

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

FORM 10-Q

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

For the quarterly period ended September 26, 2010

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

For the transition period from _____ to _____

Commission File Number 1-13699

RAYTHEON COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

870 Winter Street, Waltham, Massachusetts 02451
(Address of principal executive offices) (Zip Code)

(781) 522-3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 October 13, 2010 was 364,543,000

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Cautionary Note Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements including information regarding our financial outlook, future plans, objectives, business prospects, the impact of certain liabilities, the impact of certain legal and regulatory changes and changes in accounting treatment, the impact of the UK Border Agency program termination, including potential liabilities for losses, previous payments and other claims that may be asserted and the collection of billed and unbilled receivables, the outcome of certain litigation and audits and investigations, the use of proceeds from our issuance of fixed rate long-term debt and expected charges from the redemption of our long-term debt expiring in 2012 and 2013, sufficiency of capital, our expected funding credit and required contributions, expected research and development expenses and administrative and selling expenses, anticipated tax payments and capital expenditures, potential changes to our unrecognized tax benefits, our ability to realize a deferred tax asset 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. These forward-looking statements are not statements of historical facts and represent only our current expectations regarding such matters. These statements inherently involve a wide range of known and unknown uncertainties. Our actual actions and results could differ materially from what is expressed or implied by these statements. 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, 2009 and other important factors disclosed previously and from time to time in our other filings with the Securities and Exchange Commission (SEC). Given these factors, as well as other variables that may affect our operating results, you should not rely on forward-looking statements, assume that past financial performance will be a reliable indicator of future performance nor use historical trends to anticipate results or trends in future periods. We expressly disclaim any obligation or intention to provide updates to the forward-looking statements and the estimates and assumptions associated with them.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RAYTHEON COMPANY

CONSOLIDATED BALANCE SHEETS

<u>(In millions, except per share amounts)</u>	<u>(Unaudited)</u> <u>Sept. 26, 2010</u>	<u>Dec. 31, 2009</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,149	\$ 2,642
Accounts receivable, net	108	120
Contracts in process	4,498	4,373
Inventories	324	344
Deferred taxes	328	273
Prepaid expenses and other current assets	118	116
Total current assets	7,525	7,868
Property, plant and equipment, net	1,951	2,001
Deferred taxes	112	436
Prepaid retiree benefits	147	111
Goodwill	11,924	11,922
Other assets, net	1,193	1,269
Total assets	<u>\$ 22,852</u>	<u>\$ 23,607</u>
LIABILITIES AND EQUITY		
Current liabilities		
Advance payments and billings in excess of costs incurred	\$ 2,070	\$ 2,224
Accounts payable	1,413	1,397
Accrued employee compensation	898	868
Other accrued expenses	933	1,034
Total current liabilities	5,314	5,523
Accrued retiree benefits and other long-term liabilities	4,675	5,793
Deferred taxes	310	23
Long-term debt	2,326	2,329
Commitments and contingencies (Note 9)		
Equity		
Raytheon Company stockholders' equity		
Common stock, par value, \$0.01 per share, 1,450 shares authorized, 364 and 378 shares outstanding at September 26, 2010 and December 31, 2009, respectively after deducting 130 and 107 treasury shares at September 26, 2010 and December 31, 2009, respectively.	4	4
Additional paid-in capital	11,359	10,991
Accumulated other comprehensive loss	(4,680)	(4,824)
Treasury stock, at cost	(6,648)	(5,446)
Retained earnings	10,065	9,102
Total Raytheon Company stockholders' equity	10,100	9,827
Noncontrolling interests in subsidiaries	127	112
Total equity	10,227	9,939
Total liabilities and equity	<u>\$ 22,852</u>	<u>\$ 23,607</u>

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

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RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Net sales				
Products	\$ 5,278	\$ 5,434	\$ 15,560	\$ 15,977
Services	994	771	2,738	2,237
Total net sales	<u>6,272</u>	<u>6,205</u>	<u>18,298</u>	<u>18,214</u>
Operating expenses				
Cost of sales - products	4,119	4,235	12,426	12,525
Cost of sales - services	856	659	2,371	1,905
Administrative and selling expenses	394	401	1,216	1,135
Research and development expenses	154	145	482	407
Total operating expenses	<u>5,523</u>	<u>5,440</u>	<u>16,495</u>	<u>15,972</u>
Operating income	<u>749</u>	<u>765</u>	<u>1,803</u>	<u>2,242</u>
Interest expense	33	32	98	95
Interest income	(3)	(4)	(10)	(11)
Other (income) expense	(7)	(10)	(2)	(18)
Non-operating (income) expense	<u>23</u>	<u>18</u>	<u>86</u>	<u>66</u>
Income from continuing operations before taxes	726	747	1,717	2,176
Federal and foreign income taxes	77	248	388	716
Income from continuing operations	649	499	1,329	1,460
Income (loss) from discontinued operations, net of tax	88	(1)	76	(1)
Net income	737	498	1,405	1,459
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	9	8	24	28
Net income attributable to Raytheon Company	<u>\$ 728</u>	<u>\$ 490</u>	<u>\$ 1,381</u>	<u>\$ 1,431</u>
Basic earnings (loss) per share attributable to Raytheon Company common stockholders:				
Income from continuing operations	\$ 1.72	\$ 1.27	\$ 3.47	\$ 3.64
Income (loss) from discontinued operations, net of tax	0.24	—	0.20	—
Net income	1.96	1.26	3.67	3.64
Diluted earnings (loss) per share attributable to Raytheon Company common stockholders:				
Income from continuing operations	\$ 1.71	\$ 1.25	\$ 3.43	\$ 3.60
Income (loss) from discontinued operations, net of tax	0.23	—	0.20	—
Net income	1.94	1.25	3.63	3.59
Amounts attributable to Raytheon Company common stockholders:				
Income from continuing operations	\$ 640	\$ 491	\$ 1,305	\$ 1,432
Income (loss) from discontinued operations, net of tax	88	(1)	76	(1)
Net income	<u>\$ 728</u>	<u>\$ 490</u>	<u>\$ 1,381</u>	<u>\$ 1,431</u>

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

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RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)	Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009
Cash flows from operating activities		
Net income	\$ 1,405	\$ 1,459
(Income) loss from discontinued operations, net of tax	(76)	1
Income from continuing operations	1,329	1,460
Adjustments to reconcile to net cash provided by (used in) operating activities from continuing operations, net of the effect of acquisitions and divestitures		
Depreciation and amortization	311	295
Stock-based compensation	88	92
Deferred income taxes	268	231
Collection of financing receivables	31	28
Tax benefit from stock-based awards	(18)	(6)
Changes in assets and liabilities		
Accounts receivable, net	20	—
Contracts in process and advance payments and billings in excess of costs incurred	(293)	(280)
Inventories	31	13
Prepaid expenses and other current assets	(2)	(19)
Accounts payable	13	71
Income taxes receivable / payable	94	487
Accrued employee compensation	27	5
Other accrued expenses	67	(15)
Pension and other, net	(896)	(690)
Net cash provided by (used in) operating activities from continuing operations	1,070	1,672
Net cash provided by (used in) operating activities from discontinued operations	7	(16)
Net cash provided by (used in) operating activities	1,077	1,656
Cash flows from investing activities		
Additions to property, plant and equipment	(184)	(138)
Proceeds from sales of property, plant and equipment	2	1
Additions to capitalized internal use software	(45)	(49)
Payments for purchases of acquired companies, net of cash received	(12)	—
Change in other assets	(1)	(10)
Net cash provided by (used in) investing activities	(240)	(196)
Cash flows from financing activities		
Dividends paid	(401)	(355)
Repurchases of common stock	(1,200)	(900)
Proceeds from warrants exercised	250	—
Activity under common stock plans	12	(20)
Tax benefit from stock-based awards	18	6
Other	(9)	(8)
Net cash provided by (used in) financing activities	(1,330)	(1,277)
Net increase (decrease) in cash and cash equivalents	(493)	183
Cash and cash equivalents at beginning of the year	2,642	2,259
Cash and cash equivalents at end of period	\$ 2,149	\$ 2,442

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

We prepared the accompanying unaudited consolidated financial statements of Raytheon Company and all wholly-owned and majority-owned domestic and foreign subsidiaries on the same basis as our annual audited financial statements, except for the adoption of the required new accounting standards in the first nine months of 2010 related to the accounting and disclosure requirements for transfers of financial assets and consolidation of variable interest entities (VIEs).

In the opinion of management, our financial statements reflect all adjustments, which are of a normal recurring nature, necessary for presentation of financial statements for interim periods in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and with the instructions to Form 10-Q in Article 10 of Securities and Exchange Commission (SEC) Regulation S-X. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions 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 the context indicates otherwise.

We condensed or omitted certain information and footnote disclosures normally included in our annual audited financial statements, which we prepared in accordance with GAAP. Our quarterly financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009.

2. Inventories

Inventories consisted of the following at:

<u>(In millions)</u>	<u>Sept. 26, 2010</u>	<u>Dec. 31, 2009</u>
Materials and purchased parts	\$ 61	\$ 60
Work in process	238	257
Finished goods	25	27
Total	<u>\$ 324</u>	<u>\$ 344</u>

We capitalize costs incurred in advance of contract award or funding in inventories if we determine contract award or funding is probable, excluding any start-up costs. We included capitalized precontract and other deferred costs of \$93 million and \$88 million in inventories as work in process at September 26, 2010 and December 31, 2009, respectively.

3. Product Warranty

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

Activity related to our product warranty accruals was as follows:

<u>(In millions)</u>	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>
Balance at beginning of period	\$ 40	\$ 38	\$ 39	\$ 39
Provisions for warranties	7	4	13	10
Warranty services provided	(7)	(3)	(12)	(10)
Balance at end of period	<u>\$ 40</u>	<u>\$ 39</u>	<u>\$ 40</u>	<u>\$ 39</u>

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

4. Accounting Standards

As described in Note 1: Basis of Presentation, in January 2010, we adopted the required new accounting standards that amend the accounting and disclosure requirements for transfers of financial assets and consolidation of VIEs. These accounting standards eliminate the concept of a qualifying special-purpose entity (QSPE) and the related exception for applying the consolidation guidance. As a result, we consolidated our QSPE, General Aviation Receivables Corporation (GARC), which did not have a material impact on our unaudited consolidated financial statements and resulted in:

- The removal of our \$67 million investment in GARC, previously reported in other assets, net, and
- The addition of long and short-term notes receivable, net, of \$68 million; current notes payable of \$2 million; and an increase in retained earnings of less than \$1 million, net of tax.

The notes payable were paid off as of March 28, 2010.

Further, the new accounting standard related to consolidation of VIEs requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE. It also requires an enterprise to continuously reassess whether it must consolidate a VIE. Additionally, it requires enhanced disclosures about an enterprise's involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the enterprise's financial statements. Finally, an enterprise is required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. With the exception of GARC described above, the adoption of this accounting standard did not change any of our previous consolidation conclusions and thus did not have an effect on our financial position, results of operations or liquidity.

Other new pronouncements issued but not effective until after September 26, 2010 are not expected to have a material impact on our financial position, results of operations or liquidity.

5. Acquisitions

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

In January 2010, we acquired substantially all of the assets of an Australian company, Compucat Research Pty. Ltd., at Intelligence and Information Systems for \$12 million in cash, which enhances our information security and cybersecurity capabilities. In connection with this acquisition we recorded \$4 million of goodwill and \$2 million of intangible assets.

A rollforward of our goodwill by segment was as follows:

(In millions)	Integrated Defense Systems	Intelligence and Information Systems	Missile Systems	Network Centric Systems	Space and Airborne Systems	Technical Services	Total
Balance at December 31, 2009	\$ 767	\$ 1,575	\$3,432	\$2,616	\$2,663	\$ 869	\$11,922
Adjustment for acquisitions	—	4	—	—	—	—	4
Effect of foreign exchange rates and other	(3)	—	—	—	—	1	(2)
Balance at Sept. 26, 2010	<u>\$ 764</u>	<u>\$ 1,579</u>	<u>\$3,432</u>	<u>\$2,616</u>	<u>\$2,663</u>	<u>\$ 870</u>	<u>\$11,924</u>

6. Discontinued Operations

In pursuing our business strategies we have divested of certain non-core businesses, investments and assets when appropriate. All residual activity relating to our previously disposed businesses appears in discontinued operations.

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We retained certain assets and liabilities of our previously disposed businesses. At September 26, 2010 and December 31, 2009, we had \$48 million and \$71 million, respectively, of assets primarily related to our retained interest in general aviation finance receivables previously sold by Raytheon Aircraft Company (Raytheon Aircraft). At September 26, 2010 and December 31, 2009, we had \$55 million and \$57 million, respectively, of liabilities primarily 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 LLC 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.

As further described in Note 12: Income Taxes, during the three months ended September 26, 2010, we recorded a \$280 million reduction in our unrecognized tax benefits, which included a decrease of \$89 million in tax expense from discontinued operations, including interest, primarily related to our previous disposition of Raytheon Engineers and Constructors (RE&C).

7. Fair Value Measurements

The estimated fair value of certain financial instruments, including cash and cash equivalents, approximates the carrying value due to their short maturities. The estimated fair value of notes receivable approximates the carrying value based principally on their underlying interest rates and terms, maturities, collateral and credit status of the receivables. The carrying value of long-term debt of \$2,326 million and \$2,329 million at September 26, 2010 and December 31, 2009, respectively, was recorded at amortized cost. The estimated fair value of long-term debt of approximately \$2,781 million and \$2,581 million at September 26, 2010 and December 31, 2009, respectively, was based on quoted market prices.

We did not have any significant nonfinancial assets or nonfinancial liabilities that would be recognized or disclosed at fair value on a recurring basis as of September 26, 2010 and December 31, 2009.

The accounting standard for fair value measurements provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. This accounting standard established a fair value hierarchy, which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required, 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, which we include in other assets, net. Our Level 1 liabilities include our obligations to pay certain non-qualified deferred compensation plan benefits, which we include in accrued retiree benefits and other long-term liabilities. 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 currency 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 that we corroborate with observable market data for substantially the full term of the related assets or liabilities. We did not have any Level 2 assets or liabilities at September 26, 2010 and December 31, 2009.

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Level 3: Unobservable inputs supported by little or no market activity that are significant to the fair value of the assets or liabilities. At December 31, 2009, our Level 3 asset related to our retained interest in general aviation finance receivables (Retained Interest) that we sold in previous years, for which the underlying aircraft serve as collateral. As described in Note 4: Accounting Standards, we now present short-term and long-term receivables on our consolidated balance sheet at amortized cost. As a result, our Retained Interest was transferred out of our fair value tables in the three months ended March 28, 2010. We previously estimated the fair value of 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 discount rate of 5.3% at December 31, 2009. These unobservable inputs reflected our estimates about the assumptions market participants would use in pricing this asset. We did not have any Level 3 assets or liabilities at September 26, 2010.

We did not have any transfers of assets and liabilities between Level 1 and Level 2 of the fair value measurement hierarchy during the nine months ended September 26, 2010.

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. 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 at:

<u>(In millions)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Balances at Sept. 26, 2010</u>
Assets				
Marketable securities	\$ 318	\$ —	\$ —	\$ 318
Foreign currency forward contracts	60	—	—	60
Liabilities				
Deferred compensation	196	—	—	196
Foreign currency forward contracts	55	—	—	55

<u>(In millions)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Balances at Dec. 31, 2009</u>
Assets				
Marketable securities	\$ 296	\$ —	\$ —	\$ 296
Foreign currency forward contracts	69	—	—	69
Retained Interest	—	—	67	67
Liabilities				
Deferred compensation	192	—	—	192
Foreign currency forward contracts	33	—	—	33

Activity related to our Retained Interest, which is reflected in discontinued operations, was as follows:

<u>(In millions)</u>	<u>Nine Months Ended</u>	
	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>
Balance at beginning of period	\$ 67	\$ 66
Total gains (realized/unrealized)		
Included in income (loss) from discontinued operations, net of tax	—	1
Included in other comprehensive income (loss)	—	(1)
Transfers out	(67)	—
Balance at end of period	<u>\$ —</u>	<u>\$ 66</u>

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8. Derivative Financial Instruments

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

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 forward contracts 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, we record the effective portion of the gain or loss on the derivative in accumulated other comprehensive loss (AOCL), net of tax, and reclassify it into earnings in the same period or periods during which the hedged revenue or cost of sales transaction affects earnings. We expect approximately \$7 million of after-tax net unrealized gains, included in AOCL at September 26, 2010, 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 currently in cost of sales.

As described in Note 14: Subsequent Events, on October 20, 2010, we issued \$2.0 billion of fixed rate long-term debt with maturities ranging from 5 to 30 years. In conjunction with the debt issuance, in third quarter of 2010, we entered into interest rate lock agreements with a total notional value of \$800 million to manage the interest rate risk, which resulted in an increase to AOCL of less than \$1 million. Additionally, subsequent to the third quarter of 2010, we entered into interest rate lock agreements with a total notional value of \$750 million. These interest rate lock agreements will result in a total increase to AOCL of \$9 million, to be amortized over the term of the debt issued.

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

(In millions)	Asset Derivatives		Liability Derivatives	
	Sept. 26, 2010	Dec. 31, 2009	Sept. 26, 2010	Dec. 31, 2009
Derivatives designated as hedging instruments	\$ 40	\$ 56	\$ 32	\$ 23
Derivatives not designated as hedging instruments	20	13	23	10
Total	\$ 60	\$ 69	\$ 55	\$ 33

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

(In millions)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Effective Portion				
Gain (loss) recognized in AOCL	\$ 8	\$ 21	\$ 2	\$ 57
Gain (loss) reclassified from AOCL to net sales	1	—	2	(7)
Gain (loss) reclassified from AOCL to cost of sales	4	4	27	(14)
Amount excluded from effectiveness assessment and ineffective portion				
Gain (loss) recognized in cost of sales	\$ —	\$ —	\$ —	\$ —

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

(In millions)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Gain (loss) recognized in cost of sales	\$ (2)	\$ 13	\$ (7)	\$ 5

Fair value hedges - We periodically enter into interest rate swap agreements with commercial and investment banks to manage interest rates associated with our financing arrangements. We terminated our interest rate swaps in the three months ended March 29, 2009 and collected cash of \$37 million related to the early termination. There were no interest rate swaps outstanding at September 26, 2010 and December 31, 2009.

