                      | 1,368              | 1,319          |
| Network Centric Systems              | 1,154              | 1,067          |
| Space and Airborne Systems           | 1,046              | 977            |
| Technical Services                   | 696                | 521            |
| Corporate and Eliminations           | (426)              | (414)          |
| Total                                | \$ 5,884           | \$ 5,354       |



**Table of Contents**

| <b>Operating Income (In millions)</b> | <b>Three Months Ended</b> |                       |
|---------------------------------------|---------------------------|-----------------------|
|                                       | <b>March 29, 2009</b>     | <b>March 30, 2008</b> |
| Integrated Defense Systems            | \$ 188                    | \$ 211                |
| Intelligence and Information Systems  | 61                        | 52                    |
| Missile Systems                       | 158                       | 139                   |
| Network Centric Systems               | 163                       | 124                   |
| Space and Airborne Systems            | 139                       | 117                   |
| Technical Services                    | 44                        | 35                    |
| FAS/CAS Pension Adjustment            | 11                        | (33)                  |
| Corporate and Eliminations            | (52)                      | (36)                  |
| <b>Total</b>                          | <b>\$ 712</b>             | <b>\$ 609</b>         |

| <b>Bookings (In millions)</b>        | <b>Three Months Ended</b> |                       |
|--------------------------------------|---------------------------|-----------------------|
|                                      | <b>March 29, 2009</b>     | <b>March 30, 2008</b> |
| Integrated Defense Systems           | \$ 1,209                  | \$ 1,106              |
| Intelligence and Information Systems | 503                       | 1,019                 |
| Missile Systems                      | 775                       | 1,642                 |
| Network Centric Systems              | 1,234                     | 1,592                 |
| Space and Airborne Systems           | 1,037                     | 728                   |
| Technical Services                   | 451                       | 418                   |
| Corporate                            |                           | 11                    |
| <b>Total</b>                         | <b>\$ 5,209</b>           | <b>\$ 6,516</b>       |

Bookings represent the dollar value of new contract awards recognized during the period and includes firm orders for which funding has not been appropriated. Bookings for not-to-exceed contract awards are recorded based on a reasonable estimate of the expected contract definitization, which will generally not be less than 75% of the award, and are subsequently adjusted to reflect the actual amounts definitized or, when prior to definitization, facts and circumstances indicate the previous estimate is no longer reasonable. Bookings in each year are influenced by the timing of awards that may cover multiple fiscal years. Bookings exclude unexercised contract options and potential orders under ordering-type contracts (e.g., indefinite delivery/indefinite quantity (IDIQ) type contracts), and are reduced for contract cancellations and terminations of bookings recognized in the current year. We reflect contract cancellations and terminations from prior year bookings, as well as the impact of changes in foreign exchange rates, directly as an adjustment to backlog.

| <b>(In millions)</b>                 | <b>Funded Backlog</b> |                      | <b>Total Backlog</b>  |                      |
|--------------------------------------|-----------------------|----------------------|-----------------------|----------------------|
|                                      | <b>March 29, 2009</b> | <b>Dec. 31, 2008</b> | <b>March 29, 2009</b> | <b>Dec. 31, 2008</b> |
| Integrated Defense Systems           | \$ 5,735              | \$ 4,802             | \$ 9,684              | \$ 9,883             |
| Intelligence and Information Systems | 1,761                 | 1,890                | 4,818                 | 5,137                |
| Missile Systems                      | 5,605                 | 6,082                | 9,355                 | 9,937                |
| Network Centric Systems              | 4,816                 | 4,593                | 5,850                 | 5,733                |
| Space and Airborne Systems           | 3,284                 | 2,731                | 5,613                 | 5,442                |
| Technical Services                   | 1,821                 | 1,888                | 2,619                 | 2,752                |
| <b>Total</b>                         | <b>\$ 23,022</b>      | <b>\$ 21,986</b>     | <b>\$ 37,939</b>      | <b>\$ 38,884</b>     |

Total backlog includes both funded backlog (unfilled orders for which funding is authorized, appropriated and contractually obligated by the customer) and unfunded backlog (firm orders for which funding has not been appropriated and/or contractually obligated by the customer). Backlog excludes unexercised contract options and potential orders under ordering-type contracts (e.g. IDIQ). Both funded and unfunded backlog are affected by changes in foreign exchange rates. Backlog is increased by bookings and is converted into sales as work is performed or deliveries are made.

**Table of Contents****Integrated Defense Systems**

| (In millions, except percentages) | March 29, 2009 | Three Months Ended<br>March 30, 2008 | % Change |
|-----------------------------------|----------------|--------------------------------------|----------|
| Net Sales                         | \$ 1,262       | \$ 1,192                             | 5.9%     |
| Operating Income                  | 188            | 211                                  | -10.9%   |
| Operating Margin                  | 14.9%          | 17.7%                                |          |
| Bookings                          | \$ 1,209       | \$ 1,106                             | 9.3%     |

*Net Sales.* The increase in Net sales of \$70 million in the first quarter of 2009 was primarily due to \$62 million of higher volume on domestic and international Patriot programs.

*Operating Income and Margin.* The decrease in Operating income of \$23 million in the first quarter of 2009 was primarily due to a change in contract mix driven by the completion of certain programs and positive program performance adjustments in 2008, partially offset by an increase in volume. IDS operating income also benefited from \$14 million of sales on certain licensed software in the first quarter of 2008. Operating margin declined from the first quarter of 2008 because of the change in contract mix, program performance adjustments in 2008 and the sales of software in 2008.