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

(In millions)	Sept. 26, 2010		Dec. 31, 2009	
	Buy	Sell	Buy	Sell
British Pounds	\$427	\$341	\$407	\$498
Canadian Dollars	227	58	212	46
Euros	166	34	190	35
All other	142	51	176	53
Total	<u>\$962</u>	<u>\$484</u>	<u>\$985</u>	<u>\$632</u>

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

Our foreign currency forward contracts contain off-set, or netting provisions, to mitigate credit risk in the event of counterparty default, including payment default and cross default. At September 26, 2010 and September 27, 2009, these netting provisions effectively reduced our exposure to approximately \$5 and \$52 million, respectively, which are spread across numerous highly rated counterparties.

9. Commitments and Contingencies

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

(In millions, except percentages)	Sept. 26, 2010	Dec. 31, 2009
Total remediation costs - undiscounted	\$ 234	\$ 208
Weighted average risk-free rate	5.6%	5.7%
Total remediation costs - discounted	\$ 161	\$ 139
Recoverable portion	115	97

We also lease certain government-owned properties and are generally not liable for remediation of preexisting environmental contamination at these sites; as a result, we generally do not reflect the provision for these costs in our financial statements. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative cleanup methods and technologies, the uncertainty of insurance coverage and the unresolved extent of our responsibility, it is difficult to determine the ultimate outcome of these matters; however, we do not expect any additional liability to have a material adverse effect on our financial position, results of operations or liquidity.

Financing Arrangements and Other - We issue guarantees and banks and surety companies issue, on our behalf, letters of credit and surety bonds to meet various bid, performance, warranty, retention and advance payment obligations of us or our affiliates. These instruments expire on various dates through 2020. Additional guarantees of project performance for which there is no stated value also remain outstanding. The stated values outstanding at September 26, 2010 and December 31, 2009 were as follows:

(In millions)	Sept. 26, 2010	Dec. 31, 2009
Guarantees	\$ 280	\$ 227
Letters of Credit	937	898
Surety Bonds	199	203

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Included in guarantees and letters of credit described above were \$133 million and \$247 million, respectively, at September 26, 2010, and \$80 million and \$206 million, respectively, at December 31, 2009, related to our joint venture in Thales-Raytheon Systems Co. Ltd. (TRS). We provide these guarantees and letters of credit to TRS and other affiliates to assist these entities in obtaining financing on more favorable terms, making bids on contracts and performing their contractual obligations. While we expect these entities to satisfy their loans, project performance and other contractual obligations, their failure to do so may result in a future obligation to us. At September 26, 2010 and December 31, 2009, we had an estimated liability of \$9 million and \$6 million, respectively, 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 meet other contractual obligations described above. At September 26, 2010, 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 September 26, 2010.

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 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 September 26, 2010 and December 31, 2009, our exposure on commuter aircraft assets held as inventory, collateral on notes or as leased assets, was approximately \$75 million relating to 80 aircraft and approximately \$109 million relating to 106 aircraft, respectively. The carrying value of our commuter aircraft portfolio assumes an orderly disposition of these assets, consistent with our historical experience and strategy. The tightening of credit markets and economic conditions have reduced the number of potential buyers who are able to obtain financing and have negatively impacted the ability of existing customers to refinance their aircraft through a third party. If the long-term market prospects for these aircraft were to significantly erode or cease, our valuation of these assets would likely be less than the carrying value. We periodically evaluate potential alternative strategies for the disposal of these assets. If we were to dispose of these assets in an other than orderly manner or sell the portfolio in its entirety, the value realized would likely be less than the carrying value.

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 September 26, 2010.

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.

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

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 arbitration panel stayed further proceedings, including the issuance of the liability decision on the non-IP claims presented during the May 2006 hearing, while the parties engaged in settlement efforts. The parties were unable to conclude an enforceable settlement, and in August 2009, the panel released its liability decision, rejecting some of MBDA's non-IP claims, while finding Raytheon liable for some other non-IP claims. We did not record any significant additional financial liability as a result of our estimate of the impact of the decision. The proceedings will now resume to determine liability for the asserted IP claims and to assess overall damages, if any. We believe that we have meritorious defenses to the remaining asserted IP claims and intend to continue to contest them vigorously; however, an adverse resolution of this matter could have a material effect on our results of operations.

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On July 22, 2010, Raytheon Systems Limited (“RSL”) was notified by the UK Border Agency that it had been terminated for cause on a program. The termination notice included allegations that RSL had failed to perform on certain key milestones and other matters in addition to claims to recover certain losses incurred and previous payments made to RSL. We believe that RSL performed well and delivered substantial capabilities to the UK Border Agency under the program, which has been operating successfully and providing actionable information since live operations began in May 2009. On July 29, 2010, RSL filed a dispute notice on the grounds that the termination by the UK Border Agency was not valid. On August 18, 2010, the UK Border Agency initiated arbitration proceedings on this issue. The parties are in the process of selecting the arbitration panel for this case. We intend to pursue vigorously the collection of receivables for the program and damages in connection with the termination and defend ourselves against the UK Border Agency’s claims for losses and previous payments.

Under the accounting requirements for subsequent events, we determined that the accounting impact of the termination notice was required to be reflected in our results for the period ended June 27, 2010. As a result, we adjusted our estimated amount of revenue and costs under the program in the period ended June 27, 2010. The adjustment was based on our determination that certain assets were no longer expected to be recovered and for estimated costs for certain exit cost obligations under the contract and the estimated settlement of expected future subcontractor claims. The impact of the adjustment reduced Intelligence and Information Systems’ total net sales and operating income by \$316 million and \$395 million in the nine months ended September 26, 2010, respectively. At September 26, 2010, we had approximately \$80 million in letters of credit and approximately \$40 million of receivables and other assets remaining under the program for technology and services delivered, which we believe, are probable of recovery in litigation or arbitration. No amounts have been drawn down on the letters of credit. We currently do not believe it is probable that we are liable for losses, previous payments or other claims asserted by the UK Border Agency. It is reasonably possible that the ultimate amount of any resolution of the termination could be less or greater than our estimate due to the inherent uncertainties in litigation or arbitration. If we are unsuccessful in recovering amounts drawn on the letters of credit, fail to collect the receivable balance, are required to make payments against claims or other losses asserted by the UK Border Agency or pay subcontractor claims in excess of our estimates, it could have a material adverse 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.

10. Stockholders’ Equity

On May 27, 2010, our stockholders approved the Raytheon 2010 Stock Plan (the “Plan”). Under the Plan, we may grant restricted stock awards, stock units, stock grants, stock options and stock appreciation rights.

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

<u>(In millions)</u>	<u>Nine Months Ended</u>	
	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>
Amount of stock repurchased	\$ 1,200	\$ 900
Shares of stock repurchased	23.7	19.8

In March 2010, our Board of Directors authorized the repurchase of up to \$2.0 billion of our outstanding common stock. At September 26, 2010 we had approximately \$1.7 billion available under this repurchase program. All previous programs have been completed as of September 26, 2010.

In March 2010, our Board of Directors authorized a 21% increase to our annual dividend payout rate from \$1.24 to \$1.50 per share. Our Board of Directors also declared three dividends totaling \$1.125 per share during the nine months ended September 26, 2010, compared to three dividends totaling \$0.93 per share during the nine months ended September 27, 2009. Dividends are subject to quarterly approval by our Board of Directors.

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The changes in shares of our common stock outstanding for the nine months ended September 26, 2010 were as follows:

<u>(In millions)</u>	<u>Shares</u>
Balance at December 31, 2009	377.9
Warrants exercised	6.7
Stock plan activity	3.5
Treasury stock repurchases	<u>(23.7)</u>
Balance at September 26, 2010	<u>364.4</u>

Earnings Per Share (EPS)

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

We include all unvested stock awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, in the number of shares outstanding in our basic and diluted EPS calculations. As a result, we have included all of our outstanding unvested restricted stock and Long-Term Performance Plan (LTPP) awards that meet the retirement eligible criteria in our calculation of basic and diluted EPS. We disclose EPS for common stock and unvested share-based payment awards, and separately disclose 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.

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>
Basic EPS attributable to Raytheon Company common stockholders:				
Distributed earnings	\$ 0.37	\$ 0.31	\$ 1.11	\$ 0.92
Undistributed earnings	<u>1.35</u>	<u>0.96</u>	<u>2.36</u>	<u>2.72</u>
Total	<u>\$ 1.72</u>	<u>\$ 1.27</u>	<u>\$ 3.47</u>	<u>\$ 3.64</u>
Diluted EPS attributable to Raytheon Company common stockholders:				
Distributed earnings	\$ 0.36	\$ 0.30	\$ 1.10	\$ 0.91
Undistributed earnings	<u>1.35</u>	<u>0.95</u>	<u>2.33</u>	<u>2.69</u>
Total	<u>\$ 1.71</u>	<u>\$ 1.25</u>	<u>\$ 3.43</u>	<u>\$ 3.60</u>

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Basic EPS from discontinued operations attributable to Raytheon Company common stockholders and unvested share-based payment awards was income of \$0.24 and a loss of less than \$0.01 for the three months ended September 26, 2010 and September 27, 2009, respectively, and income of \$0.20 and a loss of less than \$0.01 for the nine months ended September 26, 2010 and September 27, 2009, respectively. Diluted EPS from discontinued operations attributable to Raytheon Company common stockholders and unvested share-based payment awards was income of \$0.23 and a loss of less than \$0.01 for the three months ended September 26, 2010 and September 27, 2009, respectively, and income of \$0.20 and a loss of less than \$0.01 for the nine months ended September 26, 2010 and September 27, 2009, respectively.

The amount of income from continuing operations attributable to participating securities was \$10 million and \$8 million for the three months ended September 26, 2010 and September 27, 2009, respectively, and \$21 million for the nine months ended September 26, 2010 and September 27, 2009. The amount of income (loss) from discontinued operations attributable to participating securities was income of \$1 million and a loss of less than \$1 million for the three months ended September 26, 2010 and September 27, 2009, respectively and income of \$1 million and a loss of less than \$1 million for the nine months ended September 26, 2010 and September 27, 2009, respectively. The amount of net income attributable to participating securities was \$12 million and \$8 million for the three months ended September 26, 2010 and September 27, 2009, respectively and \$22 million and \$21 million for the nine months ended September 26, 2010 and September 27, 2009, respectively.

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

(In millions)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Shares for basic EPS (including 5.9 and 6.0 participating securities for the three months ended September 26, 2010 and September 27, 2009, respectively, and 6.0 and 5.8 for the nine months ended September 26, 2010 and September 27, 2009, respectively)	371.7	388.1	375.9	393.2
Dilutive effect of stock options and LTTP	1.8	3.0	2.6	3.0
Dilutive effect of warrants	1.0	2.3	2.2	2.0
Shares for diluted EPS	<u>374.5</u>	<u>393.4</u>	<u>380.7</u>	<u>398.2</u>

There were no stock options with exercise prices greater than the average market price that were excluded from our calculations of EPS at September 26, 2010 and September 27, 2009. The following stock options with exercise prices less than the average market price, included in our calculations of EPS were as follows:

(In millions)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Stock options included in calculations of EPS	6.8	9.5	6.8	7.3

Warrants to purchase 5.3 million and 12.0 million shares of our common stock that expire in June 2011, with an exercise price of \$37.50 per share, were outstanding and included in our calculations of diluted EPS at September 26, 2010 and September 27, 2009, respectively.

Stock-based compensation plans

Restricted stock activity for the nine months ended September 26, 2010 was as follows:

(In millions)	Shares
Outstanding at December 31, 2009	5.6
Granted	1.8
Vested	(1.6)
Forfeited	(0.2)
Outstanding at September 26, 2010	<u>5.6</u>

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During the nine months ended September 26, 2010 and September 27, 2009, we issued 0.8 million and 0.9 million shares, respectively, of our common stock in connection with the vesting of our 2007-2009 and 2006-2008 LTPP awards through treasury shares. During the same periods, we also granted our 2010-2012 and 2009-2011 LTPP awards with an aggregate target award of 0.4 million and 0.5 million units, respectively.

The performance goals for the 2010-2012 LTPP award are independent of each other and based on three metrics, as defined in the award agreements: return on invested capital, weighted at 50%; total shareholder return relative to a peer group, weighted at 25%; and cumulative free cash flow, weighted at 25%. The ultimate award, which is determined at the end of the three-year cycle, can range from zero to 200% of the target award and includes dividend equivalents, which are not included in the aggregate target award numbers.

Other comprehensive income (loss)

Other comprehensive income (loss) generally includes amortization of unfunded pension benefit obligation, foreign exchange translation adjustments and gains and losses on effective cash flow hedges. The computation of other comprehensive income (loss) was as follows:

(In millions)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Net income	\$ 737	\$ 498	\$ 1,405	\$ 1,459
Other comprehensive income (loss), net of tax:				
Amortization of unfunded pension benefit obligation	98	69	279	191
Actuarial and valuation update of unfunded projected benefit obligation	(89)	(101)	(89)	(101)
Foreign exchange translation adjustments	21	16	(27)	75
Cash flow hedges	2	11	(17)	51
Other, net	—	—	(2)	(1)
Total other comprehensive income (loss), net of tax	32	(5)	144	215
Comprehensive income (loss)	769	493	1,549	1,674
Less: Comprehensive income (loss) attributable to noncontrolling interests in subsidiaries	9	8	24	28
Comprehensive income (loss) attributable to Raytheon Company	\$ 760	\$ 485	\$ 1,525	\$ 1,646

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		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Service cost	\$ 114	\$ 99	\$ 332	\$ 300
Interest cost	269	259	794	772
Expected return on plan assets	(303)	(300)	(912)	(915)
Amortization of prior service cost	4	3	10	10
Recognized net actuarial loss	158	116	447	316
Net periodic pension expense	\$ 242	\$ 177	\$ 671	\$ 483

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Our net periodic pension expense included expense from foreign benefit plans of \$6 million and \$4 million in the three months ended September 26, 2010 and September 27, 2009, respectively, and \$16 million and \$13 million in the nine months ended September 26, 2010 and September 27, 2009, respectively.

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

(In millions)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Service cost	\$ 2	\$ 2	\$ 7	\$ 7
Interest cost	12	13	36	40
Expected return on plan assets	(9)	(8)	(24)	(23)
Amortization of transition asset	1	1	3	3
Amortization of prior service cost	(11)	(13)	(34)	(39)
Recognized net actuarial loss	—	1	3	4
Net periodic cost (income)	<u>\$ (5)</u>	<u>\$ (4)</u>	<u>\$ (9)</u>	<u>\$ (8)</u>

Long-term pension and other postretirement benefit plan liabilities were \$3,941 million and \$410 million, respectively, at September 26, 2010, and \$4,668 million and \$421 million, respectively, at December 31, 2009.

On a periodic basis, generally planned annually in the third quarter, we update our actuarial estimate of the unfunded projected benefit obligation with final census and investment valuation data for the end of the prior year. As a result of this update, in the three months ended September 26, 2010, we recorded a \$150 million increase and a \$13 million decrease to the unfunded projected benefit obligation for our pension and other postretirement benefit plans, respectively, with a corresponding net after-tax increase of \$89 million to AOCL. As a result of this update, our annual FAS/CAS Pension Adjustment changed by \$9 million of additional expense, \$7 million of which was recorded in the three months and nine months ended September 26, 2010.

We make both required and discretionary contributions to our pension plans. Required contributions are primarily determined under the Employee Retirement Income Security Act of 1974 (ERISA) and are affected by the actual return on plan assets and plan funded status. We made required contributions of \$1,151 million and \$1,126 million during the nine months ended September 26, 2010 and September 27, 2009, respectively, to our pension and other postretirement benefit plans. We do not expect to make any additional required contributions in 2010. We did not make any discretionary contributions to our pension plans during the nine months ended September 26, 2010 and September 27, 2009, however we periodically evaluate whether to make discretionary contributions. On October 21, 2010, we made a discretionary contribution of \$750 million to our pension plans. As discretionary contributions are made, a funding credit is accumulated, which under current rules can be used to offset calculated required contributions. The funding credit for our pension plans was \$2.6 billion at December 31, 2009. Future funding requirements will be calculated as required by the Pension Protection Act of 2006 (PPA), which requires companies to fully fund their pension plans over a rolling seven-year period as determined annually based upon the funded status at the beginning of each year. Under the PPA, the funding credit will be included in the calculation of funding requirements and will not be available to offset required contributions. The new funding rules become effective for the Company on January 1, 2011.

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 2005 and the IRS is currently examining the 2006-2008 tax years. Additionally, we are under audit by multiple state and foreign tax authorities. State tax liabilities are routinely adjusted to account for any changes in federal taxable income.

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

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During the three months ended September 26, 2010, we received final approval from the IRS and the U.S. Congressional Joint Committee on Taxation of the IRS' examination of our tax returns for the 1998-2005 tax years (Tax Settlement). As a result, we recorded a reduction in our unrecognized tax benefits from continuing and discontinued operations of \$280 million, which decreased our tax expense by \$259 million, including \$170 million from continuing operations and \$89 million from discontinued operations. The decrease in tax expense included \$56 million related to interest.

The balance of our unrecognized tax benefits at September 26, 2010 and September 27, 2009, exclusive of interest, was \$184 million and \$420 million, respectively, of which \$184 million and \$321 million, respectively, would affect our earnings, if recognized. We accrue interest and penalties related to unrecognized tax benefits in tax expense. At September 26, 2010 and December 31, 2009, we had \$28 million and \$123 million, respectively, of interest and penalties accrued related to unrecognized tax benefits, which, net of the federal tax benefit, was approximately \$18 million and \$80 million, respectively. Primarily as a result of the Tax Settlement described above, in the nine months ended September 26, 2010, we recorded \$95 million of income related to gross interest and penalties, which, net of the federal tax benefit was \$62 million. In the nine months ended September 27, 2009, we recorded \$16 million of expense related to gross interest, which, net of the federal tax benefit, was \$10 million. In the ordinary course of business, we may take new tax positions that could increase or decrease our unrecognized tax benefits in future periods.

A rollforward of our unrecognized tax benefits was as follows:

(In millions)	Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009
Unrecognized tax benefits at beginning of period	\$ 469	\$ 415
Additions based on current year tax positions	2	—
Additions based on prior year tax positions	32	5
Reductions based on prior year tax positions	(309)	—
Settlements with taxation authorities	(10)	—
Unrecognized tax benefits at end of period	<u>\$ 184</u>	<u>\$ 420</u>

We generally account for our state income tax expense as a deferred contract cost, as we can generally recover this expense 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. Net state income tax expense allocated to our contracts was \$17 million and \$12 million in the three months ended September 26, 2010 and September 27, 2009, respectively and \$52 million and \$42 million in the nine months ended September 26, 2010 and September 27, 2009, respectively. We include state income tax expense allocated to our contracts in administrative and selling expenses.

In the three months ended June 27, 2010, we recorded a non-current deferred tax asset of \$121 million as a result of the UK Border Agency program, on which RSL was notified of its termination, as previously described. At September 26, 2010, the non-current deferred tax asset was \$112 million, which decreased by \$9 million as a result of a reduction in the UK statutory tax rate enacted in July, 2010. We believe that we will have sufficient taxable income to realize this deferred tax asset. In general, any net operating losses generated in the United Kingdom may be carried forward indefinitely.

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 from what the selling entity would be able to obtain on sales to external customers. Corporate and eliminations includes corporate expenses and intersegment sales and profit eliminations. Corporate expenses represent unallocated costs and certain other corporate costs not considered part of management's evaluation of reportable segment operating performance, including the net costs associated with our residual turbo-prop commuter aircraft portfolio.

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Total Net Sales (In millions)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Integrated Defense Systems	\$ 1,319	\$ 1,387	\$ 4,007	\$ 3,984
Intelligence and Information Systems	735	805	1,937	2,401
Missile Systems	1,391	1,396	4,167	4,148
Network Centric Systems	1,227	1,212	3,608	3,563
Space and Airborne Systems	1,238	1,134	3,530	3,316
Technical Services	873	797	2,508	2,273
Corporate and Eliminations	(511)	(526)	(1,459)	(1,471)
Total	\$ 6,272	\$ 6,205	\$ 18,298	\$ 18,214

Intersegment Sales (In millions)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Integrated Defense Systems	\$ 23	\$ 29	\$ 75	\$ 102
Intelligence and Information Systems	2	5	11	14
Missile Systems	27	34	73	42
Network Centric Systems	129	128	360	363
Space and Airborne Systems	164	155	438	467
Technical Services	177	183	525	507
Total	\$ 522	\$ 534	\$ 1,482	\$ 1,495

Operating Income (In millions)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Integrated Defense Systems	\$ 208	\$ 217	\$ 639	\$ 610
Intelligence and Information Systems	60	68	(219)	195
Missile Systems	162	145	484	450
Network Centric Systems	172	172	503	505
Space and Airborne Systems	191	159	521	473
Technical Services	77	60	217	157
FAS/CAS Pension Adjustment	(62)	(1)	(170)	21
Corporate and Eliminations	(59)	(55)	(172)	(169)
Total	\$ 749	\$ 765	\$ 1,803	\$ 2,242

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 financial accounting standards (FAS) in accordance with GAAP and our pension expense under U.S. Government Cost Accounting Standards (CAS). GAAP 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. 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.

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

(In millions)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Intersegment profit eliminations	\$ (46)	\$ (47)	\$ (133)	\$ (125)
Corporate	(13)	(8)	(39)	(44)
Total	\$ (59)	\$ (55)	\$ (172)	\$ (169)

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<u>Intersegment Operating Income (In millions)</u>	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>
Integrated Defense Systems	\$ 1	\$ 2	\$ 5	\$ 6
Intelligence and Information Systems	—	—	1	1
Missile Systems	4	3	10	4
Network Centric Systems	11	11	29	31
Space and Airborne Systems	14	14	39	39
Technical Services	16	17	49	44
Total	\$ 46	\$ 47	\$ 133	\$ 125

<u>Identifiable Assets (In millions)</u>	<u>Sept. 26, 2010</u>	<u>Dec. 31, 2009</u>
Integrated Defense Systems	\$ 1,909	\$ 1,943
Intelligence and Information Systems	2,183	2,391
Missile Systems	4,985	4,858
Network Centric Systems	4,238	4,199
Space and Airborne Systems	4,316	4,236
Technical Services	1,335	1,340
Corporate	3,886	4,640
Total	\$ 22,852	\$ 23,607

14. Subsequent Events

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

On October 20, 2010 we issued \$2.0 billion of fixed rate long-term debt with maturities ranging from 5 to 30 years. In conjunction with the debt issuance, we entered into interest rate lock agreements with a notional value of \$800 million during the third quarter of 2010 and \$750 million subsequent to the third quarter of 2010 to manage the interest rate risk, which will result in a total increase to AOCL of \$9 million, to be amortized over the term of the debt issued. We expect to use a portion of the proceeds to exercise our rights to call and repurchase \$678 million of our long-term debt expiring in 2012 and 2013, with prices based on fixed spreads to U.S. Treasuries, and the remainder for other general corporate purposes, including, without limitation, working capital, capital expenditures, debt service requirements and repayment of our outstanding indebtedness, repurchases of our shares of our common stock under our previously announced share repurchase program, discretionary pension contributions and other business initiatives, including possible acquisitions. In the fourth quarter of 2010, we expect to record a charge associated with the make-whole provision on the retired debt estimated at approximately \$75 million pretax, \$50 million after-tax, based upon current market estimates, which will be included in other (income) expense. We also expect to record approximately \$14 million of income as a reduction to interest expense in the fourth quarter of 2010 due to the accelerated amortization related to the deferred gains on the termination of our interest rate swaps and other costs associated with the called debt.

On October 21, 2010, we made a discretionary contribution of \$750 million to our pension plans.

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With respect to the unaudited consolidated financial information of Raytheon Company for the three and nine months ended September 26, 2010 and September 27, 2009, PricewaterhouseCoopers LLP (PricewaterhouseCoopers) reported that it has applied limited procedures in accordance with professional standards for a review of such information. Its report dated October 28, 2010, 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 September 26, 2010, and the related consolidated statements of operations for the three and nine month periods ended September 26, 2010 and September 27, 2009 and the consolidated statements of cash flows for the nine month periods ended September 26, 2010 and September 27, 2009. This interim financial information is the responsibility of the Company’s management.

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2009, and the related consolidated statements of operations, equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 24, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2009, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Boston, Massachusetts
October 28, 2010

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

Overview

We develop technologically advanced, integrated products, services and solutions in four core defense markets: Sensing; Effects; Command, Control, Communications and Intelligence (C3I); Mission Support, as well as the Cybersecurity and Homeland Security markets. We serve both domestic and international customers, principally as a prime contractor on a broad portfolio of defense and related programs for government customers.

We operate in six segments: Integrated Defense Systems (IDS), Intelligence and Information Systems (IIS), Missile Systems (MS), Network Centric Systems (NCS), Space and Airborne Systems (SAS) and Technical Services (TS). For a more detailed description of our segments, see "Business Segments" within Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2009.

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009 and our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

Consolidated Results of Operations

As described in our Cautionary Note Regarding Forward-Looking Statements on page 3 of this Form 10-Q, our interim period results of operations and period-to-period comparisons of such results, particularly at a segment level, may not be indicative of our future operating results. Additionally, we use a fiscal calendar, which may cause the number of workdays in the current and comparable prior interim period to differ and could affect period-to-period comparisons. There were 63 workdays in the third quarters of 2010 and 2009 and 187 workdays in the first nine months of 2010 compared to 188 workdays in the first nine months of 2009. The following discussions of comparative results among periods should be viewed in this context.

As described in Note 1: Basis of Presentation within Item 1 of this Form 10-Q, we prepared the accompanying unaudited consolidated financial statements of Raytheon Company on the same basis as our annual audited consolidated financial statements, except for the adoption of required new accounting standards in the first nine months of 2010 related to the accounting and disclosure requirements for transfers of financial assets and consolidation of variable interest entities (VIEs).

Selected consolidated results were as follows:

(In millions, except percentages and per share data)	Three Months Ended		% of Total Net Sales Three Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Net sales				
Products	\$ 5,278	\$ 5,434	84.2%	87.6%
Services	994	771	15.8%	12.4%
Total net sales	6,272	6,205	100.0%	100.0%
Operating expenses				
Cost of sales-products	4,119	4,235	65.7%	68.3%
Cost of sales-services	856	659	13.6%	10.6%
Administrative and selling expenses	394	401	6.3%	6.5%
Research and development expenses	154	145	2.5%	2.3%
Total operating expenses	5,523	5,440	88.1%	87.7%
Operating income	749	765	11.9%	12.3%
Non-operating (income) expense				
Interest expense	33	32	0.5%	0.5%
Interest income	(3)	(4)	—%	-0.1%
Other (income) expense	(7)	(10)	-0.1%	-0.2%
Total Non-operating (income) expense	23	18	0.4%	0.3%
Federal and foreign income taxes	77	248	1.2%	4.0%
Income from continuing operations	649	499	10.3%	8.0%
Income (loss) from discontinued operations, net of tax	88	(1)	1.4%	—%
Net income	737	498	11.8%	8.0%
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	9	8	0.1%	0.1%
Net income attributable to Raytheon Company	\$ 728	\$ 490	11.6%	7.9%
Diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders	\$ 1.71	\$ 1.25		
Diluted earnings per share attributable to Raytheon Company common stockholders	1.94	1.25		

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(In millions, except percentages and per share data)	Nine Months Ended		% of Total Net Sales Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Net sales				
Products	\$ 15,560	\$ 15,977	85.0%	87.7%
Services	2,738	2,237	15.0%	12.3%
Total net sales	18,298	18,214	100.0%	100.0%
Operating expenses				
Cost of sales-products	12,426	12,525	67.9%	68.8%
Cost of sales-services	2,371	1,905	13.0%	10.5%
Administrative and selling expenses	1,216	1,135	6.6%	6.2%
Research and development expenses	482	407	2.6%	2.2%
Total operating expenses	16,495	15,972	90.1%	87.7%
Operating income	1,803	2,242	9.9%	12.3%
Non-operating (income) expense				
Interest expense	98	95	0.5%	0.5%
Interest income	(10)	(11)	-0.1%	-0.1%
Other (income) expense	(2)	(18)	— %	-0.1%
Total Non-operating (income) expense	86	66	0.5%	0.4%
Federal and foreign income taxes	388	716	2.1%	3.9%
Income from continuing operations	1,329	1,460	7.3%	8.0%
Income (loss) from discontinued operations, net of tax	76	(1)	0.4%	—
Net income	1,405	1,459	7.7%	8.0%
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	24	28	0.1%	0.2%
Net income attributable to Raytheon Company	\$ 1,381	\$ 1,431	7.5%	7.9%
Diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders	\$ 3.43	\$ 3.60		
Diluted earnings per share attributable to Raytheon Company common stockholders	3.63	3.59		

Total Net Sales

The increase in total net sales of \$67 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to higher external net sales of \$95 million at SAS and \$82 million at TS, partially offset by lower external net sales of \$67 million at IIS and \$62 million at IDS. The increase in external net sales at SAS was primarily due to higher sales from higher volume, as planned, as work increased on certain classified business and on an international tactical radar program. The increase in external net sales at TS was primarily due to higher net sales from growth on TS' training programs. The decrease in external net sales at IIS was primarily due to lower net sales on various classified programs and on a distributed ground systems program for the U.S. Air Force. The decrease in external net sales at IDS was primarily due to lower net sales on various U.S. Navy programs and lower net sales on two

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joint battlefield sensor programs. The decrease in product net sales of \$156 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to lower external product net sales of \$108 million at IIS and \$67 million at IDS, partially offset by higher net external product sales of \$60 million at SAS. The increase in service net sales of \$223 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to higher external service net sales of \$105 million at TS, \$41 million at IIS, \$36 million at NCS, and \$35 million at SAS.

Sales to the U.S. Department of Defense (DoD) were 84% and 85% of total net sales in the third quarters of 2010 and 2009, respectively. Sales to the U.S. Government were 86% and 90% of total net sales in the third quarters of 2010 and 2009, respectively. Included in both DoD and U.S. Government sales were foreign military sales through the U.S. Government of \$830 million and \$690 million in the third quarters of 2010 and 2009, respectively. Total international sales, including foreign military sales, were \$1,513 million or 24.1% of total net sales in the third quarter of 2010 compared to \$1,360 million or 21.9% of total net sales in the third quarter of 2009.

The increase in total net sales of \$84 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to higher external sales of \$243 million at SAS, \$217 million at TS, and \$50 million at IDS, partially offset by lower external net sales of \$461 million at IIS. The increase in external net sales at SAS was primarily due to higher volume, as planned, as work increased on certain classified business and on an international tactical radar program. The increase in external net sales at TS was primarily due to higher net sales from growth on TS' training programs. The increase in external net sales at IDS was primarily due to higher net sales on Patriot programs. The decrease in external net sales at IIS was primarily due to lower net sales on a UK Border Agency Program, on which Raytheon Systems Limited ("RSL") was notified of its termination in the second quarter of 2010, as described in Commitments and Contingencies on page 43, driven principally by the \$316 million adjustment recorded in the second quarter of 2010 from a change in our estimated revenue and costs. The decrease in product net sales of \$417 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to lower external product net sales of \$527 million at IIS primarily due to lower net sales on a UK Border Agency Program, described above, partially offset by higher external product net sales of \$165 million at SAS. The increase in service net sales of \$501 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to higher external service net sales of \$255 million at TS, \$99 million at NCS and \$78 million at SAS.

Sales to the U.S. Department of Defense (DoD) were 86% and 85% of total net sales in the first nine months of 2010 and 2009, respectively. Sales to the U.S. Government were 90% and 89% of total net sales in the first nine months of 2010 and 2009, respectively. Included in both DoD and U.S. Government sales were foreign military sales through the U.S. Government of \$2,410 million and \$1,884 million in the first nine months of 2010 and 2009, respectively. Total international sales, including foreign military sales, were \$4,099 million or 22.4% of total net sales in the first nine months of 2010 compared to \$3,753 million or 20.6% of total net sales in the first nine months of 2009.

Cost of Sales

The increase in cost of sales of \$81 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to higher expense of \$61 million related to the FAS/CAS Pension Adjustment described below.

The increase in cost of sales of \$367 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to higher expense of \$191 million related to the FAS/CAS Pension Adjustment described below and \$176 million of increased costs, including \$51 million on a UK Border Agency program, on which RSL was notified of its termination, as described above.

The FAS/CAS Pension Adjustment, which was \$62 million of expense in the third quarter of 2010 compared to \$1 million of expense in the third quarter of 2009, and \$170 million of expense in the first nine months of 2010 compared to \$21 million of income in the first nine months of 2009, is reported as a separate line item in our segment results. The FAS/CAS Pension Adjustment represents the difference between our pension expense or income under financial accounting standards (FAS) in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and our pension expense under U.S. Government Cost Accounting Standards (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. For more information on the FAS/CAS Pension Adjustment, see our discussion below in Segment Results.

Administrative and Selling Expenses

Administrative and selling expenses in the third quarter and first nine months of 2010 remained relatively consistent as a percentage of net sales compared to the third quarter and first nine months of 2009. We expect administrative and selling expenses as a percentage of net sales for the full-year 2010 to be relatively consistent with 2009.

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Research and Development Expenses

Research and development expenses in the third quarter and first nine months of 2010 remained relatively consistent as a percentage of net sales compared to the third quarter and first nine months of 2009. We expect research and development expenses as a percentage of net sales for the full-year 2010 to be relatively consistent with 2009.

Total Operating Expenses

The increase in total operating expenses of \$83 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to higher expense of \$61 million related to the FAS/CAS Pension Adjustment described above.

The increase in total operating expenses of \$523 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to higher expense of \$191 million related to the FAS/CAS Pension Adjustment, \$176 million of increased cost of sales, as described above, including \$51 million of higher operating expenses on a UK Border Agency program, on which RSL was notified of its termination, as described above.

In accordance with GAAP, 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 described in more detail under "Critical Accounting Estimates" within Item 7 of our Form 10-K for the year ended December 31, 2009. The pro-rated return on assets through September 26, 2010 was below our annual return assumption of 8.75% at December 31, 2009. If the actual rate of return on plan assets were to be below our assumed rate of return through December 31, 2010, it would negatively impact our funded status at year-end and increase pension expense in future years. Additionally, the corporate bond yield environment as of September 26, 2010 was below our discount rate assumption of 6.25% at December 31, 2009. If the actual bond yield environment were to be below our assumed rate at December 31, 2010, it would result in a lower discount rate than our discount rate assumption at December 31, 2009 and negatively impact our funded status at year-end. The ultimate impact on our future pension expense and funded status will be based upon market conditions in effect when we perform our annual valuation for the December 31, 2010 financial statements.

Operating Income

The decrease in operating income of \$16 million in the third quarter of 2010 compared with the third quarter of 2009 was primarily due to higher expense of \$61 million related to the FAS/CAS Pension Adjustment as described above, partially offset by improved program performance, which had approximately a \$40 million impact on operating income, the primary drivers of which are described in Segment Results below.

The decrease in operating income of \$439 million in the first nine months of 2010 compared with the first nine months of 2009 was primarily due to the \$395 million adjustment in the second quarter of 2010 from a change in our estimated revenue and costs on a UK Border Agency program, on which RSL was notified of its termination, as previously described, and higher expense of \$191 million related to the FAS/CAS Pension Adjustment. These decreases were partially offset by improved program performance, which had approximately a \$90 million impact on operating income and increased volume, which had approximately a \$60 million impact on operating income, the primary drivers of which are described in Segment Results below.

Non-Operating Expense, Net

The increase in non-operating expense, net of \$5 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to a \$3 million year over year change in the fair value of investments held in rabbi trusts associated with certain of our non-qualified deferred compensation plans due to net gains of \$10 million in the third quarter of 2010 compared to net gains of \$13 million in the third quarter of 2009.

The increase in non-operating expense, net of \$20 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to a \$12 million year over year change in the fair value of investments held in rabbi trusts associated with certain of our non-qualified deferred compensation plans due to net gains of \$12 million in the first nine months of 2010 compared to net gains of \$24 million in the first nine months of 2009.