*Backlog and Bookings.* Backlog was \$9,684 million at March 29, 2009 compared to \$9,883 million at December 31, 2008. Bookings in the first quarter of 2009 were \$103 million higher than the first quarter of 2008 primarily due to the Patriot awards in the first quarter of 2009. In the first quarter of 2009, IDS booked \$741 million in new international and domestic Patriot awards, including \$185 million for the United Arab Emirates (UAE), \$139 million for Taiwan, \$159 million to provide engineering services and \$115 million for the Patriot Pure Fleet program for the U.S. Army.

**Intelligence and Information Systems**

| (In millions, except percentages) | March 29, 2009 | Three Months Ended<br>March 30, 2008 | % Change |
|-----------------------------------|----------------|--------------------------------------|----------|
| Net Sales                         | \$ 784         | \$ 692                               | 13.3%    |
| Operating Income                  | 61             | 52                                   | 17.3%    |
| Operating Margin                  | 7.8%           | 7.5%                                 |          |
| Bookings                          | \$ 503         | \$ 1,019                             | -50.6%   |

*Net Sales.* The increase in Net sales of \$92 million in the first quarter of 2009 was primarily due to higher volume on a number of classified contracts.

*Operating Income and Margin.* The increase in Operating income of \$9 million in the first quarter of 2009 was primarily due to increased volume. Operating margin in the first quarter of 2009 remained relatively consistent with the first quarter of 2008.

*Backlog and Bookings.* Backlog was \$4,818 million at March 29, 2009 compared to \$5,137 million at December 31, 2008. Bookings in the first quarter of 2009 were \$516 million lower than the first quarter of 2008 primarily due to classified bookings of \$556 million in the first quarter of 2008. In the first quarter of 2009, IIS booked \$236 million on a number of classified contracts.

**Missile Systems**

| (In millions, except percentages) | March 29, 2009 | Three Months Ended<br>March 30, 2008 | % Change |
|-----------------------------------|----------------|--------------------------------------|----------|
|-----------------------------------|----------------|--------------------------------------|----------|



Edgar Filing: RAYTHEON CO/ - Form 10-Q

|                  |          |          |        |
|------------------|----------|----------|--------|
| Net Sales        | \$ 1,368 | \$ 1,319 | 3.7%   |
| Operating Income | 158      | 139      | 13.7%  |
| Operating Margin | 11.5%    | 10.5%    |        |
| Bookings         | \$ 775   | \$ 1,642 | -52.8% |

**Table of Contents**

*Net Sales.* The increase in Net sales in the first quarter of 2009 of \$49 million was primarily due to \$111 million of higher volume from the Standard Missile, Advanced Medium-Range Air-to-Air Missile (AMRAAM) and Evolved Sea Sparrow Missile (ESSM) programs, which was partially offset by lower volume on other programs, primarily the Rolling Airframe Missile (RAM) program.

*Operating Income and Margin.* The increase in Operating income of \$19 million and the related improvement in operating margin in the first quarter of 2009 were primarily due to improved program performance.

*Backlog and Bookings.* Backlog was \$9,355 million at March 29, 2009 compared to \$9,937 million at December 31, 2008. Bookings in the first quarter of 2009 were \$867 million lower than the first quarter of 2008, primarily due to a \$578 million award for Standard Missile-3 in the first quarter of 2008. In the first quarter of 2009, MS booked \$119 million for the continued development and production on the Exoatmospheric Kill Vehicle (EKV) program.

**Network Centric Systems**

| (In millions, except percentages) | March 29, 2009 | Three Months Ended<br>March 30, 2008 | % Change |
|-----------------------------------|----------------|--------------------------------------|----------|
| Net Sales                         | \$ 1,154       | \$ 1,067                             | 8.2%     |
| Operating Income                  | 163            | 124                                  | 31.5%    |
| Operating Margin                  | 14.1%          | 11.6%                                |          |
| Bookings                          | \$ 1,234       | \$ 1,592                             | -22.5%   |

*Net Sales.* The increase in Net sales in the first quarter of 2009 of \$87 million was primarily due to higher volume of \$65 million from certain U.S. Army programs, including an improved target acquisition system, a weapon locating radar program, a long-range multi-sensor system program and an integrated ground combat surveillance program, partially offset by lower volume on a communications program.

*Operating Income and Margin.* The increase in Operating income of \$39 million in the first quarter of 2009 was primarily due to improved program performance and increased volume on certain U.S. Army programs. The increase in operating margin was primarily due to improved program performance.

*Backlog and Bookings.* Backlog was \$5,850 million at March 29, 2009 compared to \$5,733 million at December 31, 2008. Bookings in the first quarter of 2009 were \$358 million lower than the first quarter of 2008 primarily due to a \$309 million award for Horizontal Technology Integration (HTI) forward-looking infrared kits and a \$203 million award for Improved Target Acquisition System (ITAS) in the first quarter of 2008.

**Space and Airborne Systems**

| (In millions, except percentages) | March 29, 2009 | Three Months Ended<br>March 30, 2008 | % Change |
|-----------------------------------|----------------|--------------------------------------|----------|
| Net Sales                         | \$ 1,046       | \$ 977                               | 7.1%     |
| Operating Income                  | 139            | 117                                  | 18.8%    |
| Operating Margin                  | 13.3%          | 12.0%                                |          |
| Bookings                          | \$ 1,037       | \$ 728                               | 42.4%    |

*Net Sales.* The increase in Net sales in the first quarter of 2009 of \$69 million was primarily due to higher volume of \$100 million on classified contracts and a new international tactical radar program, partially offset by lower volume on other programs primarily on certain domestic tactical radar programs.