Federal and Foreign Income Taxes

Our effective tax rate reflects the 35% U.S. statutory rate adjusted for various permanent differences between book and tax reporting. Our effective tax rates in the third quarter of 2010 and 2009 were 10.6% and 33.2%, respectively. The 22.6% decrease was primarily due to the receipt of final approval from the IRS and the U.S. Congressional Joint Committee on Taxation of the IRS' examination of our tax returns for the 1998-2005 tax years (Tax Settlement) which

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decreased our tax expense from continuing operations by \$170 million in the three months ended September 26, 2010. Our effective tax rates in the first nine months of 2010 and 2009 were 22.6% and 32.9%, respectively. The 10.3% decrease was primarily due to the Tax Settlement, as described above.

Income (loss) from Discontinued Operations, Net of Tax

The increases in income (loss) from discontinued operations, net of tax, of \$89 million and \$77 million in the third quarter of 2010 compared to the third quarter of 2009 and the first nine months of 2010 compared to the first nine months of 2009, respectively, were primarily due to the Tax Settlement, as described above, which included a \$89 million decrease in tax expense from discontinued operations, primarily related to our previous disposition of Raytheon Engineers and Constructors (RE&C).

Diluted Earnings per Share from Continuing Operations Attributable to Raytheon Company Common Stockholders

The increase in diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders of \$0.46 in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to the Tax Settlement, as described above, and operational improvements, partially offset by the FAS/CAS Pension Adjustment.

The decrease in diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders of \$0.17 in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to the \$0.72 per share impact in the first nine months of 2010 of the adjustment from a change in our estimated revenue and costs on a UK Border Agency program, on which RSL was notified of its termination, as previously described, and the FAS/CAS Pension Adjustment, partially offset by the Tax Settlement, as described above, and operational improvements.

Diluted Earnings per Share Attributable to Raytheon Company Common Stockholders

The increase in diluted earnings per share attributable to Raytheon Company common stockholders of \$0.69 in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to the Tax Settlement, as described above.

The increase in diluted earnings per share attributable to Raytheon Company common stockholders of \$0.04 in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to the Tax Settlement, as described above, operational improvement and a decrease in average shares outstanding, partially offset by the \$0.72 per share impact in the first nine months of 2010 of the adjustment from a change in our estimated revenue and costs on a UK Border Agency program, on which RSL was notified of its termination, as previously described, and the FAS/CAS Pension Adjustment. The decrease in average shares outstanding in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to the repurchase of 29.7 million shares during the last 12 months.

Adjusted EPS

Adjusted EPS is diluted EPS from continuing operations attributable to Raytheon Company common stockholders excluding the earnings per share impact of the FAS/CAS Pension Adjustment and certain specific significant unusual items. Third quarter of 2010 Adjusted EPS also excludes the earnings per share impact of the Tax Settlement as a result of our receipt of final approval from the IRS and the U.S. Congressional Joint Committee on Taxation of the IRS' examination of our tax returns for the 1998-2005 tax years, as described above. First nine months of 2010 Adjusted EPS also excludes the earnings per share impact of the UK Border Agency program, on which RSL was notified of its termination in the second quarter of 2010, as previously described, as well as the Tax Settlement, as previously described. Adjusted Income from continuing operations attributable to Raytheon Company common stockholders is income from continuing operations attributable to Raytheon Company common stockholders excluding the after-tax impact of the FAS/CAS Pension Adjustment at the federal statutory tax rate of 35% and the after-tax impact of certain specific significant unusual items. Third quarter of 2010 Adjusted Income from continuing operations attributable to Raytheon Company common stockholders also excludes the after-tax impact of the Tax Settlement, as previously described. First nine months of 2010 Adjusted Income from continuing operations attributable to Raytheon Company common stockholders also excludes the after-tax impact of the UK Border Agency program, on which RSL was notified of its termination, as previously described, at a 30.5% blended tax rate for the second quarter of 2010 based on the impact to our tax provision in the second quarter of 2010 associated with the UK Border Agency program termination, and the Tax

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Settlement, as previously described. We are providing Adjusted EPS because management uses it for the purpose of evaluating and forecasting the Company's financial performance and we believe it allows investors to benefit from being able to assess our operating performance in the context of how our principal customer, the U.S. Government, allows us to recover pension costs and to better compare our operating performance to others in the industry on that same basis and excluding significant unusual items. Adjusted EPS is not a measure of financial performance under GAAP and should be considered supplemental to and not a substitute for financial performance in accordance with GAAP. Adjusted EPS may not be defined and calculated by other companies in the same manner and the amounts presented may not recalculate directly due to rounding. Adjusted EPS was as follows:

	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Diluted EPS from continuing operations attributable to Raytheon Company common stockholders	\$ 1.71	\$ 1.25	\$ 3.43	\$ 3.60
Less: Earnings per share impact of the FAS/CAS Pension Adjustment	(0.11)	—	(0.29)	0.03
Less: Earnings per share impact of the UK Border Agency program on which RSL was notified of its termination	—	—	(0.72)	—
Less: Earnings per share impact of the Tax Settlement	0.45	—	0.45	—
Adjusted EPS	<u>\$ 1.36</u>	<u>\$ 1.25</u>	<u>\$ 3.99</u>	<u>\$ 3.56</u>

Segment Results

We report our results in the following 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). The following provides some context for viewing our segment performance through the eyes of management.

Given the nature of our business, bookings, net sales and operating income (including operating margin percentage), which we disclose and discuss at the segment level, are most relevant to an understanding of management's view of our performance and often these measures have significant interrelated effects as discussed below. In addition, we disclose and discuss backlog, which represents future sales that we expect to recognize over the contract period, which is generally the next several years.

Bookings: We disclose the amount of bookings for each segment and notable contract awards. Bookings generally represent the dollar value of new contracts awarded to us during the reporting period and include firm orders for which funding has not been appropriated. We believe bookings are an important measure of future performance and are an indicator of potential future changes in net sales, since we cannot record revenues under a new contract without first having a booking in the current or preceding period (i.e., a contract award).

Total Net Sales and Total Operating Expenses: We generally express changes in net sales in terms of volume. Volume generally refers to increases or decreases in revenues related to varying amounts of total operating expenses, which are comprised of cost of sales, administrative and selling expenses and research and development expenses, incurred on individual contracts (i.e., from performance against contractual commitments on our bookings related to engineering, production or service activity). Therefore, we discuss volume changes attributable principally to individual programs unless there is a discrete event (e.g., a major contract termination, natural disaster or major labor strike, etc.), or some other unusual item that has a material effect on changes in a segment's volume for a reported period. Due to the nature of our contracts, the amount of costs incurred and related revenues will naturally fluctuate over the life of the contracts. As a result, in any reporting period, the changes in volume on numerous contracts are likely to be due to normal fluctuations in our production activity or service levels.

Operating Income (and the related operating margin percentage): We generally express changes in segment operating income in terms of volume, changes in program performance or changes in contract mix. Changes in volume discussed in net sales typically drive corresponding changes in our operating income based on the profit rate for a particular contract. Changes in program performance typically relate to profit recognition associated with revisions to total estimated

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costs at completion that reflect improved or deteriorated operating performance or award fee rates. Changes in contract mix refer to changes in operating margin due to a change in the relative volume of contracts with higher or lower fee rates such that the overall average margin rate for the segment changes. Because each segment has thousands of contracts, in any reporting period, changes in operating income and margin are likely to be due to normal changes in volume, program performance and mix on many contracts with no single change or series of related changes materially driving a segment's change in operating income or operating margin percentage.

Backlog: We disclose period ending backlog for each segment. Backlog represents the dollar value of contracts awarded for which work has not been performed. Backlog generally increases with bookings and generally converts into sales as we incur costs under the related contractual commitments. We therefore discuss changes in backlog, including any significant cancellations, for each of our segments, as we believe such discussion provides an understanding of the awarded but not executed portion of our contracts.

Segment financial results were as follows:

Total Net Sales (In millions)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Integrated Defense Systems	\$ 1,319	\$ 1,387	\$ 4,007	\$ 3,984
Intelligence and Information Systems	735	805	1,937	2,401
Missile Systems	1,391	1,396	4,167	4,148
Network Centric Systems	1,227	1,212	3,608	3,563
Space and Airborne Systems	1,238	1,134	3,530	3,316
Technical Services	873	797	2,508	2,273
Corporate and Eliminations	(511)	(526)	(1,459)	(1,471)
Total	\$ 6,272	\$ 6,205	\$ 18,298	\$ 18,214

Operating Income (In millions)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Integrated Defense Systems	\$ 208	\$ 217	\$ 639	\$ 610
Intelligence and Information Systems	60	68	(219)	195
Missile Systems	162	145	484	450
Network Centric Systems	172	172	503	505
Space and Airborne Systems	191	159	521	473
Technical Services	77	60	217	157
FAS/CAS Pension Adjustment	(62)	(1)	(170)	21
Corporate and Eliminations	(59)	(55)	(172)	(169)
Total	\$ 749	\$ 765	\$ 1,803	\$ 2,242

Bookings (In millions)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Integrated Defense Systems	\$ 721	\$ 712	\$ 2,287	\$ 3,717
Intelligence and Information Systems	703	510	3,072	1,602
Missile Systems	2,179	1,395	5,177	4,210
Network Centric Systems	792	698	2,720	2,715
Space and Airborne Systems	947	940	2,988	3,470
Technical Services	696	882	2,221	2,279
Total	\$ 6,038	\$ 5,137	\$ 18,465	\$ 17,993

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Included in bookings were international bookings of \$841 million and \$1,306 million in the three months ended September 26, 2010 and September 27, 2009, respectively, and \$2,753 million and \$4,859 million in the nine months ended September 26, 2010 and September 27, 2009, respectively, which included foreign military bookings through the U.S. Government. International bookings amounted to 14% and 25% of total bookings in the three months ended September 26, 2010 and September 27, 2009, respectively, and 15% and 27% of total bookings in the nine months ended September 26, 2010 and September 27, 2009, respectively. Classified bookings amounted to 14% and 11% of total bookings in the three months ended September 26, 2010 and September 27, 2009, respectively, and 18% and 13% of total bookings in the nine months ended September 26, 2010 and September 27, 2009, respectively.

We record bookings for not-to-exceed contract awards based on a reasonable estimate of expected contract definitization, which will generally not be less than 75% of the award. We subsequently adjust bookings to reflect the actual amounts definitized, or, when prior to definitization, when facts and circumstances indicate our previous estimate is no longer reasonable. The timing of awards that may cover multiple fiscal years influences bookings in each year. Bookings exclude unexercised contract options and potential orders under ordering-type contracts (i.e., 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 in the period in which the cancellation or termination occurs and the impact is determinable.

(In millions)	Funded Backlog		Total Backlog	
	Sept. 26, 2010	Dec. 31, 2009	Sept. 26, 2010	Dec. 31, 2009
Integrated Defense Systems	\$ 5,590	\$ 5,595	\$ 8,990	\$ 10,665
Intelligence and Information Systems	916	1,588	4,528	4,360
Missile Systems	6,746	6,454	8,617	7,657
Network Centric Systems	3,937	4,389	4,805	5,501
Space and Airborne Systems	3,156	3,402	5,795	5,921
Technical Services	2,254	2,051	3,006	2,773
Total	\$ 22,599	\$ 23,479	\$ 35,741	\$ 36,877

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.

As discussed in Commitments and Contingencies on page 43, on July 22, 2010, RSL was notified of its termination on the UK Border Agency program, which resulted in a net backlog adjustment of \$556 million at IIS.

Integrated Defense Systems

(In millions, except percentages)	Three Months Ended			Nine Months Ended		
	Sept. 26, 2010	Sept. 27, 2009	% Change	Sept. 26, 2010	Sept. 27, 2009	% Change
Total Net Sales	\$ 1,319	\$ 1,387	-4.9%	\$ 4,007	\$ 3,984	0.6%
Total Operating Expenses	1,111	1,170	-5.0%	3,368	3,374	-0.2%
Operating Income	208	217	-4.1%	639	610	4.8%
Operating Margin	15.8%	15.6%		15.9%	15.3%	
Bookings	\$ 721	\$ 712	1.3%	\$ 2,287	\$ 3,717	-38.5%

Total Net Sales and Total Operating Expenses. The decrease in net sales of \$68 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to \$77 million of lower net sales on various U.S. Navy programs due to scheduled completion of design and production efforts, including \$59 million from the scheduled completion of certain design phases on a U.S. Navy combat systems program, and \$63 million of lower net sales on two joint battlefield

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sensor programs, driven principally by lower volume due to the completion of scheduled program production efforts and a scheduled decrease in design and development effort. The decrease in net sales was partially offset by \$25 million of higher net sales on Patriot programs driven principally by scheduled design and production effort on an international Patriot program awarded in the fourth quarter of 2008. The decrease in operating expenses of \$59 million in the third quarter of 2010 compared to the third quarter of 2009 was driven primarily by the activity in the programs described above.

The increase in net sales of \$23 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to \$364 million of higher net sales on Patriot programs principally due to \$307 million of higher net sales driven by scheduled design and production effort on an international Patriot program awarded in the fourth quarter of 2008. The increase in net sales was partially offset by \$195 million of lower net sales on various U.S. Navy programs due to scheduled completion of design and production efforts, including \$119 million from the scheduled completion of certain design phases on a U.S. Navy combat systems program, and \$165 million of lower net sales on two joint battlefield sensor programs, driven principally by lower volume due to the completion of scheduled program production efforts and a scheduled decrease in design and development effort. Operating expenses in the first nine months of 2010 remained relatively consistent with the first nine months of 2009, primarily due to the activity in the programs described above.

Operating Income and Margin. The decrease in operating income of \$9 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to decreased volume, which had a \$9 million impact on operating income, driven by the programs described above. Operating margin in the third quarter of 2010 remained relatively consistent with the third quarter of 2009.

The increase in operating income of \$29 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to a change in contract mix principally driven by the change in net sales described above, which had a \$24 million impact on operating income. The increase in operating margin in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to the change in contract mix described above.

Backlog and Bookings. Backlog was \$8,990 million at September 26, 2010 compared to \$10,665 million at December 31, 2009. The decrease in backlog of \$1,675 million or 15.7% at September 26, 2010 compared to December 31, 2009 was primarily due to lower bookings in the first nine months of 2010.

Bookings in the third quarter of 2010 remained relatively consistent with the third quarter of 2009. In the third quarter of 2010, IDS booked \$190 million for the U.S. Army/U.S. Navy Transportable Radar Surveillance (AN/TPY 2) radar for the Missile Defense Agency (MDA), \$104 million on Zumwalt-class destroyer program for the U.S. Navy and \$103 million for the Aegis weapon system for the U.S. Navy.

The decrease in bookings of \$1,430 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to higher bookings in the first nine months of 2009. In addition to the bookings noted above, in the first nine months of 2010, IDS booked \$685 million for a Patriot air and missile defense program for U.S. and international customers and \$146 million on the Zumwalt-class destroyer program for the U.S. Navy, which included initial funding for the third ship. In the first nine months of 2009, IDS booked \$1,852 million on patriot programs, \$157 million to provide Finland with Surface Launch Medium Range Air-to-Air Missile (SL-AMRAAM) systems and, \$150 million for the Joint Land Attack Cruise Missile Defense Elevated Netted Sensor Systems (JLENS) program and \$217 million for the two Volume Search Radar (VSR) arrays for the U.S. Navy, one for the Zumwalt-class destroyer program and one for the CVN 78 aircraft carrier.

Intelligence and Information Systems

(In millions, except percentages)	Three Months Ended			Nine Months Ended		
	Sept. 26, 2010	Sept. 27, 2009	% Change	Sept. 26, 2010	Sept. 27, 2009	% Change
Total Net Sales	\$ 735	\$ 805	-8.7%	\$ 1,937	\$ 2,401	-19.3%
Total Operating Expenses	675	737	-8.4%	2,156	2,206	-2.3%
Operating Income	60	68	-11.8%	(219)	195	-212.3%
Operating Margin	8.2%	8.4%		-11.3%	8.1%	
Bookings	\$ 703	\$ 510	37.8%	\$ 3,072	\$ 1,602	91.8%

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Total Net Sales and Total Operating Expenses. The decrease in net sales of \$70 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to \$38 million of lower net sales on various classified programs, \$20 million of lower net sales on a distributed ground systems program for the U.S. Air Force principally from lower volume as a result of the planned program schedule, and \$13 million of lower net sales on the UK Border Agency program, on which RSL was notified of its termination in the second quarter of 2010, as described in Commitments and Contingencies on page 43. The decrease in net sales was partially offset by \$42 million of higher net sales on a GPS command, control and mission capabilities program awarded in the first quarter of 2010 as a result of scheduled design and build efforts. The remaining change in net sales was spread across numerous programs. The decrease in operating expenses of \$62 million in the third quarter of 2010 compared to the third quarter of 2009 was driven primarily by the activity in the programs described above.

The decrease in net sales of \$464 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to \$358 million of lower net sales on the UK Border Agency Program driven principally by the \$316 million adjustment recorded in the second quarter of 2010 from a change in our estimated revenue and costs on the UK Border Agency program, and \$61 million of expected lower net sales on a distributed ground systems program for the U.S. Air Force principally from lower volume as a result of the planned program schedule. The decrease in net sales was partially offset by \$50 million of higher net sales on a GPS command, control and mission capabilities program awarded in the first quarter of 2010 as a result of scheduled design and build efforts. The remaining change in net sales was spread across numerous programs. The decrease in operating expenses of \$50 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily driven by the activity in the programs described above, partially offset by \$51 million of higher operating expense related to the UK Border Agency program described above.

Operating Income and Margin. The decrease in operating income of \$8 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily driven by legal fees and other period expenses incurred in connection with the UK Border Agency program dispute and arbitration, which had a \$4 million impact on operating income, and lower volume, which had a \$3 million impact on operating income. IIS' operating income was also reduced by approximately \$4 million in the third quarter of 2010 and \$4 million in the third quarter of 2009 by certain cybersecurity related acquisition costs and investments. Operating margin in the third quarter of 2010 remained relatively consistent with the third quarter of 2009.