*Operating Income and Margin.* The increase in Operating income of \$22 million and the related increase in operating margin in the first quarter of 2009 was primarily due to a \$12 million benefit from the favorable settlement of affirmative claims on two contracts and increased volume.

## Edgar Filing: RAYTHEON CO/ - Form 10-Q

*Backlog and Bookings.* Backlog was \$5,613 million at March 29, 2009 compared to \$5,442 million at December 31, 2008. Bookings in the first quarter of 2009 were \$309 million higher than the first quarter of 2008, primarily due to a first quarter of 2009 award for \$422 million to supply APG-63 fire control radars and support equipment for the Japan Air Self-Defense Force. SAS also booked \$130 million for the B-2 Radar Modernization Program (RMP) in the first quarter of 2009.

**Table of Contents****Technical Services**

| (In millions, except percentages) | March 29, 2009 | Three Months Ended<br>March 30, 2008 | % Change |
|-----------------------------------|----------------|--------------------------------------|----------|
| Net Sales                         | \$ 696         | \$ 521                               | 33.6%    |
| Operating Income                  | 44             | 35                                   | 25.7%    |
| Operating Margin                  | 6.3%           | 6.7%                                 |          |
| Bookings                          | \$ 451         | \$ 418                               | 7.9%     |

*Net Sales.* The increase in Net sales of \$175 million in the first quarter of 2009 was primarily due to \$187 million of growth on our training programs, primarily on the U.S. Army's Warfighter Field Operations Customer Support (FOCUS) contract for the U.S Army, partially offset by lower volume on a Defense Threat Reduction Agency (DTRA) program.

*Operating Income and Margin.* The increase in Operating income of \$9 million in the first quarter of 2009 was primarily due to increased volume. Operating margin in the first quarter of 2009 remained relatively consistent with the first quarter of 2008.

*Backlog and Bookings.* Backlog was \$2,619 million at March 29, 2009 compared to backlog of \$2,752 million at December 31, 2008. Bookings in the first quarter of 2009 were \$33 million higher than the first quarter of 2008, primarily due to a first quarter of 2009 award of \$178 million for work on the Warfighter FOCUS contract for the U.S. Army.

**FAS/CAS Pension Adjustment and Corporate and Eliminations**

The FAS/CAS Pension Adjustment represents the difference between our pension expense or income under SFAS No. 87 and our pension expense under CAS. The results of each segment only include pension expense under CAS that we generally recover through the pricing of our products and services to the U.S. Government.

The components of the FAS/CAS Pension Adjustment were as follows:

| (In millions)              | March 29, 2009 | Three Months Ended<br>March 30, 2008 |
|----------------------------|----------------|--------------------------------------|
| FAS expense                | \$ (153)       | \$ (131)                             |
| CAS expense                | 164            | 98                                   |
| FAS/CAS Pension Adjustment | \$ 11          | \$ (33)                              |

A key driver of the difference between FAS and CAS expense (and consequently, the FAS/CAS Pension Adjustment) is the pattern of earnings and expense recognition for gains and losses that arise when our asset and liability experience differs from our assumptions under each set of requirements. Generally, such gains or losses are amortized under FAS over the average future working lifetime of the eligible employee population of approximately 11 years and are amortized under CAS over a 15-year period. In accordance with both FAS and CAS, a market-related value of our plan assets is used to calculate the amount of deferred asset gains or losses to be amortized. The market-related value of assets is determined using actual asset gains or losses over a certain prior period (three years for FAS and five years for CAS, subject to certain limitations under CAS on the difference between the market-related value and actual market value of assets). Because of this difference in the number of years over which actual asset gains or losses are recognized and subsequently amortized, FAS expense generally tends to reflect the recent gains or losses faster than CAS. Another driver of CAS expense (but not FAS expense) is the funded status of our pension plans under CAS. As noted above, CAS expense is only recognized for plans that are not fully funded; consequently, if plans become or cease to be fully funded under CAS due to our asset or liability experience, our CAS expense will change accordingly.

In 2009, our expected CAS expense increased more than our expected FAS expense resulting in a significant decrease in the FAS/CAS Pension Adjustment. The increase in our expected CAS expense was driven by negative asset returns in 2008 which caused certain plans to no longer be fully funded under CAS. While our expected FAS expense also increased due to the lower than expected return on assets, the expected return on

our discretionary contribution to our pension plans in 2008 as well as the additional funding requirements expected in 2009, helped to partially offset the expected FAS expense increase.

**Table of Contents**

On an annual basis, at December 31<sup>st</sup>, we update our estimate of future FAS and CAS pension expense based upon actual asset returns and other actuarial factors. Other variables that can impact the pension plans' funded status and FAS and CAS expense include demographic experience such as the expected rates of salary increase, retirement age, turnover and mortality. In addition, certain pension plans provide a lump sum form of benefit that varies based upon externally determined interest rates. Assumptions for these variables are set at the beginning of the year, and are based on actual and projected plan experience. On a periodic basis, generally planned annually in the third quarter, we update our actuarial estimate of the unfunded projected benefit obligation for both FAS and CAS with final census data from the end of the prior year.

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 commuter aircraft portfolio.