The decrease in operating income of \$414 million and the decrease in operating margin in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to a \$395 million adjustment recorded in the second quarter of 2010 from a change in our estimated revenue and costs on the UK Border Agency program. IIS' operating income was reduced by approximately \$14 million in the first nine months of 2010 and \$13 million in the first nine months of 2009 by certain cybersecurity related acquisition costs and investments.

Backlog and Bookings. Backlog was \$4,528 million at September 26, 2010 compared to \$4,360 million at December 31, 2009. The increase in backlog of \$168 million or 3.9% was primarily due to higher bookings in the first nine months of 2010, partially offset by a \$556 million net backlog adjustment on the UK Border Agency program, recorded in the second quarter of 2010.

The increase in bookings of \$193 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to higher bookings in the third quarter 2010. In the third quarter of 2010, IIS booked \$447 million on a number of classified contracts compared to \$267 million in the third quarter of 2009.

The increase in bookings of \$1,470 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to higher bookings in the first nine months of 2010 described below. In addition to the bookings noted above, in the first nine months of 2010, IIS booked an \$898 million award on a contract to develop the next-generation Global Positioning System Advanced Control Segment (GPS-OCX) for the U.S. Air Force and \$995 million on a number of classified contracts, including \$361 million on a major classified program, compared to \$578 million in the first nine months of 2009.

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(In millions, except percentages)	Three Months Ended			Nine Months Ended		
	Sept. 26, 2010	Sept. 27, 2009	% Change	Sept. 26, 2010	Sept. 27, 2009	% Change
Total Net Sales	\$ 1,391	\$ 1,396	-0.4%	\$ 4,167	\$ 4,148	0.5%
Total Operating Expenses	1,229	1,251	-1.8%	3,683	3,698	-0.4%
Operating Income	162	145	11.7%	484	450	7.6%
Operating Margin	11.6%	10.4%		11.6%	10.8%	
Bookings	\$ 2,179	\$ 1,395	56.2%	\$ 5,177	\$ 4,210	23.0%

Total Net Sales and Total Operating Expenses. The decrease in net sales of \$5 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to \$32 million of lower net sales, principally from lower volume, on a non line-of-sight missile program which received a stop-work order during the second quarter of 2010, offset by \$51 million of higher net sales on the Advanced Medium Range Air-to-Air Missile (AMRAAM) program, principally from higher volume driven by scheduled higher production build rates. The remaining change in net sales was spread across numerous programs. The decrease in operating expenses of \$22 million in the third quarter of 2010 compared to the third quarter of 2009 was driven primarily by the change in program mix described below.

The increase in net sales of \$19 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to \$76 million of higher net sales on a tube-launched, optically-tracked, wireless guided missile program, principally from higher volume driven by scheduled higher production build rates and \$70 million of higher net sales on AMRAAM, principally from higher volume driven by scheduled higher production build rates. The increase in net sales was partially offset by \$80 million of lower net sales on the Kinetic Energy Interceptor (KEI) program, which was terminated for convenience in the second quarter of 2009. Operating expenses in the first nine months of 2010 remained relatively consistent with the first nine months of 2009, primarily due to the improved program performance and change in contract mix described below.

Operating Income and Margin. The increase in operating income of \$17 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to a change in contract mix spread across numerous programs, with no individual or common significant driver, which had a \$13 million impact on operating income. The increase in operating margin in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to the change in contract mix described above.

The increase in operating income of \$34 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to improved program performance, which had a \$18 million impact on operating income, primarily due to \$13 million from labor and material production efficiencies on various air weapons systems programs, and a change in contract mix spread across numerous programs, with no individual or common significant driver, which had a \$17 million impact on operating income. The increase in operating margin in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to the improved program performance and contract mix described above.

Backlog and Bookings. Backlog was \$8,617 million at September 26, 2010 compared to \$7,657 million at December 31, 2009. The increase in backlog of \$960 million or 12.5% was primarily due to higher bookings in the first nine months of 2010.

The increase in bookings of \$784 million in the third quarter of 2010 compared to the third quarter of 2009 included \$545 million for the production of AMRAAM for the U.S. Air Force and international customers, \$451 million for engineering and manufacturing development of Small Diameter Bomb II (SDB II) for the joint U.S. Air Force and U.S. Navy program, \$237 million for Standard Missile-3 (SM-3) for the Missile Defense Agency (MDA) and an international customer, \$204 million for the production of Rolling Airframe Missile (RAM) for the U.S. Navy and an international customer, \$119 million for the Javelin program for the U.S. Army and international customers, \$112 million for the production of AIM-9X Sidewinder short range air-to-air missiles for the U.S. Navy and international customers, and \$106 million for development work on the Exoatmospheric Kill Vehicle (EKV) for the MDA.

The increase in bookings of \$967 million in the first nine months of 2010 compared to the first nine months of 2009 included a large classified booking in the first nine months of 2010. In addition to the bookings noted above, in the first nine months of 2010, MS booked \$535 million on a classified program, \$446 million for the development of SM-3 and \$111 million for development work on the EKV program for the MDA, \$291 million for the production of SM-2 for an

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international customer and the U.S. Navy, \$203 million for the production of Tomahawk missiles for the U.S. Navy, \$102 million for the production of the Joint Stand-off Weapon (JSOW) for the U.S. Navy, \$95 million for the production of TOW missiles for international customers and the U.S. Army, \$81 million for the production of AIM-9X short range air-to-air missiles for the U.S. Navy and international customers, \$223 million for the Phalanx Weapons System for the U.S. Navy, and \$123 million for Evolved Sea Sparrow Missiles (ESSM) for the U.S. Navy and international customers. In addition to the bookings noted above, in the first nine months of 2009, MS booked \$521 million for the production of AMRAAM systems for international customers and the U.S. Air Force, \$260 million for Phalanx Weapon Systems and \$207 million for the production of Tomahawk Block IV missiles for the U.S. Navy.

Network Centric Systems

(In millions, except percentages)	Three Months Ended			Nine Months Ended		
	Sept. 26, 2010	Sept. 27, 2009	% Change	Sept. 26, 2010	Sept. 27, 2009	% Change
Total Net Sales	\$ 1,227	\$ 1,212	1.2%	\$ 3,608	\$ 3,563	1.3%
Total Operating Expenses	1,055	1,040	1.4%	3,105	3,058	1.5%
Operating Income	172	172	— %	503	505	-0.4%
Operating Margin	14.0%	14.2%		13.9%	14.2%	
Bookings	\$ 792	\$ 698	13.5%	\$ 2,720	\$ 2,715	0.2%

Total Net Sales and Total Operating Expenses. The increase in net sales of \$15 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to \$73 million of higher net sales related to BBN, which we acquired in the fourth quarter of 2009, \$49 million of higher net sales on a U.S. Army communications program driven by a planned increase in production, \$40 million of higher net sales, as planned, on a classified international program awarded in the fourth quarter of 2009, due to a scheduled increase in design and production efforts. The increase in net sales was partially offset by \$36 million of lower net sales on a U.S. Army sensor program and \$32 million of lower net sales on a U.S. Army radar support program, both due to planned declines in production. Operating expenses in the third quarter of 2010 remained relatively consistent compared to the third quarter of 2009, primarily due to the improved program performance described below.

The increase in net sales of \$45 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to \$195 million of higher net sales related to BBN and \$75 million of higher net sales, as planned, on a classified international program awarded in the fourth quarter of 2009, due to a scheduled increase in design and production efforts. The increase in net sales was partially offset by \$119 million of lower net sales on a U.S. Army sensor program and \$76 million of lower net sales on a U.S. Army radar support program, both due to planned declines in production. The increase in operating expenses of \$47 million in the first nine months of 2010 compared to the first nine months of 2009 was driven primarily by the activity described above.

Operating Income and Margin. Operating income and margin in the third quarter of 2010 remained relatively consistent with the third quarter of 2009.

Operating income in the first nine months of 2010 remained relatively consistent with the first nine months of 2009, primarily due to a change in contract mix, which had a \$19 million negative impact on operating income, driven principally by lower volume on a U.S. Army sensor program, partially offset by increased volume, which had a \$10 million impact on operating income. Operating margin in the first nine months of 2010 remained relatively consistent with the first nine months of 2009.

Backlog and Bookings. Backlog was \$4,805 million at September 26, 2010 compared to \$5,501 million at December 31, 2009.

The increase in bookings of \$94 million in the third quarter of 2010 compared to the third quarter of 2009 included an \$84 million booking for airborne tactical communications systems for multiple customers in the third quarter of 2010.

Bookings in the first nine months of 2010 remained relatively consistent with the first nine months of 2009. In addition to the bookings noted above, in the first nine months of 2010, NCS booked \$138 million for the Long Range Advanced Scout Surveillance Systems (LRAS3) program for the U.S. Army. In the first nine months of 2009, NCS booked \$82 million for the Global Positioning Satellite-Aided Geosynchronous Augmented Navigation (GAGAN) system for the India Space Research Organization (ISRO).

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(In millions, except percentages)	Three Months Ended			Nine Months Ended		
	Sept. 26, 2010	Sept. 27, 2009	% Change	Sept. 26, 2010	Sept. 27, 2009	% Change
Total Net Sales	\$ 1,238	\$ 1,134	9.2%	\$ 3,530	\$ 3,316	6.5%
Total Operating Expenses	1,047	975	7.4%	3,009	2,843	5.8%
Operating Income	191	159	20.1%	521	473	10.1%
Operating Margin	15.4%	14.0%		14.8%	14.3%	
Bookings	\$ 947	\$ 940	0.7%	\$ 2,988	\$ 3,470	-13.9%

Total Net Sales and Total Operating Expenses. The increase in net sales of \$104 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to \$52 million of higher net sales from higher volume, as planned, as work increased on certain classified business awarded in the first half of 2009 and \$30 million of higher net sales from higher volume, as planned, as production work increased on an international tactical radar program awarded in the first quarter of 2010. The increase in operating expenses of \$72 million in the third quarter of 2010 compared to the third quarter of 2009 was driven primarily by the activity described above.

The increase in net sales of \$214 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to \$210 million of higher net sales from higher volume, as planned, as work increased on certain classified business awarded in the first half of 2009 and \$81 million of higher net sales from higher volume, as planned, as production work increased on an international tactical radar program awarded in the first quarter of 2010. The increase in net sales was partially offset by \$83 million of lower net sales from lower volume, as planned, as an advanced targeting program moved toward completion. The increase in operating expenses of \$166 million in the first nine months of 2010 compared to the first nine months of 2009 was driven primarily by the activity described above.

Operating Income and Margin. The increase in operating income of \$32 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to improved program performance, spread across numerous programs with no individual or common significant driver, which had a \$14 million impact on operating income, higher volume, which had a \$10 million impact on operating income and a change in contract mix driven primarily by higher volume on an international tactical radar program, which had a \$10 million impact on operating income. The increase in operating margin in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to the improved program performance and change in contract mix described above.

The increase in operating income of \$48 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to a change in contract mix driven by higher volume on an international tactical radar program, which had a \$30 million impact on operating income, and higher volume, which had a \$22 million impact on operating income. The increase in operating income was partially offset by \$19 million from the favorable settlement of affirmative claims on three fixed-price programs included in the first nine months of 2009. The increase in operating margin in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to the change in contract mix described above.

Backlog and Bookings. Backlog was \$5,795 million at September 26, 2010 compared to \$5,921 million at December 31, 2009.

Bookings in the third quarter of 2010 remained relatively consistent with the third quarter of 2009. In the third quarter of 2010, SAS booked \$265 million on a number of classified contracts compared to \$201 million in the third quarter of 2009. In the third quarter of 2010, SAS also booked \$87 million for the production of Active Electronically Scanned Array (AESA) radars for the U.S. Air Force and Air National Guard.

The decrease in bookings of \$482 million in the first nine months of 2010 compared to the first nine months of 2009 included a \$422 million international tactical radar award in the first half of 2009. In addition to the bookings noted above, in the first nine months of 2010, SAS booked \$649 million on a number of classified contracts, including \$357 million on a major classified space program, \$127 million on an international tactical radar program, and \$90 million for the production of Advanced Countermeasures Electronic System (ACES) for an international customer. In the first nine months of 2009, SAS booked approximately \$1.2 billion on a number of classified contracts.

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(In millions, except percentages)	Three Months Ended			Nine Months Ended		
	Sept. 26, 2010	Sept. 27, 2009	% Change	Sept. 26, 2010	Sept. 27, 2009	% Change
Total Net Sales	\$ 873	\$ 797	9.5%	\$ 2,508	\$ 2,273	10.3%
Total Operating Expenses	796	737	8.0%	2,291	2,116	8.3%
Operating Income	77	60	28.3%	217	157	38.2%
Operating Margin	8.8%	7.5%		8.7%	6.9%	
Bookings	\$ 696	\$ 882	-21.1%	\$ 2,221	\$ 2,279	-2.5%

Total Net Sales and Total Operating Expenses. The increase in net sales of \$76 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to \$53 million of higher net sales from growth on TS' training programs, principally domestic and foreign training programs supporting the U.S. Army's Warfighter FOCUS activities due to an increase in customer determined activity levels. The increase in operating expenses of \$59 million in the third quarter of 2010 compared to the third quarter of 2009 was driven primarily by the activity in the programs described above.

The increase in net sales of \$235 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to \$202 million of higher net sales from growth on TS' training programs, principally domestic and foreign training programs supporting the U.S. Army's Warfighter FOCUS activities due to an increase in customer determined activity levels. The increase in operating expenses of \$175 million in the first nine months of 2010 compared to the first nine months of 2009 was driven primarily by the activity in the programs described above.

Operating Income and Margin. The increase in operating income of \$17 million in the third quarter of 2010 compared to the third quarter of 2009 was due to improved program performance, which had a \$13 million impact on operating income, and increased volume, which had a \$4 million impact on operating income. The improved program performance was driven primarily by a contract modification that impacted the scope on an international mission support program, which had a \$5 million positive impact on 2010 operating income; and a prior year profit adjustment due to a change in estimate related to certain mission support program costs, which had a \$3 million negative impact on 2009 operating income. The increase in operating margin in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to the improved program performance described above.

The increase in operating income of \$60 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to improved program performance, which had a \$46 million impact on operating income, and increased volume, which had a \$12 million impact on operating income. The improved program performance was driven primarily by cost efficiencies associated with an increased level of program activities on various training programs, which had a \$13 million positive impact on 2010 operating income, the majority of which was on programs nearing completion; contract modifications that impacted the scope on certain training programs and an international mission support program, which had a \$10 million positive impact on 2010 operating income; prior year profit adjustments due to a change in estimate related to certain mission support program costs, which had a \$5 million negative impact on 2009 operating income; and higher award fees on a fixed-price service contract, which had a \$3 million positive impact on 2010 operating income. The increase in operating margin in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to the improved program performance described above.

Backlog and Bookings. Backlog was \$3,006 million at September 26, 2010 compared to \$2,773 million at December 31, 2009.

The decrease in bookings of \$186 million in the third quarter of 2010 compared to the third quarter of 2009 was primarily due to higher bookings in the third quarter of 2009, inclusive of the awards described below. In the third quarter of 2010, TS booked \$306 million on domestic training programs and \$121 million on foreign training programs in support of the Warfighter FOCUS activities. In the third quarter of 2009, TS booked \$320 million on domestic training programs and \$191 million on foreign training programs in support of the Warfighter FOCUS activities.

The decrease in bookings of \$58 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to higher bookings in the first nine months of 2009, inclusive of the awards described below. In addition to the bookings noted above, in the first nine months of 2010, TS booked \$554 million on domestic training programs and

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\$161 million on foreign training programs in support of the Warfighter FOCUS activities, \$88 million on the Security Equipment Integration Services (SEIS) contract for the Transportation Security Administration (TSA) and \$173 million to provide operational and logistics support to the National Science Foundation (NSF) Office of Polar Programs. In addition to the bookings noted above, in the first nine months of 2009, TS booked \$625 million on domestic training programs and \$106 million on foreign training programs in support of the Warfighter FOCUS activities and \$160 million to upgrade Phalanx Weapon Systems for the Royal Canadian Navy and \$100 million for a Defense Threat Reduction Agency (DTRA) program.

FAS/CAS Pension Adjustment

The FAS/CAS Pension Adjustment represents the difference between our pension expense or income under FAS in accordance with GAAP 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)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
FAS expense	\$ (242)	\$ (178)	\$ (671)	\$ (484)
CAS expense	180	177	501	505
FAS/CAS Pension Adjustment	\$ (62)	\$ (1)	\$ (170)	\$ 21

Our FAS/CAS Pension Adjustment was \$62 million and \$170 million of expense in the three and nine months ended September 26, 2010 compared to \$1 million of expense and \$21 million of income in the three and nine months ended September 27, 2009. The increase in our FAS/CAS Pension Adjustment of \$61 million in the three months ended September 26, 2010 compared to the three months ended September 27, 2009 and \$191 million in the nine months ended September 26, 2010 compared to the nine months ended September 27, 2009 was driven primarily by approximately \$50 million and \$150 million, respectively, from the amortization differences of the net unrecognized liability between FAS and CAS, which was principally attributable to the negative 2008 asset returns.

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.

On an annual basis, at December 31st, 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. As a result of this update, our annual FAS/CAS Pension Adjustment changed by \$9 million of additional expense, \$7 million of which was recorded in the third quarter and first nine months of 2010.

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Corporate and Eliminations

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		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Intersegment sales eliminations	\$ (522)	\$ (534)	\$ (1,482)	\$ (1,495)
Corporate	11	8	23	24
Total	<u>\$ (511)</u>	<u>\$ (526)</u>	<u>\$ (1,459)</u>	<u>\$ (1,471)</u>

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

(In millions)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009	Sept. 26, 2010	Sept. 27, 2009
Intersegment profit eliminations	\$ (46)	\$ (47)	\$ (133)	\$ (125)
Corporate	(13)	(8)	(39)	(44)
Total	<u>\$ (59)</u>	<u>\$ (55)</u>	<u>\$ (172)</u>	<u>\$ (169)</u>

Discontinued Operations

In pursuing our business strategies we have divested of certain non-core businesses, investments and assets when appropriate. All residual activity relating to our previously disposed businesses appears in discontinued operations.