The components of Net sales related to Corporate and Eliminations were as follows:

| (In millions)                   | Three Months Ended |                 |
|---------------------------------|--------------------|-----------------|
|                                 | March 29, 2009     | March 30, 2008  |
| Intersegment sales eliminations | \$ (429)           | \$ (425)        |
| Corporate                       | 3                  | 11              |
| <b>Total</b>                    | <b>\$ (426)</b>    | <b>\$ (414)</b> |

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

| (In millions)                    | Three Months Ended |                |
|----------------------------------|--------------------|----------------|
|                                  | March 29, 2009     | March 30, 2008 |
| Intersegment profit eliminations | \$ (33)            | \$ (36)        |
| Corporate                        | (19)               |                |
| <b>Total</b>                     | <b>\$ (52)</b>     | <b>\$ (36)</b> |

The increase in corporate in the first quarter of 2009 compared to the first quarter of 2008 was primarily driven by the timing of miscellaneous corporate expenses.

**Discontinued Operations**

Results from discontinued operations were as follows:

| (In millions)                 | Three Months Ended   |                |                         |                |
|-------------------------------|----------------------|----------------|-------------------------|----------------|
|                               | Pretax Income (Loss) |                | After-tax Income (Loss) |                |
|                               | March 29, 2009       | March 30, 2008 | March 29, 2009          | March 30, 2008 |
| Raytheon Aircraft             | \$ 3                 | \$             | \$ 4                    | \$             |
| Flight Options                |                      | (1)            |                         | (1)            |
| Other Discontinued Operations |                      | (2)            | (1)                     | (1)            |
| <b>Total</b>                  | <b>\$ 3</b>          | <b>\$ (3)</b>  | <b>\$ 3</b>             | <b>\$ (2)</b>  |

In 2007, we sold our Raytheon Aircraft Company (Raytheon Aircraft) and Flight Options LLC (Flight Options) businesses. As a result, we present Raytheon Aircraft, Flight Options and our other previously disposed businesses (Other Discontinued Operations) as discontinued operations for all periods. All residual activity relating to our disposed businesses appears in discontinued operations.

## Edgar Filing: RAYTHEON CO/ - Form 10-Q

We retained certain assets and liabilities of these disposed businesses. At March 29, 2009 and December 31, 2008, we had \$71 million in non-current assets primarily related to our subordinated retained interest in general aviation finance receivables previously sold by Raytheon Aircraft. At March 29, 2009 and December 31, 2008, we had \$69 million and \$77 million of liabilities, respectively, primarily in current liabilities related to certain environmental and product liabilities,

**Table of Contents**

aircraft lease obligations, non-income tax obligations, and various contract obligations. We also have certain income tax obligations relating to these disposed businesses, which we include in our income tax disclosures. The Internal Revenue Service concluded a federal excise tax audit and assessed us additional excise tax related to the treatment of certain Flight Options customer fees and charges, which we have appealed. We continue to believe that an unfavorable outcome is not probable and expect that any potential liability will not have a material adverse effect on our financial position, results of operations or liquidity. 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.

**Financial Condition and Liquidity****Overview**

We pursue a capital deployment strategy that balances funding for growing our business, including capital expenditures, acquisitions and research and development; managing our balance sheet, including debt repayments and pension contributions; and returning cash to our stockholders, including dividend payments and share repurchases, as outlined below. Our need for, cost of and access to funds are dependent on future operating results, as well as other external conditions. We currently expect that cash and cash equivalents, cash flow from operations and other available financing resources will be sufficient to meet anticipated operating, capital expenditure, investment, debt service and other financing requirements during the next twelve months and for the foreseeable future.

During the first quarter of 2009, certain significant cash flows were as follows:

\$300 million of stock repurchases;

\$337 million of federal tax refunds;

\$112 million in dividend payments; and

\$46 million for payments for additions to plant and equipment and capitalized internal use software additions.

We discuss these cash flows in more detail below.

In addition, the following table highlights selected measures of our liquidity and capital resources as of March 29, 2009 and December 31, 2008:

| <b>(In millions, except percentages)</b>    | <b>March 29, 2009</b> | <b>Dec. 31, 2008</b> |
|---|-----------------------|----------------------|
| Cash and cash equivalents                   | \$ 2,210              | \$ 2,259             |
| Working capital                             | 2,671                 | 2,268                |
| Amount available under credit facility      | 2,160                 | 2,160                |
| Total debt as a percentage of total capital | 19.8%                 | 20.1%                |

The increase in working capital in the first quarter of 2009 was primarily due to an increase in Contracts in process driven by the timing of payments and a decrease in Accrued employee compensation offset by federal tax refunds described below.

**Operating Activities**

| <b>(In millions)</b>   | <b>Three Months Ended</b> |                       |
|--|---------------------------|-----------------------|
|  | <b>March 29, 2009</b>     | <b>March 30, 2008</b> |
| Cash provided by operating activities from continuing operations | \$ 411                    | \$ 67                 |
| Cash provided by operating activities                            | 405                       | 57                    |



## Edgar Filing: RAYTHEON CO/ - Form 10-Q

The increase in Net cash provided by operating activities in the first quarter of 2009 was primarily due to \$337 million of federal tax refunds received in the first quarter of 2009.

*Tax Payments* - In the first quarter of 2009, we received federal tax refunds totaling \$337 million and made \$14 million in net foreign tax payments and \$18 million in net state tax payments. Tax payments in the first quarter of 2008, including net state tax payments, were \$38 million. We expect federal and foreign tax payments, net of refunds, to be approximately \$210 million in 2009.

**Table of Contents**

*Pension Plan Contributions* - We can make both discretionary and required contributions to our pension plans. Required contributions are primarily determined by ERISA rules and are affected by the actual return on plan assets and plan funded status. If discretionary contributions are made, a funding credit is accumulated which can be used to offset future calculated required contributions. The funding credit for our pension plans was \$2.4 billion at March 29, 2009 and December 31, 2008. We did not make any discretionary contributions to our pension plans during the three months ended March 29, 2009 and March 30, 2008. We made required contributions of \$19 million and \$105 million during the three months ended March 29, 2009 and March 30, 2008, respectively, to our pension and other postretirement benefit plans. We expect to make required contributions of approximately \$1,110 million and \$45 million to our pension and other postretirement benefit plans, respectively, in 2009. The expected increase in required contributions over 2008 is primarily due to the impact of the decline in value of pension plan assets in 2008. We periodically evaluate whether to make discretionary contributions. Future funding requirements will likely be affected by the Pension Protection Act of 2006, which requires companies to fully fund their pension plans over a seven-year period. For certain defense contractors, the new funding rules become effective no sooner than 2010 and no later than 2011, depending on when the U.S. Government Cost Accounting Standards Board (CAS Board) aligns the U.S. Government CAS with the new funding requirements.

Interest payments in the first quarter of 2009 and the first quarter of 2008 were \$33 million and \$42 million, respectively.

**Investing Activities**

| (In millions)                         | Three Months Ended |                |
|---------------------------------------|--------------------|----------------|
|                                       | March 29, 2009     | March 30, 2008 |
| Net cash used in investing activities | \$ 46              | \$ 61          |

The decrease in cash used in investing activities in the first quarter of 2009 was primarily due to lower Additions to property, plant and equipment and lower Additions to capitalized internal use software in the first quarter of 2009.

Additions to property, plant and equipment were \$33 million in the first quarter of 2009 compared to \$43 million in the first quarter of 2008. Additions to capitalized internal use software were \$13 million in the first quarter of 2009 compared to \$17 million in the first quarter of 2008. We expect our 2009 Additions to property, plant and equipment and Additions to capitalized internal use software to be approximately \$370 million and \$90 million, respectively, consistent with the anticipated growth of our business and specific investments including program capital assets and facility improvements.

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

**Financing Activities**

| (In millions)                         | Three Months Ended |                |
|---------------------------------------|--------------------|----------------|
|                                       | March 29, 2009     | March 30, 2008 |
| Net cash used in financing activities | \$ 408             | \$ 364         |

We have used cash provided by operating activities as our primary source for the repayment of debt, payment of dividends and the repurchase of our common stock. The increase of \$44 million in Net cash used in financing activities was primarily due to proceeds received under common stock plans in the first quarter of 2008, partially offset by a lower cost to repurchase common stock in the first quarter of 2009.

*Stock Repurchases* - Information on our repurchases of our common stock under our share repurchase programs is as follows:

| (In millions)               | Three Months Ended |                |
|-----------------------------|--------------------|----------------|
|                             | March 29, 2009     | March 30, 2008 |
| Amount of stock repurchased | \$ 300             | \$ 340         |
| Shares of stock repurchased | 6.8                | 5.5            |

**Table of Contents**

In October 2008, our Board of Directors authorized the repurchase of up to \$2.0 billion of our outstanding common stock. In the first quarter of 2009 we repurchased 6.8 million shares of our common stock for \$300 million under this and previous repurchase programs. In the first quarter of 2008, we repurchased 5.5 million shares of our common stock for \$340 million under previous stock repurchase programs. As of March 29, 2009, we had approximately \$1.8 billion available under the October 2008 repurchase program.

In October 2007, our Board of Directors authorized the repurchase of up to \$2.0 billion of our outstanding common stock. As of March 29, 2009, we had repurchased \$2.0 billion under this stock repurchase program. Share repurchases will take place from time to time at management's discretion depending on market conditions.

*Cash Dividend* - Our Board of Directors authorized the following cash dividends:

| (In millions, except per share amounts) | Three Months Ended |                |
|---|--------------------|----------------|
|   | March 29, 2009     | March 30, 2008 |
| Cash dividends per share                | \$ 0.31            | \$ 0.28        |
| Total dividends paid                    | \$ 112             | \$ 109         |

In March 2009, our Board of Directors authorized an 11% increase to our annual dividend payout rate from \$1.12 to \$1.24 per share. Dividends paid to stockholders were \$112 million in the first quarter of 2009 compared to \$109 million in the first quarter of 2008. Although we do not have a formal dividend policy, we believe that a reasonable dividend payout ratio is approximately one third of our economic earnings (income excluding the FAS/CAS Pension Adjustment). Dividends are subject to quarterly approval by our Board of Directors.

**Capital Resources**

Total debt was \$2.3 billion at March 29, 2009 and December 31, 2008. Our outstanding debt bears interest at fixed rates ranging from 4.9% to 7.2% and matures at various dates through 2028. Total debt as a percentage of total capital was 19.8% at March 29, 2009 and 20.1% at December 31, 2008.

*Cash and Cash Equivalents* - Cash and cash equivalents were \$2.2 billion at March 29, 2009 compared to \$2.3 billion at December 31, 2008. We invest cash directly in U.S. Treasuries; commercial paper of financial institutions and corporations with AA-/Aa3 or better long-term and A-1+/P-1 short-term debt ratings, or guaranteed by the U.S. Government's Temporary Liquidity Guarantee Program; AAA/Aaa U.S. Treasury money market funds; and interest bearing bank accounts. Cash balances held at our foreign subsidiaries were approximately 15% of our total cash balance at March 29, 2009 and December 31, 2008, respectively, and are deemed to be indefinitely reinvested.