We retained certain assets and liabilities of our previously disposed businesses. At September 26, 2010 and December 31, 2009, we had \$48 million and \$71 million, respectively, of assets primarily related to our retained interest in general aviation finance receivables previously sold by Raytheon Aircraft Company (Raytheon Aircraft). At September 26, 2010 and December 31, 2009, we had \$55 million and \$57 million, respectively, of liabilities primarily 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 LLC 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.

As previously described, during the third quarter of 2010, we recorded a reduction in our unrecognized tax benefits, which included a decrease of \$89 million in tax expense from discontinued operations, including interest, primarily related to our previous disposition of RE&C.

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 our cash and cash equivalents, cash flow from operations and other available financing resources will be sufficient to meet our anticipated operating, capital expenditure, investment, debt service and other financing requirements during the next twelve months and for the foreseeable future.

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During the first nine months of 2010, certain of our significant cash flows, described in more detail below, were as follows:

- \$ 1,200 million of stock repurchases;
- \$ 1,151 million of required contributions to our pension and other postretirement benefit plans;
- \$ 421 million of federal and net foreign tax payments;
- \$ 401 million in dividend payments;
- \$ 250 million of proceeds from warrants exercised; and
- \$ 229 million for payments of additions to property, plant and equipment and capitalized internal use software.

In addition, the following table highlights selected measures of our liquidity and capital resources as of September 26, 2010 and December 31, 2009:

(In millions)	Sept. 26, 2010	Dec. 31, 2009
Cash and cash equivalents	\$ 2,149	\$ 2,642
Working capital	2,211	2,345
Amount available under credit facilities	1,497	1,479

The decrease of \$134 million in working capital in the third quarter of 2010 compared to the fourth quarter of 2009 was primarily due to the decrease in cash and cash equivalents, principally from payments for the repurchases of common stock in the first nine months of 2010. This decrease was partially offset by an increase in contracts in process driven by the timing of payments, which was partially offset by a reduction in contracts in process as a result of the UK Border Agency program, on which RSL was notified of its termination, as previously described.

On October 20, 2010 we issued \$2.0 billion of fixed rate long-term debt with maturities ranging from 5 to 30 years. In conjunction with the debt issuance, we entered into interest rate lock agreements with a notional value of \$800 million during the third quarter of 2010 and \$750 million subsequent to the third quarter of 2010 to manage the interest rate risk, which will result in a total increase to AOCL of \$9 million, to be amortized over the term of the debt issued. We expect to use a portion of the proceeds to exercise our rights to call and repurchase \$678 million of our long-term debt expiring in 2012 and 2013, with prices based on fixed spreads to U.S. Treasuries, and the remainder for other general corporate purposes, including, without limitation, working capital, capital expenditures, debt service requirements and repayment of our outstanding indebtedness, repurchases of our shares of our common stock under our previously announced share repurchase program, discretionary pension contributions and other business initiatives, including possible acquisitions. In the fourth quarter of 2010, we expect to record a charge associated with the make-whole provision on the retired debt estimated at approximately \$75 million pretax, \$50 million after-tax, based upon current market estimates, which will be included in other (income) expense. We also expect to record approximately \$14 million of income as a reduction to interest expense in the fourth quarter of 2010 due to the accelerated amortization related to the deferred gains on the termination of our interest rate swaps and other costs associated with the called debt.

On October 21, 2010, we made a discretionary contribution of \$750 million to our pension plans.

Operating Activities

(In millions)	Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009
Net cash provided by operating activities from continuing operations	\$ 1,070	\$ 1,672
Net cash provided by operating activities	1,077	1,656

The decrease of \$579 million in net cash provided by operating activities in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to higher net cash tax payments as described below.

Tax Payments - In the first nine months of 2010, we made \$421 million in federal and net foreign tax payments and \$54 million in net state tax payments. In the first nine months of 2009, we received federal tax refunds totaling \$350 million and made \$376 million in federal and net foreign tax payments, net of \$69 million of overpayment credits. In the first nine months of 2009, we received state tax refunds totaling \$21 million and made \$38 million in state tax payments. We

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expect full year federal and foreign tax payments to be approximately \$430 million in 2010 compared to \$208 million in 2009. The increase in the expected full year federal and foreign tax payments in 2010 is primarily due to \$350 million of refunds received in the first nine months of 2009.

In March 2010, the Patient Protection and Affordable Care Act, as modified by the Health Care and Education Reconciliation Act of 2010, was enacted which changed the tax treatment of the U.S. Government subsidies for companies that provide qualifying drug coverage to Medicare eligible retirees. Although some companies have been adversely affected by this act, we do not receive such U.S. Government subsidies and therefore this change will not have an effect on our financial position, results of operations or liquidity.

Pension Plan Contributions - We make both required and discretionary contributions to our pension plans. Required contributions are primarily determined under the Employee Retirement Income Security Act of 1974 (ERISA) rules and are affected by the actual return on plan assets and plan funded status. We made the following required contributions to our pension plans during the first nine months of 2010 and 2009:

(In millions)	Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009
Required contributions	\$ 1,133	\$ 1,099

We do not expect to make any additional required contributions in 2010. We did not make any discretionary contributions to our pension plans during the nine months ended September 26, 2010 and September 27, 2009, however we periodically evaluate whether to make discretionary contributions. On October 21, 2010, we made a discretionary contribution of \$750 million to our pension plans. As discretionary contributions are made, a funding credit is accumulated, which under current rules can be used to offset calculated required contributions. The funding credit for our pension plans was \$2.6 billion at December 31, 2009. Future funding requirements will be calculated as required by the Pension Protection Act of 2006 (PPA), which requires companies to fully fund their pension plans over a rolling seven-year period as determined annually based upon the funded status at the beginning of each year. Under the PPA, the funding credit will be included in the calculation of funding requirements and will not be available to offset required contributions. The new funding rules become effective for the Company on January 1, 2011.

Other postretirement benefit plan payments were \$18 million and \$27 million in the first nine months of 2010 and 2009, respectively.

On May 10, 2010, the CAS Pension Harmonization Notice of Proposed Rulemaking (NPRM) was published in the Federal Register with a 60 day comment period. The NPRM is the third step of a four step statutory process to implement a final CAS standard related to the recognition of pension costs for government contractors. Based upon the feedback received during the comment period, the CAS Board will either issue the final rule or alternatively reissue the NPRM. The final rule could impact our future CAS recovery amount and our FAS/CAS Pension Adjustment.

We made interest payments of \$96 million and \$102 million in the first nine months of 2010 and 2009, respectively. The decrease in interest payments in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to the repurchase of our 4.85% Notes due 2011 in the fourth quarter of 2009.

Investing Activities

(In millions)	Nine Months Ended	
	Sept. 26, 2010	Sept. 27, 2009
Net cash used in investing activities	\$ 240	\$ 196

The increase of \$44 million in net cash used in investing activities in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to higher additions to property, plant and equipment.

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Additions to property, plant and equipment and capitalized internal use software were as follows:

<u>(In millions)</u>	<u>Nine Months Ended</u>	
	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>
Additions to property, plant and equipment	\$ 184	\$ 138
Additions to capitalized internal use software	45	49

We expect our property, plant and equipment and internal use software expenditures to be approximately \$385 million and \$90 million, respectively, in 2010, consistent with the anticipated growth of our business and for 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, investments and assets when appropriate.

In January 2010, we acquired substantially all of the assets of an Australian company, Compucat Research Pty. Ltd., at Intelligence and Information Systems for \$12 million in cash, which enhances our information security and cybersecurity capabilities. In connection with this acquisition we recorded \$4 million of goodwill and \$2 million of intangible assets.

Financing Activities

<u>(In millions)</u>	<u>Nine Months Ended</u>	
	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>
Net cash used in financing activities	\$ 1,330	\$ 1,277

We have used cash provided by operating activities as our primary source for the payment of dividends and the repurchase of our common stock. The increase of \$53 million in net cash used in financing activities in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to the repurchases of common stock offset by proceeds from warrants exercised in the first nine months of 2010.

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

<u>(In millions)</u>	<u>Nine Months Ended</u>	
	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>
Amount of stock repurchased	\$ 1,200	\$ 900
Shares of stock repurchased	23.7	19.8

In March 2010, our Board of Directors authorized the repurchase of up to \$2.0 billion of our outstanding common stock. At September 26, 2010 we had approximately \$1.7 billion available under this repurchase program. All previous programs have been completed as of September 26, 2010. Share repurchases will take place from time to time at management's discretion depending on market conditions.

On May 27, 2010, our stockholders approved the Raytheon 2010 Stock Plan (the "Plan"). Under the Plan, we may grant restricted stock awards, stock units, stock grants, stock options and stock appreciation rights.

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

<u>(In millions, except per share amounts)</u>	<u>Nine Months Ended</u>	
	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>
Cash dividends per share	\$ 1.125	\$ 0.93
Total dividends paid	401	355

In March 2010, our Board of Directors authorized a 21% increase to our annual dividend payout rate from \$1.24 to \$1.50 per share. Although we do not have a formal dividend policy, we believe that, over time, a reasonable dividend payout ratio is approximately one third of our income from continuing operations excluding the FAS/CAS Pension Adjustment. Dividends are subject to quarterly approval by our Board of Directors.

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Capital Resources

Total debt was \$2.3 billion at September 26, 2010 and December 31, 2009. Our outstanding debt bears contractual interest at fixed interest rates ranging from 4.4% to 7.2% and matures at various dates through 2028.

Cash and Cash Equivalents - Cash and cash equivalents were \$2.1 billion and \$2.6 billion at September 26, 2010 and December 31, 2009, respectively. We invest cash in U.S. Treasuries; commercial paper of financial institutions and corporations with a minimum long-term debt rating of AA- or Aa3 and minimum short-term debt rating of A-1 and P-1; AAA/Aaa rated U.S. Treasury money market funds; and bank certificates of deposit and time deposits with a minimum long-term debt rating of AA- or Aa3. Cash balances held at our foreign subsidiaries were approximately 15% of our total cash balance at September 26, 2010 and December 31, 2009, and are deemed to be indefinitely reinvested.

Credit Facilities - We have two bank revolving credit facilities in the amount of \$1.5 billion. The first credit facility is a \$1.0 billion, three-year facility maturing in November 2012, \$150 million of which is available to Raytheon United Kingdom Limited, our U.K. subsidiary. The second facility is a \$500 million 364-day facility maturing in November 2010, which we plan 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. Borrowings under these facilities bear interest at various rate options, including LIBOR plus a margin based on our credit default swap spread, with minimum and maximum margins that are adjusted for our credit ratings. Based on our credit ratings at September 26, 2010 and December 31, 2009, borrowings under these facilities would bear interest at LIBOR plus 100 basis points, the minimum margin.

Under the \$1.0 billion facility, we can borrow, issue letters of credit and backstop commercial paper. Under the \$500 million facility, we can borrow and backstop commercial paper. These credit facilities are comprised of commitments from approximately 25 separate highly rated lenders, each committing no more than 10% of the aggregate of the facilities. As of September 26, 2010 and December 31, 2009, there were no borrowings outstanding under these credit facilities. However, we had \$3 million and \$21 million of outstanding letters of credit at September 26, 2010 and December 31, 2009, respectively, which effectively reduced our borrowing capacity under these credit facilities by the same amounts.

Under these two facilities, we must comply with certain covenants, including a ratio of total debt to total capitalization of no more than 50% and a ratio of consolidated earnings attributable to Raytheon Company before interest, taxes, depreciation and amortization 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 these covenants during the 12 months ended September 26, 2010 and December 31, 2009. Our ratio of total debt to total capitalization was 18.5% and 19.0% at September 26, 2010 and December 31, 2009, respectively. We are providing these ratios, which are financial covenants under our current credit facilities, as these metrics are used by our lenders to monitor the Company's leverage and debt service capacity and are also thresholds that limit our ability to utilize these two facilities.

Certain of our foreign subsidiaries maintain revolving bank lines of credit to provide them with a limited amount of short-term liquidity, including the \$150 million Raytheon United Kingdom Limited sub-line described above. In addition, other uncommitted bank lines totaled approximately \$15 million at September 26, 2010 and December 31, 2009. There were no amounts outstanding under these lines of credit at September 26, 2010 and December 31, 2009. Compensating balance arrangements are not material.

Credit Ratings - 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 and long-term debt. The following chart reflects the current ratings assigned by each of these agencies as of September 26, 2010 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 - We have an effective shelf registration statement, filed in October 2008, that covers the registration of common stock issuable under certain outstanding warrants issued in 2006 and expiring in 2011. We expect to file a new shelf registration statement with the SEC in October 2010, which will be effective upon filing.

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During the downturn in global financial markets over the past few years, 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 recent market conditions, will be sufficient to meet all our anticipated needs during the next 12 months and for the foreseeable future.

Commitments and Contingencies

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

<u>(In millions, except percentages)</u>	<u>Sept. 26, 2010</u>	<u>Dec. 31, 2009</u>
Total remediation costs - undiscounted	\$ 234	\$ 208
Weighted average risk free rate	5.6%	5.7%
Total remediation costs - discounted	\$ 161	\$ 139
Recoverable portion	115	97

We also lease certain government-owned properties and are generally not liable for remediation of preexisting environmental contamination at these sites; as a result, we generally do not reflect the provision for these costs in our financial statements. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative cleanup methods and technologies, the uncertainty of insurance coverage and the unresolved extent of our responsibility, it is difficult to determine the ultimate outcome of these matters; however, we do not expect any additional liability to have a material adverse effect on our financial position, results of operations or liquidity.

Financing Arrangements and Other - We issue guarantees and banks and surety companies issue, on our behalf, letters of credit and surety bonds to meet various bid, performance, warranty, retention and advance payment obligations of us or our affiliates. These instruments expire on various dates through 2020. Additional guarantees of project performance for which there is no stated value also remain outstanding. The stated values outstanding at September 26, 2010 and December 31, 2009 were as follows:

<u>(In millions)</u>	<u>Sept. 26, 2010</u>	<u>Dec. 31, 2009</u>
Guarantees	\$ 280	\$ 227
Letters of Credit	937	898
Surety Bonds	199	203

Included in guarantees and letters of credit described above were \$133 million and \$247 million, respectively, at September 26, 2010, and \$80 million and \$206 million, respectively, at December 31, 2009, related to our joint venture in Thales-Raytheon Systems Co. Ltd. (TRS). We provide these guarantees and letters of credit to TRS and other affiliates to assist these entities in obtaining financing on more favorable terms, making bids on contracts and performing their contractual obligations. While we expect these entities to satisfy their loans, project performance and other contractual obligations, their failure to do so may result in a future obligation to us. At September 26, 2010 and December 31, 2009, we had an estimated liability of \$9 million and \$6 million, respectively, 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 meet other contractual obligations described above. At September 26, 2010, 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 September 26, 2010.

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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 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 September 26, 2010 and December 31, 2009, our exposure on commuter aircraft assets held as inventory, collateral on notes or as leased assets, was approximately \$75 million relating to 80 aircraft and approximately \$109 million relating to 106 aircraft, respectively. The valuation of used aircraft is also considered in assessing the realizable value of certain commuter aircraft related to assets which serve as collateral for the underlying financial 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. The tightening of credit markets and economic conditions have reduced the number of potential buyers who are able to obtain financing and have negatively impacted the ability of existing customers to refinance their aircraft through a third party. If the long-term market prospects for these aircraft were to significantly erode or cease, our valuation of these assets would likely be less than the carrying value. We periodically evaluate potential alternative strategies for the disposal of these assets. If we were to dispose of these assets in an other than orderly manner or sell the portfolio in its entirety, the value realized would likely be less than the carrying value.

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 September 26, 2010.

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.

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

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 arbitration panel stayed further proceedings, including the issuance of the liability decision on the non-IP claims presented during the May 2006 hearing, while the parties engaged in settlement efforts. The parties were unable to conclude an enforceable settlement, and in August 2009, the panel released its liability decision, rejecting some of MBDA's non-IP claims, while finding Raytheon liable for some other non-IP claims. We did not record any significant additional financial liability as a result of our estimate of the impact of the decision. The proceedings will now resume to determine liability for the asserted IP claims and to assess overall damages, if any. We believe that we have meritorious defenses to the remaining asserted IP claims and intend to continue to contest them vigorously; however, an adverse resolution of this matter could have a material effect on our results of operations.

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On July 22, 2010, Raytheon Systems Limited (“RSL”) was notified by the UK Border Agency that it had been terminated for cause on a program. The termination notice included allegations that RSL had failed to perform on certain key milestones and other matters in addition to claims to recover certain losses incurred and previous payments made to RSL. We believe that RSL performed well and delivered substantial capabilities to the UK Border Agency under the program, which has been operating successfully and providing actionable information since live operations began in May 2009. On July 29, 2010, RSL filed a dispute notice on the grounds that the termination by the UK Border Agency was not valid. On August 18, 2010 the UK Border Agency initiated arbitration proceedings on this issue. The parties are in the process of selecting the arbitration panel for this case. We intend to pursue vigorously the collection of receivables for the program and damages in connection with the termination and defend ourselves against the UK Border Agency’s claims for losses and previous payments.

Under the accounting requirements for subsequent events, we determined that the accounting impact of the termination notice was required to be reflected in our results for the period ended June 27, 2010. As a result, we adjusted our estimated amount of revenue and costs under the program in the period ended June 27, 2010. The adjustment was based on our determination that certain assets were no longer expected to be recovered and for estimated costs for certain exit cost obligations under the contract and the estimated settlement of expected future subcontractor claims. The impact of the adjustment reduced Intelligence and Information Systems’ (IIS) total net sales and operating income by \$316 million and \$395 million in the nine months ended September 26, 2010, respectively. At September 26, 2010, we had approximately \$80 million in letters of credit and approximately \$40 million of receivables and other assets remaining under the program for technology and services delivered, which we believe, are probable of recovery in litigation or arbitration. No amounts have been drawn down on the letters of credit. We currently do not believe it is probable that we are liable for losses, previous payments or other claims asserted by the UK Border Agency. It is reasonably possible that the ultimate amount of any resolution of the termination could be less or greater than our estimate due to the inherent uncertainties in litigation or arbitration. If we are unsuccessful in recovering amounts drawn on the letters of credit, fail to collect the receivable balance, are required to make payments against claims or other losses asserted by the UK Border Agency or pay subcontractor claims in excess of our estimates, it could have a material adverse 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.