*Credit Facilities* - We have a \$2.2 billion bank revolving credit facility under which we could draw on lines of credit, issue letters of credit and backstop commercial paper. Borrowings under the credit facility bear interest at LIBOR plus 40 basis points (based on Raytheon's credit rating at March 29, 2009). The credit facility is comprised of commitments from approximately thirty separate highly rated lenders, each committing no more than 10% of the entire facility. The credit facility matures in March 2010 and we intend to renew prior to maturity. The terms of the renewed facility, including the amount of the facility, maturity, pricing and covenants, will depend on market conditions at the time of renewal. As of March 29, 2009 and December 31, 2008, there were no borrowings under the credit facility. We had, however, \$40 million of outstanding letters of credit at March 29, 2009 and December 31, 2008, respectively, which effectively reduced our borrowing capacity under the credit facility by the same amount.

Under the credit facility, we are required to comply with certain covenants, including the ratio of total debt to total capital of no more than 50% and the ratio of consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) to consolidated net interest expense, for any period of four consecutive fiscal quarters, of no less than 3 to 1. We were in compliance with the covenants at March 29, 2009 and December 31, 2008. Total debt as a percentage of total capital was 19.8% and 20.1% at March 29, 2009 and December 31, 2008, respectively. Our ratio of EBITDA to consolidated net interest expense was 37.2 to 1 and 45.4 to 1 for the three and twelve month periods ended March 29, 2009 and December 31, 2008, respectively.

Certain of our foreign subsidiaries maintain revolving bank lines of credit to provide them with a limited amount of short-term liquidity. Our uncommitted bank lines totaled approximately \$10 million at March 29, 2009 and December 31, 2008.

**Table of Contents**

There were no amounts outstanding under these lines of credit at March 29, 2009 and December 31, 2008. Compensating balance arrangements are not material.

Three major corporate debt rating organizations, Fitch Ratings (Fitch), Moody's Investors Service (Moody's) and Standard & Poor's (S&P), assign ratings to our short-term and long-term debt. The following chart reflects the current ratings assigned by each of these agencies to our short-term debt and long-term senior unsecured debt:

| Rating Agency | Short-Term Debt | Long-Term Senior Debt |         | Date of Last Action |
|---------------|-----------------|-----------------------|---------|---------------------|
|               |                 | Rating                | Outlook |                     |
| Fitch         | F2              | A -                   | Stable  | September 2008      |
| Moody's       | P-2             | Baa1                  | Stable  | March 2007          |
| S&P           | A-2             | A -                   | Stable  | September 2008      |

*Shelf Registrations* - The capacity of our current shelf registration, filed with the SEC in October 2008, is \$3.0 billion, of which \$450 million was used for the registration of common stock issuable under certain outstanding warrants issued in 2006.

During the current downturn in global financial markets, some companies have experienced difficulties accessing their cash equivalents, trading investment securities, drawing on revolvers, issuing debt and raising capital generally, which have had a material adverse impact on their liquidity. Given our current cash position, credit ratings, cash needs, and debt structure, along with the type of short-term investments we have made, we have not experienced any material issues and we continue to expect that our current liquidity, notwithstanding these adverse market conditions, will be sufficient to meet all our anticipated needs during the next twelve months and for the foreseeable future.

**Commitments and Contingencies**

We are involved in various stages of investigation and cleanup related to remediation of various environmental sites. Our estimate of total environmental remediation costs was \$193 million and \$157 million at March 29, 2009 and December 31, 2008, respectively. Discounted at a weighted-average risk-free rate of 5.7%, we estimated the liability at March 29, 2009 to be \$133 million before U.S. Government recovery and had this amount accrued. Discounted at a weighted-average risk-free rate of 5.7%, we estimated the liability at December 31, 2008 to be \$105 million before U.S. Government recovery and had this amount accrued. A portion of these costs are 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. Accordingly, we recorded \$95 million and \$69 million in Contracts in process through March 29, 2009 and December 31, 2008, respectively, for the estimated future recovery of these costs from the U.S. Government. We also lease certain government-owned properties and are generally not liable for environmental remediation at these sites; as a result, we generally do not reflect the provision for these costs in our consolidated financial statements. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative cleanup methods and technologies, the uncertainty of insurance coverage and the unresolved extent of our responsibility, it is difficult to determine the ultimate outcome of 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.

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. Approximately \$278 million, \$1,010 million and \$111 million of these guarantees, letters of credit and surety bonds, respectively, for which there were stated values, were outstanding at March 29, 2009, and \$281 million, \$1,012 million and \$111 million, respectively, were outstanding at December 31, 2008. These instruments expire on various dates through 2015. Additional guarantees of project performance for which there is no stated value also remain outstanding.

Included in guarantees and letters of credit described above were \$56 million and \$173 million, respectively, at March 29, 2009, and \$59 million and \$180 million, respectively, at December 31, 2008, related to our joint venture in Thales-Raytheon Systems Co. Ltd. (TRS). TRS has two major operating subsidiaries, one of which, Thales-Raytheon Systems Co. LLC (TRS LLC), we control and consolidate and the other one, TRS SAS, which we account for using the equity method through our investment in TRS. Our investment in TRS was \$64 million and \$65 million at March 29, 2009 and December 31, 2008, respectively.

**Table of Contents**

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. At March 29, 2009 and December 31, 2008, we had an estimated liability of \$2 million related to these guarantees and letters of credit. We periodically evaluate the risk of TRS and other affiliates failing to satisfy their loans, project performance and other contractual obligations described above. At March 29, 2009 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 March 29, 2009.

Also included in guarantees and letters of credit described above were \$86 million and \$6 million, respectively, at March 29, 2009 and December 31, 2008, related to discontinued operations.

Our residual turbo-prop commuter aircraft portfolio has exposure to outstanding financing arrangements with the aircraft serving as collateral. We have sold and leased commuter aircraft globally to thinly capitalized companies whose financial condition could be significantly affected by a number of factors, including rising fuel and other costs, industry consolidation, declining commercial aviation market conditions and the U.S. Government budget for the Essential Air Service program. Based on recent economic trends, including tightening credit markets and volatile fuel costs, these companies may increasingly experience difficulties meeting their financial commitments. At March 29, 2009 and December 31, 2008, our exposure on commuter aircraft assets held as inventory, collateral on notes or as leased assets, was approximately \$160 million relating to 125 aircraft and approximately \$170 million relating to 127 aircraft, respectively. The valuation of used aircraft in inventories, which are stated at cost, but not in excess of realizable value, requires significant judgment. The valuation of used aircraft is also considered in assessing the realizable value of certain commuter aircraft related assets which serve as collateral for the underlying financing arrangements. As part of the assessment of realizable value, we evaluate many factors including sales transaction history, current market conditions, anticipated future market conditions and age and condition of the aircraft. The carrying value of our commuter aircraft portfolio assumes an orderly disposition of these assets, consistent with our historical experience and strategy. 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.

Government contractors are subject to many levels of audit and investigation. Agencies that oversee contract performance include: the Defense Contract Audit 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.

**Accounting Standards**

New pronouncements issued but not effective until after March 29, 2009, are not expected to have a material effect on our financial position, results of operations, or liquidity.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our primary market exposures are to interest rates and foreign exchange rates.

We meet our working capital requirements with a combination of variable-rate short-term and fixed-rate long-term financing. We enter into interest rate swap agreements with commercial and investment banks to manage interest rates associated with our financing arrangements. We also enter into foreign currency forward contracts with commercial banks to fix the foreign currency exchange rates on specific commitments and payments to vendors and customer receipts. The market-risk sensitive instruments we use for hedging are entered into with commercial and investment banks and are directly related to a particular asset, liability or transaction for which commitments are in place.

The following tables provide information as of March 29, 2009 and December 31, 2008 about our market risk exposure

**Table of Contents**

associated with changing interest rates. For long-term debt obligations, the table presents principal cash flows by maturity date and average interest rates related to outstanding obligations. For interest rate swaps, the table presents notional principal amounts and weighted-average interest rates by contractual maturity dates. For forward currency exchange contracts, the table presents notional principal amounts by contractual maturity dates.

The interest swap agreements were terminated during the three months ended March 29, 2009.

**As of March 29, 2009**

**Principal Payments and Interest Rate Detail by Contractual Maturity Dates**

(In millions, except percentages)

| Long-Term Debt        | 2009 | 2010 | 2011    | 2012   | 2013   | Thereafter | Total    | Fair Value |
|-----------------------|------|------|---------|--------|--------|------------|----------|------------|
| Fixed-rate debt       | \$   | \$   | \$ 453  | \$ 333 | \$ 345 | \$ 1,158   | \$ 2,289 | \$ (2,426) |
| Average interest rate |      | %    | % 4.85% | 5.50%  | 5.38%  | 6.84%      | 6.03%    |            |

**As of December 31, 2008**

**Principal Payments and Interest Rate Detail by Contractual Maturity Dates**

(In millions, except percentages)

| Long-Term Debt        | 2009 | 2010 | 2011    | 2012   | 2013   | Thereafter | Total    | Fair Value |
|-----------------------|------|------|---------|--------|--------|------------|----------|------------|
| Fixed-rate debt       | \$   | \$   | \$ 453  | \$ 333 | \$ 345 | \$ 1,158   | \$ 2,289 | \$ (2,493) |
| Average interest rate |      | %    | % 4.85% | 5.50%  | 5.38%  | 6.84%      | 6.03%    |            |

**As of December 31, 2008**

**Aggregate Notional Amounts Associated with Interest Rate Swaps in Place****and Interest Rate Detail by Contractual Maturity Dates**

(In millions, except percentages)

| Interest Rate Swaps        | 2009 | 2010 | 2011    | 2012 | 2013    | Thereafter | Total   | Fair Value |
|----------------------------|------|------|---------|------|---------|------------|---------|------------|
| Fixed to variable          | \$   | \$   | \$ 250  | \$   | \$ 325  | \$         | \$ 575  | \$ 48      |
| Average variable rate paid |      | %    | % 1.50% |      | % 2.10% |            | % 1.84% |            |
| Average fixed receive rate |      | %    | % 4.09% |      | % 4.80% |            | % 4.49% |            |

Our foreign currency contracts consisted of the following major currencies at:

| (In millions)      | March 29, 2009 |        | Dec. 31, 2008 |        |
|--------------------|----------------|--------|---------------|--------|
|                    | Buy            | Sell   | Buy           | Sell   |
| British Pounds     | \$ 409         | \$ 513 | \$ 382        | \$ 489 |
| Canadian Dollars   | 222            | 24     | 189           | 27     |
| Australian Dollars | 83             | 3      | 98            | 8      |
| European Euros     | 73             | 1      | 87            | 1      |
| All other          | 39             | 26     | 48            | 32     |

Total \$ 826 \$ 567 \$ 804 \$ 557

Unrealized gains of \$72 million and \$81 million were included in non-current assets and unrealized losses of \$84 million and \$107 million were included in current liabilities at March 29, 2009 and December 31, 2008, respectively. For foreign currency forward contracts designated and qualified for hedge accounting, the effective portion of the gain or loss on the derivative was reported as a component of Accumulated other comprehensive loss, net of tax. Gains and losses resulting from these cash flow hedges offset the foreign currency exchange gains and losses on the underlying assets or liabilities being hedged. We believe our exposure due to changes in foreign currency rates is not material due to our hedging policy.