Accounting Standards

As described in Note 1: Basis of Presentation, within Item 1 of this Form 10-Q, in January 2010, we adopted the required new accounting standards that amend the accounting and disclosure requirements for transfers of financial assets and consolidation of VIEs. These accounting standards eliminate the concept of a qualifying special-purpose entity (QSPE) and the related exception for applying the consolidation guidance. As a result, we consolidated our QSPE, General Aviation Receivables Corporation (GARC), which did not have a material impact on our consolidated financial statements and resulted in:

- The removal of our \$67 million investment in GARC, previously reported in other assets, net, and
- The addition of long and short-term notes receivable, net, of \$68 million; current notes payable of \$2 million; and an increase in retained earnings of less than \$1 million, net of tax.

The notes payable were paid off as of March 28, 2010.

Further, the new accounting standard related to consolidation of VIEs requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE. It also requires an enterprise to continuously reassess whether it must consolidate a VIE. Additionally, it requires enhanced disclosures about an enterprise’s involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the enterprise’s financial statements. Finally, an enterprise is required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. With the exception of GARC described above, the adoption of this accounting standard did not change any of our previous consolidation conclusions and thus did not have an effect on our financial position, results of operations or liquidity.

Other new pronouncements issued but not effective until after September 26, 2010 are not expected to have a material impact on our financial position, results of operations or liquidity.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We supplement our working capital with a combination of variable-rate short-term and fixed-rate long-term financing. We periodically 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 a firm commitment is in place.

The following tables provide information as of September 26, 2010 and December 31, 2009 about our market risk exposure associated with changing interest and exchange rates. For long-term debt obligations, the table presents principal cash flows by maturity date and average interest rates related to outstanding obligations.

As of September 26, 2010
Principal Payments and Interest Rate Detail by Contractual Maturity Dates
(In millions, except percentages)

<u>Long-Term Debt</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
Fixed-rate debt	\$—	\$—	\$ 333	\$ 345	\$—	\$ 1,658	\$2,336	\$ 2,781
Average interest rate	—	—	5.50%	5.38%	—	6.10%	5.91%	

As of December 31, 2009
Principal Payments and Interest Rate Detail by Contractual Maturity Dates
(In millions, except percentages)

<u>Long-Term Debt</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
Fixed-rate debt	\$—	\$—	\$ 333	\$ 345	\$—	\$ 1,658	\$2,336	\$ 2,581
Average interest rate	— %	— %	5.50%	5.38%	— %	6.10%	5.91%	

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

<u>(In millions)</u>	<u>Sept. 26, 2010</u>		<u>Dec. 31, 2009</u>	
	<u>Buy</u>	<u>Sell</u>	<u>Buy</u>	<u>Sell</u>
British Pounds	\$427	\$341	\$407	\$498
Canadian Dollars	227	58	212	46
Euros	166	34	190	35
All other	142	51	176	53
Total	\$962	\$484	\$985	\$632

Unrealized gains of \$60 million and \$69 million were included in other assets, net, and unrealized losses of \$55 million and \$33 million were included in other accrued expenses at September 26, 2010 and December 31, 2009, respectively. For foreign currency forward contracts designated and qualified for hedge accounting, we record the effective portion of the gain or loss on the derivative in accumulated other comprehensive loss, net of tax and reclassify it into earnings in the same period or periods during which the hedged revenue or cost of sales transaction affects earnings. Realized gains and losses resulting from these cash flow hedges offset the foreign 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.

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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 September 26, 2010.

Conclusion of Evaluation

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of September 26, 2010 were effective.

Inherent Limitations on Effectiveness of Controls and Procedures

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

There were no changes in our internal control over financial reporting during the third quarter of 2010 that have materially affected 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 (DoJ) and Congressional Committees. The DoJ, from time to time, has 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 regulation or any applicable U.S. Government regulation (e.g., the Foreign Corrupt Practices Act and the International Traffic in Arms Regulations) may also be investigated or audited.

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

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

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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,” “Commitments and Contingencies” within Item 7 of our Form 10-K for the year ended December 31, 2009 and “Note 11: Commitments and Contingencies” within Item 8 of our Form 10-K.

On July 22, 2010, Raytheon Systems Limited (“RSL”) was notified by the UK Border Agency that it had been terminated for cause on a program. The termination notice included allegations that RSL had failed to perform on certain key milestones and other matters in addition to claims to recover certain losses incurred and previous payments made to RSL. We believe that RSL performed well and delivered substantial capabilities to the UK Border Agency under the program, which has been operating successfully and providing actionable information since live operations began in May 2009. On July 29, 2010, RSL filed a dispute notice on the grounds that the termination by the UK Border Agency was not valid. On August 18, 2010 the UK Border Agency initiated arbitration proceedings on this issue. The parties are in the process of selecting the arbitration panel for this case. We intend to pursue vigorously the collection of receivables for the program and damages in connection with the termination and defend ourselves against the UK Border Agency’s claims for losses and previous payments.

Under the accounting requirements for subsequent events, we determined that the accounting impact of the termination notice was required to be reflected in our results for the period ended June 27, 2010. As a result, we adjusted our estimated amount of revenue and costs under the program in the period ended June 27, 2010. The adjustment was based on our determination that certain assets were no longer expected to be recovered and for estimated costs for certain exit cost obligations under the contract and the estimated settlement of expected future subcontractor claims. The impact of the adjustment reduced Intelligence and Information Systems’ (IIS) total net sales and operating income by \$316 million and \$395 million in the nine months ended September 26, 2010, respectively. At September 26, 2010, we had approximately \$80 million in letters of credit and approximately \$40 million of receivables and other assets remaining under the program for technology and services delivered, which we believe, are probable of recovery in litigation or arbitration. No amounts have been drawn down on the letters of credit. We currently do not believe it is probable that we are liable for losses, previous payments or other claims asserted by the UK Border Agency. It is reasonably possible that the ultimate amount of any resolution of the termination could be less or greater than our estimate due to the inherent uncertainties in litigation or arbitration. If we are unsuccessful in recovering amounts drawn on the letters of credit, fail to collect the receivable balance, are required to make payments against claims or other losses asserted by the UK Border Agency or pay subcontractor claims in excess of our estimates, it could have a material adverse 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. While we cannot predict the outcome of these matters, in the opinion of management, any liability arising from them will not 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, 2009. There have been no material changes from the factors disclosed in our Form 10-K for the year ended December 31, 2009, 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.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan ⁽²⁾
July (June 28—July 25, 2010)	13,705	\$51.95	—	\$2.1 billion
August (July 26—August 22, 2010)	3,244,166	\$45.60	3,237,258	\$1.9 billion
September (August 23, 2010—September 26, 2010)	<u>6,238,072</u>	\$44.48	<u>6,238,072</u>	\$1.7 billion
Total	<u>9,495,943</u>	\$44.87	<u>9,475,330</u>	

- (1) Includes shares purchased related to treasury activity under our stock plans. Such activity during the third quarter of 2010 includes the surrender by employees of 20,613 shares to satisfy income tax withholding obligations in connection with the vesting of restricted stock previously issued to employees.
- (2) In March 2010, our Board of Directors authorized the repurchase of up to \$2.0 billion of our outstanding common stock. All previous programs have been completed as of September 26, 2010. 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.

- 4.1 Form of 1.625% Notes due 2015, filed as an exhibit to the Company's Current Report on Form 8-K filed October 20, 2010, is hereby incorporated by reference.
- 4.2 Form of 3.125% Notes due 2020, filed as an exhibit to the Company's Current Report on Form 8-K filed October 20, 2010, is hereby incorporated by reference.
- 4.3 Form of 4.875% Notes due 2040, filed as an exhibit to the Company's Current Report on Form 8-K filed October 20, 2010, is hereby incorporated by reference.
- 10.1 Amendment No. 1 to Raytheon 2010 Stock Plan.*
- 10.2 Form of Restricted Stock Agreement.*
- 10.3 Form of Restricted Stock Unit Agreement.*
- 10.4 Form of U.K. Restricted Stock Unit Agreement.*
- 10.5 Form of Performance Stock Unit Award Agreement.*
- 10.6 Separation Agreement between Raytheon Company and Daniel L. Smith.*
- 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.**
- 101 The following materials from Raytheon Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 2010, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.**

* filed electronically herewith

** furnished and not filed herewith

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

October 28, 2010

**RAYTHEON 2010 STOCK PLAN
AMENDMENT # 1**

By vote of the Management Development and Compensation Committee affirmed by the Board of Directors, effective September 23, 2010, the Raytheon 2010 Stock Plan is amended by deleting Section 4.8 in its entirety and by substituting in lieu thereof the following:

4.8 *Committee* means the Management Development and Compensation Committee (“MDCC”) of the Company’s Board, or any subcommittee of the MDCC to which the MDCC may from time to time delegate its authority and responsibility under the Plan; provided, however, that the “Committee” in regard to exercising any authority and responsibility to grant Awards under the Plan to Participants who are Directors and to make or take, as the case may be, all required or appropriate determinations and actions in respect of such grants shall mean the Governance and Nominating Committee of the Company’s Board or another Board committee or the Board itself, if so determined by the Board.

RAYTHEON 2010 STOCK PLAN
RESTRICTED STOCK AWARD AGREEMENT

This Restricted Stock Award Agreement, dated as of _____ (the "Award Date") is between Raytheon Company (the "Company"), and _____, an employee of the Company or one of its Affiliates ("you").

1. Award of Shares

The Company hereby awards you the number of restricted shares of common stock of the Company, par value \$.01 per share, set forth below (the "Shares"), subject to the terms and conditions of the Raytheon 2010 Stock Plan (the "Plan") and the vesting and other provisions of this Agreement.

Total Restricted Shares (the "Award"):
Vesting Schedule:

Vesting Date /# Shares

2. Status of Shares During and Upon Vesting

The Shares shall be registered in your name as of the Award Date until such time as the Shares (or other evidence of ownership of the Shares) are delivered to you or forfeited to the Company in accordance with the terms hereof (the "Restriction Period"). During the Restriction Period, unless otherwise forfeited, you shall be entitled to vote the Shares and to receive dividends paid on the Shares, but such Shares may not be sold, transferred, pledged, exchanged, hypothecated or disposed of by you, nor be made subject to execution, attachment or similar process. Subject to Sections 3 and 4 below, if you are continuously employed by the Company or an Affiliate from the Award Date until the Vesting Date noted above, the Shares associated with that Vesting Date shall vest and the restrictions on those Shares shall lapse. With respect to any Shares that vest, the Company shall deliver to you evidence of ownership of the net number of such Shares reduced by the number of Shares necessary to satisfy tax withholding obligations as described in Section 5 C below.

3. Effect of Termination of Employment

If during the Restriction Period you cease to be an employee of the Company or an Affiliate for any reason other than as set forth in Section 4 below, you shall cease to be entitled to any Shares as to which the applicable restrictions have not previously lapsed. All rights in and to such Shares, including any prorated portion of the Shares with respect to a partial year of employment, shall be forfeited immediately after you cease to be an employee of the Company or an Affiliate.

4. Effect of Death, Medical Leave of Absence, Disability or Change in Control

Notwithstanding anything above to the contrary, the Shares shall vest and restrictions on the Shares shall lapse as follows:

- a) immediately upon your death;
- b) in accordance with the Vesting Schedule in the event of (i) a Medical Leave of Absence of at least one year or (ii) Disability; or
- c) immediately upon a Change in Control.

5. Other Provisions

- A. No Guaranty of Future Awards. This Award does not guarantee you the right to or expectation of future Awards under the Plan or any future plan adopted by the Company.
- B. No Rights to Continued Employment. This Award shall not be deemed to create a contract or other promise of continued employment with the Company or an Affiliate and shall not in any way prohibit or restrict the ability of the Company or an Affiliate to terminate your employment at any time for any reason.
- C. Taxes. In addition to amounts in respect of taxes which the Company shall be required by law to deduct or withhold from any dividend payments on the Shares, the Company may withhold from any Shares vesting hereunder a number of Shares whose market value is sufficient in amount for the Company to satisfy any applicable United States federal, state or other tax withholding requirement under the laws of the jurisdictions in which you reside or that otherwise may be applicable to you. You shall not be entitled to any Shares or dividends on any Shares until all such tax obligations have been satisfied in full.
- D. Clawback. If you are an elected officer, in addition to any other remedies available to the Company (but subject to applicable law), if the Board determines that it is appropriate, the Company may recover (in whole or in part) any payment made pursuant to this Award where: (1) the payment was predicated upon achieving certain financial results that were subsequently the subject of a restatement of Company financial statements filed with the Securities and Exchange Commission; (2) the Board determines that you engaged in knowing or intentional fraudulent or illegal conduct that caused or substantially caused the need for the restatement; and (3) a lower payment would have been made to you pursuant to the Award based upon the restated financial results. In any such instance, the Company shall, to the extent practicable, seek to recover from you the amount by which the payment pursuant to the Award for the relevant period exceeded the lower payment that would have been made based on the restated financial results. The Company's right of recovery applies to both the vested and unvested portion of the Award.
- E. Plan. All terms and conditions of the Plan are incorporated herein by reference and constitute an integral part hereof. Any capitalized terms used but not defined herein shall have the meanings ascribed to them in the Plan.
- F. Notices. Notices required or permitted hereunder shall be in writing and shall be delivered personally or by mail, postage prepaid, and, if to the Company, addressed to Raytheon Company, 870 Winter Street, Waltham, Massachusetts 02451, Attention: Senior Vice President, Human Resources, and, if to you, to your name and address as shown on the Company's payroll records.

Your acceptance of this Award constitutes your agreement to the terms of this Restricted Stock Award Agreement.

RAYTHEON COMPANY

Name:

Title:

RAYTHEON 2010 STOCK PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

This Restricted Stock Unit Award Agreement, dated as of _____ (the "Award Date") is between Raytheon Company (the "Company"), and _____, an employee of the Company or one of its Affiliates ("you").

1. Award of Units

The Company hereby awards you the number of restricted stock units ("Units") set forth below, with respect to its common stock, par value \$0.01 per share (the "Stock"), subject to the terms and conditions of the Raytheon 2010 Stock Plan (the "Plan") and the vesting and other provisions of this Agreement. Subject to the provisions hereof, each Unit represents the right to receive one share of Stock (a "Share") plus additional cash payments in lieu of dividends as described in Section 5 below.

<p>Total Number of Restricted Units (the "Award"): _____</p> <p>Vesting Schedule: (Each period from the Award Date until the Vesting Date is a "Restriction Period".)</p>	<p><u>Vesting Date/ # Units</u></p>
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2. Vesting of Units

Subject to Sections 3 and 4 below, if you are continuously employed by the Company or an Affiliate from the Award Date until the Vesting Date noted above, the Units associated with that Vesting Date shall vest and the restrictions on those Units shall lapse. With respect to any Units that vest, the Company shall promptly deliver to you evidence of ownership of the net number of Shares equal to the number of vested Units reduced by the number of Shares necessary to satisfy tax withholding obligations as described in Section 6 E below.

3. Effect of Termination of Employment

If during the Restriction Period you cease to be an employee of the Company or an Affiliate for any reason, other than as set forth in Section 4 below, then you shall cease to be entitled to any Units or delivery of any Shares in which Units are settled as to which the applicable restrictions have not previously lapsed. All rights in and to such Units and related Shares, including any prorated portion of Units or related Shares with respect to a partial year of employment, as well as cash in lieu of dividends as described in Section 5 below, shall be forfeited immediately after you cease to be an employee of the Company or an Affiliate.

4. Effect of Death, Medical Leave of Absence, Disability or Change in Control

Notwithstanding anything above to the contrary, the Units shall vest and restrictions on the Units shall lapse as follows:

- a) immediately upon your death;
- b) in accordance with the Vesting Schedule in the event of (i) a Medical Leave of Absence of at least one year or (ii) Disability; or
- c) immediately upon a Change in Control.

5. Payment of Dividend Equivalents

Upon the vesting and lapsing of restrictions on Units, you shall be entitled to receive a cash payment in lieu of dividends on the number of Shares those Units represent, if and to the extent that the Board has approved a dividend for all Company shareholders during the Restriction Period applicable to such Units. The dividend equivalent amount shall be a cash payment based upon the number of Units vesting hereunder multiplied by each quarterly per share dividend approved by the Board multiplied by the number of fiscal quarters during the Restriction Period applicable to such Units. You will not be entitled to any cash payment in lieu of dividends relating to Units covered by this Award which are forfeited prior to vesting.

6. Other Provisions

- A. No Guaranty of Future Awards. This Award does not guarantee you the right to or expectation of future Awards under the Plan or any future plan adopted by the Company.
- B. No Rights as Shareholder. You shall not be considered a shareholder of the Company with respect to the Units until Shares are issued to you in payment of the Units. Therefore, you have no right to vote the Units or to receive dividends with respect to such Units except as provided in Section 5 above.
- C. No Rights to Continued Employment. This Award shall not be deemed to create a contract or other promise of continued employment with the Company or an Affiliate and shall not in any way prohibit or restrict the ability of the Company or an Affiliate to terminate your employment at any time for any reason.
- D. Restrictions on Transfer of Units. Until the vesting of, and lapse of the restrictions applicable to, any Units and the delivery of Shares in payment therefor, Units may not be sold, transferred, pledged, exchanged, hypothecated or disposed of by you and shall not be subject to execution, attachment or similar process.
- E. Taxes. Taxes may be assessed and/or withheld as required by law at applicable United States federal, state and/or other tax rates (under the laws of the jurisdictions in which you reside or that may otherwise be applicable to you) with respect to Units, issuance of Shares and cash in lieu of dividends.
- F. Clawback. If you are an elected officer, in addition to any other remedies available to the Company (but subject to applicable law), if the Board determines that it is appropriate, the Company may recover (in whole or in part) any payment made pursuant to this Award where: (1) the payment was predicated upon achieving certain financial results that were subsequently the subject of a restatement of Company financial statements filed with the Securities and Exchange Commission; (2) the Board determines that you engaged in knowing or intentional fraudulent or illegal conduct that caused or substantially caused the need for the restatement; and (3) a lower payment would have been made to you pursuant to the Award based upon the restated financial results. In any such instance, the Company will, to the extent practicable, seek to recover from you the amount by which the payment pursuant to the Award for the relevant period exceeded the lower payment that would have been made based on the restated financial results. The Company's right of recovery applies to both the vested and unvested portion of the Award.
- G. Plan. All terms and conditions of the Plan are incorporated herein by reference and constitute an integral part hereof. Any capitalized terms used but not defined herein shall have the meanings ascribed to them in the Plan.
- H. Notices. Notices required or permitted hereunder shall be in writing and shall be delivered personally or by mail, postage prepaid, addressed to Raytheon Company, 870 Winter Street, Waltham, Massachusetts 02451, Attention: Senior Vice President, Human Resources, and to you at your address as shown on the Company's payroll records.