---

## **Table of Contents**

### **ITEM 4. CONTROLS AND PROCEDURES** **Evaluation of Disclosure Controls and Procedures**

Management conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of March 29, 2009.

#### *Conclusion of Evaluation*

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of March 29, 2009 were effective.

#### *Inherent Limitations on Effectiveness of Controls*

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

#### **Changes in Internal Control Over Financial Reporting**

During the first quarter of 2009, we implemented a new manufacturing planning and control software within our SAS and NCS segments.

There were no other changes in our internal control over financial reporting during the first quarter of 2009 that have materially effected or are reasonably likely to materially affect our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We primarily engage in providing products and services under contracts with the U.S. Government and, to a lesser degree, under direct foreign sales contracts, some of which the U.S. Government funds. These contracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the U.S. Government investigate whether our operations are being conducted in accordance with these requirements. U.S. Government investigations of us, whether relating to these contracts or conducted for other reasons, could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, the suspension of government export licenses or the suspension or debarment from future U.S. Government contracting. U.S. Government investigations often take years to complete and many result in no adverse action against us. Government contractors are also subject to many levels of audit and investigation. Agencies that oversee contract performance include: the Defense Contract Audit 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 are involved in various stages of investigation and cleanup related to remediation of various environmental sites. We accrued all appropriate costs we expect to incur in connection therewith. 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, in the opinion of management, we do not expect any additional liability to have a material effect on our financial position, results of operations or liquidity. Additional information regarding the effect of compliance with environmental protection requirements and the resolution of environmental claims against us and our operations can be found in Environmental Regulation within Item 1, Item 1A. Risk Factors, and Commitments and Contingencies within Item 7 of our Form 10-K for the year ended December 31, 2008 and Note 9: Commitments and Contingencies within this Form 10-Q.





**Table of Contents**

In addition, various other claims and legal proceedings generally incidental to the normal course of business are pending or threatened against us. While we cannot predict the outcome of these matters, in the opinion of management, any liability arising from them is not expected to have a material adverse effect on our financial position, results of operations or liquidity.

**ITEM 1A. RISK FACTORS**

You should carefully review and consider the information regarding certain factors which could materially affect our business, financial condition or future results set forth under Item 1A. Risk Factors in our Form 10-K for the year ended December 31, 2008. There have been no material changes from the factors disclosed in our Form 10-K for the year ended December 31, 2008, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the Securities and Exchange Commission.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

## Issuer Purchases of Equity Securities

| Period                           | Total<br>Number of<br>Shares<br>Purchased <sup>(1)</sup> | Average<br>Price<br>Paid<br>per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plan | Approximate<br>Dollar Value<br>of Shares<br>that<br>May Yet Be<br>Purchased<br>Under the<br>Plan <sup>(2)</sup> |
|----------------------------------|--|--|--|---|
| January                          |  |  |  |   |
| (January 1 - January 25, 2009)   | 2,791  | \$ 51.72                                 |  | \$ 2.1 billion  |
| February                         |  |  |  |   |
| (January 26 - February 22, 2009) | 2,413,171  | 47.63                                    | 2,412,000  | \$ 2.0 billion  |
| March                            |  |  |  |   |
| (February 23 - March 29, 2009)   | 4,412,247  | 42.05                                    | 4,401,152  | \$ 1.8 billion  |
| Total                            | 6,828,209  | \$ 44.03                                 | 6,813,152  |   |

(1) Includes shares purchased related to treasury activity under our stock plans. Such activity during the first quarter of 2009 includes the surrender by employees of 15,057 shares to satisfy income tax withholding obligations in connection with the vesting of restricted stock previously issued to employees.

(2) On October 24, 2007, our Board of Directors authorized the repurchase of up to \$2.0 billion of our outstanding common stock. On October 22, 2008, our Board of Directors authorized the repurchase of up to an additional \$2.0 billion of our outstanding common stock. Repurchases may take place from time to time at management's discretion depending upon market conditions.

**ITEM 6. EXHIBITS**

The following list of exhibits includes exhibits submitted with this Form 10-Q as filed with the Securities and Exchange Commission and those incorporated by reference to other filings.

Edgar Filing: RAYTHEON CO/ - Form 10-Q

- 15 PricewaterhouseCoopers LLP Awareness Letter.\*
- 31.1 Certification of William H. Swanson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of David C. Wajsgas pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Certification of William H. Swanson pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*
- 32.2 Certification of David C. Wajsgas pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*

\* filed electronically herewith  
\*\* furnished and not filed herewith

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**RAYTHEON COMPANY**

By: /s/ Michael J. Wood  
Michael J. Wood  
Vice President and Chief Accounting Officer  
*Principal Accounting Officer*

April 23, 2009