Your acceptance of this Award constitutes your agreement to the terms of this Restricted Stock Unit Award Agreement.

RAYTHEON COMPANY

Name:
Title:

RAYTHEON 2010 STOCK PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

This Restricted Stock Unit Award Agreement, dated as of _____ (the "Award Date") is between Raytheon Company (the "Company"), and _____, an employee of the Company or one of its Affiliates ("you").

1. Award of Units

The Company hereby awards you the number of restricted stock units ("Units") set forth below, with respect to its common stock, par value \$0.01 per share (the "Stock"), subject to the terms and conditions of the Raytheon 2010 Stock Plan (the "Plan") and the vesting and other provisions of this Agreement. Subject to the provisions hereof, each Unit represents the right to receive one share of Stock (a "Share") plus additional cash payments in lieu of dividends as described in Section 5 below.

Total Number of Restricted Units
(the "Award"):

Vesting Date/ # Units

Vesting Schedule:

(Each period from the Award Date until the Vesting Date is a "Restriction Period".)

2. Vesting of Units

Subject to Sections 3 and 4 below, if you are continuously employed by the Company or an Affiliate from the Award Date until the Vesting Date noted above, the Units associated with that Vesting Date shall vest and the restrictions on those Units shall lapse. With respect to any Units that vest, the Company shall promptly deliver to you evidence of ownership of the net number of Shares equal to the number of vested Units reduced by the number of Shares necessary to satisfy tax withholding obligations as described in Section 6 F below.

3. Effect of Termination of Employment

If during the Restriction Period you cease to be an employee of the Company or an Affiliate for any reason, other than as set forth in Section 4 below, then you shall cease to be entitled to any Units or delivery of any Shares in which Units are settled as to which the applicable restrictions have not previously lapsed. All rights in and to such Units and related Shares, including any prorated portion of Units or related Shares with respect to a partial year of employment, as well as cash in lieu of dividends as described in Section 5 below, shall be forfeited immediately after you cease to be an employee of the Company or an Affiliate.

4. Effect of Death, Medical Leave of Absence, Disability or Change in Control

Notwithstanding anything above to the contrary, the Units shall vest and restrictions on the Units shall lapse as follows:

- a) immediately upon your death;
- b) in accordance with the Vesting Schedule in the event of (i) a Medical Leave of Absence of at least one year or (ii) Disability; or
- c) immediately upon a Change in Control.

5. Payment of Dividend Equivalents

Upon the vesting and lapsing of restrictions on Units, you shall be entitled to receive a cash payment in lieu of dividends on the number of Shares those Units represent, if and to the extent that the Board has approved a dividend for all Company shareholders during the Restriction Period applicable to such Units. The dividend equivalent amount shall be a cash payment based upon the number of Units vesting hereunder multiplied by each quarterly per share dividend approved by the Board multiplied by the number of fiscal quarters during the Restriction Period applicable to such Units. You will not be entitled to any cash payment in lieu of dividends relating to Units covered by this Award which are forfeited prior to vesting.

6. Other Provisions

- A. Employer's National Insurance Contributions. The Company has granted this Award on the terms that vesting is conditional upon the Recipient agreeing to pay for any secondary Class 1 National Insurance contributions arising in respect of the Units awarded hereunder, by executing this Agreement or (if the Company so determines) by completing and delivering to the Company prior to vesting a joint election in respect of the same in a form approved by HM Revenue & Customs.
- B. No Guaranty of Future Awards. This award does not guarantee you the right to or expectation of future Awards under the Plan or any future plan adopted by the Company.
- C. No Rights as Shareholder. You shall not be considered a shareholder of the Company with respect to the Units until Shares are issued to you in payment of the Units. Therefore, you have no right to vote the Units or to receive dividends with respect to such Units except as provided in Section 5 above.
- D. No Rights to Continued Employment. This Award shall not be deemed to create a contract or other promise of continued employment with the Company or an Affiliate and shall not in any way prohibit or restrict the ability of the Company or an Affiliate to terminate your employment at any time for any reason.
- E. Restrictions on Transfer of Units. Until the vesting of, and lapse of the restrictions applicable to, any Units and the delivery of Shares in payment therefor, Units may not be sold, transferred, pledged, exchanged, hypothecated or disposed of by you and shall not be subject to execution, attachment or similar process.
- F. Taxes. Taxes may be assessed and/or withheld as required by law at applicable United States federal, state and/or other tax rates (under the laws of the jurisdictions in which you reside or that may otherwise be applicable to you) with respect to Units, issuance of Shares and cash in lieu of dividends.
- G. Clawback. If you are an elected officer, in addition to any other remedies available to the Company (but subject to applicable law), if the Board determines that it is appropriate, the Company may recover (in whole or in part) any payment made pursuant to this Award where: (1) the payment was predicated upon achieving certain financial results that were subsequently the subject of a restatement of Company financial statements filed with the Securities and Exchange Commission; (2) the Board determines that you engaged in knowing or intentional fraudulent or illegal conduct that caused or substantially caused the need for the restatement; and (3) a lower payment would have been made to you pursuant to the Award based upon the restated financial results. In any such instance, the Company will, to the extent practicable, seek to recover from you the amount by which the payment pursuant to the Award for the relevant period exceeded the lower payment that would have been made based on the restated financial results. The Company's right of recovery applies to both the vested and unvested portion of the Award.

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- H. Plan. All terms and conditions of the Plan are incorporated herein by reference and constitute an integral part hereof. Any capitalized terms used but not defined herein shall have the meanings ascribed to them in the Plan.
 - I. Notices. Notices required or permitted hereunder shall be in writing and shall be delivered personally or by mail, postage prepaid, addressed to Raytheon Company, 870 Winter Street, Waltham, Massachusetts 02451, Attention: Senior Vice President, Human Resources, and to you at your address as shown on the Company's payroll records.

Your acceptance of this Award constitutes your agreement to the terms of this Restricted Stock Unit Award Agreement.

RAYTHEON COMPANY

Name:
Title:

RAYTHEON 2010 STOCK PLAN

Performance Stock Unit Award Agreement with respect to the Long-Term Performance Plan

This Performance Stock Unit Award Agreement, dated as of _____ (the "Award Date") is between Raytheon Company (the "Company"), and _____, an employee of the Company or one of its Affiliates ("you").

1. Award of Units

The Company hereby grants to you an award of stock units with respect to its common stock, par value \$0.01 per share (the "Stock"), pursuant to the Raytheon 2010 Stock Plan (as amended from time to time, the "Plan"), subject to the terms and conditions set forth in this Agreement.

Total Target Number of Shares of Stock _____
Performance Cycle _____ Calendar years through _____

2. Conditions to Award

Pursuant to this Award, you will be entitled to a payment based on your Total Target Number of Shares of Stock set forth above and the Company's performance during the Performance Cycle with respect to (each a "metric" and collectively the "metrics"). The actual amount of such payment will be determined by multiplying the Total Target Number of Shares of Stock by the applicable Target Share Award Multiplier from the tables in this Section 2. The Target Share Award Multiplier for each metric will be determined based on the level of the Company's performance during the Performance Cycle relative to that metric as set forth in the applicable table. The precise extent to which the Company will have satisfied the metrics, and any shares of Stock will have been earned, will be determined by the Management Development and Compensation Committee of the Company's Board (the "Committee") as soon as practicable following the close of the Performance Cycle and, to the extent reasonably practicable, will be calculated without regard to any change in applicable accounting standards after the grant of this Award.

	Metric	Target Share Award Multiplier
Maximum		
Target		
Threshold		

3. Effect of Termination of Employment, Etc.

You must remain an employee until the end of the Performance Cycle in order to be entitled to any payment pursuant to this Award, except as provided in Section 4 below and except as follows. If your employment with the Company ends during the Performance Cycle on account of your Retirement, as that term is defined in the Plan, or because you become disabled or die, after the end of the Performance Cycle, you (or in the event of your death, your estate) will be entitled to a pro rata portion of the number of shares of Stock you would have received, if any, had you remained employed until the end of the Performance Cycle. The pro rata portion will be based on the number of full months in the Performance Cycle during which you were employed as compared to the total number of months in the Performance Cycle.

4. Effect of Change of Corporate Control

If a Change of Corporate Control, as defined in the Plan, should occur during the Performance Cycle, you will be entitled to receive, no later than thirty (30) days following the effective date of the Change in Control, a pro rata portion of the Total Target Number of Shares of Stock covered by this Award, without regard to the extent to which the performance conditions of Section 2 above have been satisfied. The pro rata portion will be based on the number of full months in the Performance Cycle preceding the Change of Corporate Control as compared to the total number of months in the Performance Cycle.

5. Payment

- A. Settlement of Award. Except as otherwise provided in Sections 3 and 4 above, the actual number of shares (or amount of cash in lieu of shares) that you receive at the end of the Performance Cycle will be determined based upon the degree to which each metric is attained. You will be entitled to receive 100% of your Total Target Number of Shares of Stock if Target performance is achieved in all three metrics. If performance falls below the Threshold for a metric, no shares of Stock or cash will be awarded for that metric. When performance for a metric is at or above Threshold performance, shares of Stock or cash will be paid out based upon the performance level indicated in Section 2 above, up to a maximum of two times the Target performance level. When performance for a metric falls between two performance levels, payout will be based upon the lower Target Share Award Multiplier. Accordingly, depending upon the level of attainment of each metric, the maximum number of shares of Stock that could be issued in settlement of your Award is two times your Total Target Number of Shares of Stock. The total actual number of shares that you receive under this Award, including shares attributable to dividend equivalent amounts, will be rounded up to the nearest whole share.
- B. Timing. Promptly following determination of the number of shares of Stock you have earned under this Award but no later than March 15 after the end of the Performance Cycle, such number, if any, will be paid to you together with a dividend equivalent amount of shares calculated in accordance with Section 5 C below.
- C. Dividend Equivalents. For each dividend declared by the Company's Board of Directors (the "Board") during the period beginning on the date of grant of this Award and ending at the end of the Performance Cycle, whether in cash or stock, if any (a "LTTP Dividend"), a

dividend equivalent amount will be calculated assuming that the shares of Stock to which you ultimately become entitled under this Award (including shares attributable to dividend equivalent amounts from prior LTPP Dividends, if any) were entitled to such LTPP Dividend and that the dividend equivalent amount had been reinvested in additional shares of Stock as of the payment date of such LTPP Dividend. You will not be entitled to any dividend equivalent amount on shares of Stock covered by this Award which are not ultimately earned.

- D. Form of Payment. The Committee in its discretion may settle Awards, including any dividend equivalent amounts, in shares of Stock or cash, or a combination thereof. Cash payments, if any, shall be calculated based upon the fair market value of a share of Stock on the date on which the Committee determines the extent to which the Company has satisfied the metrics and the number of shares of Stock to be issued in settlement of the Award.
- E. Taxes. Taxes may be assessed and/or withheld as required by law at applicable United States federal, state and/or other tax rates (under the laws of the jurisdictions in which you reside or that may otherwise be applicable to you) with respect to units, issuance of Shares and/or cash. Notwithstanding anything in this Agreement to the contrary, any payment described in this Agreement shall be reduced by a number of shares, or cash amount to the extent settlement is made in cash, necessary to satisfy tax withholding obligations.

6. Other Provisions

- A. Future Adjustments. In the event of any merger, acquisition, disposition or other corporate event affecting the Company or any peer company during the Performance Cycle, the Committee may make such adjustments to the peer group of companies, the total return calculations of the affected companies, and the metrics set forth in Section 2 as it may determine would most nearly carry out the original purposes and intent of this Award.
- B. No Guaranty of Future Awards. This Award in no way guarantees you the right to or expectation that you may receive similar awards with respect to any other similar performance cycle or period which the Committee may, in its discretion, establish and as to which the Committee may elect to grant awards under the Plan.
- C. No Rights as Shareholder. You will not be considered a shareholder of the Company with respect to the shares of Stock covered by this Award or any dividend equivalent amount of shares unless and until shares of Stock are issued to you in settlement of this Award.
- D. No Rights to Continued Employment. This Award shall not be deemed to create a contract or other promise of continued employment with the Company or an Affiliate and shall not in any way prohibit or restrict the ability of the Company or an Affiliate to terminate your employment at any time for any reason.
- E. Compliance with Section 409A of the Internal Revenue Code. Notwithstanding anything in this Agreement to the contrary, to the extent that this Agreement constitutes a nonqualified deferred compensation plan to which Internal Revenue Code Section 409A applies, the administration of this Award (including time and manner of payments under it) shall comply with Section 409A.

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- F. Clawback. If you are an elected officer, in addition to any other remedies available to the Company (but subject to applicable law), if the Board determines that it is appropriate, the Company may recover (in whole or in part) any payment made pursuant to this Award where: (1) the payment was predicated upon achieving certain financial results that were subsequently the subject of a restatement of Company financial statements filed with the Securities and Exchange Commission; (2) the Board determines that you engaged in knowing or intentional fraudulent or illegal conduct that caused or substantially caused the need for the restatement; and (3) a lower payment would have been made to you pursuant to the Award based upon the restated financial results.
 - G. Plan. All terms and conditions of the Plan are incorporated herein by reference and constitute an integral part hereof. Any capitalized terms used but not defined herein shall have the meanings ascribed to them in the Plan.
 - H. Notices. Notices required or permitted hereunder shall be in writing and shall be delivered personally or by mail, postage prepaid, addressed to Raytheon Company, 870 Winter Street, Waltham, Massachusetts 02451, Attention: Senior Vice President, Human Resources, and to you at your address as shown on the Company's payroll records.

RAYTHEON COMPANY

Name:
Title:

Recipient

June 22, 2010

Mr. Daniel L. Smith
593 Strawberry Hill Road
Concord, MA 01742

Re: Separation Agreement

Dear Dan:

This Separation Agreement will confirm the understandings and agreements we have reached with respect to your separation from employment with Raytheon Company ("Raytheon" or the "Company") and your resignation as president of Raytheon Integrated Defense Systems and as vice president of Raytheon Company ("Separation Agreement" or "Agreement").

1. Separation Date: Your separation date from Raytheon will be July 30, 2010. You will be paid through that date as an employee of Raytheon Company. Prior to that date you will resign from any officer or director positions you may hold with Raytheon Company or any of its subsidiaries or affiliated entities, and from your position as a member, principal or director of the Australian Air Warfare Destroyer Principals' Council. See letter attached hereto. Your separation from Raytheon Company on July 30, 2010, shall be treated by the Company as a de facto resignation from all such director and officer positions.

2. Severance Payment: Subject to the terms and conditions of this Separation Agreement, commencing on July 31, 2010, you will receive bi-weekly severance payments for a period of two (2) years equivalent to your current base salary, subject to normal statutory tax withholding. The total potential value of payments payable pursuant to this paragraph is \$986,044.

3. Results Based Incentive (RBI) Bonus: Pro-Rated 2010: Subject to the terms and conditions of this Separation Agreement, you will receive a pro-rated RBI Bonus for 2010 based on your current RBI target percentage and number of days worked as an employee in 2010. The pro-rated bonus will be payable at the time in 2011 when RBI bonuses are paid to employees. This pro-rated RBI for 2010 will be \$287,596, subject to normal statutory tax withholding.

4. RBI Severance Payments: In addition to the pro-rated RBI bonus set forth in Paragraph 3, subject to the terms and conditions of this Separation Agreement, you will receive an RBI bonus payment equal to your current target RBI percentage rate times your salary as of your Separation Date, payable at the time RBI bonuses are normally paid in 2012 for 2011 (\$493,022) and in 2013 for 2012 (\$493,022), subject to normal statutory tax withholding.

5. Fringe Benefits and Perquisites: During the severance payment period set forth in Paragraph 2 above, you and any eligible dependents may continue to participate in Company sponsored medical, vision, and dental plans at the cost allocated to Raytheon employees. At the end of the severance payment period, you will be eligible for access to the Company's retiree medical plan subject to the terms, conditions, and costs of the plan in effect at the date of transition. Your participation in any other Company-sponsored plans, including accidental death and dismemberment, short-term disability, long-term disability, and dependent care reimbursements shall cease as of your Separation Date, except that your coverage under your Basic Life Insurance plans shall cease thirty-one (31) days after your Separation Date. Your coverage under Company Owned Life Insurance plans shall continue into your retirement on the stepped-down reduction basis of coverage in accord with the terms and conditions of such Company owned policies. You shall not receive any other Company-sponsored benefits or perquisites after your Separation Date. All Company provided electronics equipment and any other Company provided support service equipment shall be returned to the Company by your Separation Date.

6. Paid Time Off: You will be paid for 86 hours of accrued but unused Paid Time Off for 2010 to be paid within twenty (20) days of your Separation Date.

7. Stock Options and Restricted Shares: Treatment of any Raytheon Company stock options which you may hold will be governed according to the retirement provisions of the Plans under which they were granted and the Grant Agreements. Your last day worked for purposes of vesting of any stock options shall be your Separation Date. Any restricted shares of Raytheon stock previously awarded to you whose restrictions have not lapsed as of your Separation Date will be forfeited as of your Separation Date.

8. Long Term Performance Plan (LTTP): As a retiree of the Company, the value of the restricted stock units awarded to you pursuant to the Company's LTTP will be payable to you pursuant to the terms of each Plan at the time when the final performance year of each plan has been completed, at such time as all Plan participants are paid, and in accord with the Company's performance under each Plan as determined by the Company and its Board of Directors. Any value you may receive for restricted stock units awarded to you pursuant to the Company's LTTP shall be pro-rated as follows, and shall be subject to normal statutory tax withholding:

- 2008-2010 Plan: 31 out of 36 months or 86.1% of award value
- 2009-2011 Plan: 19 out of 36 months or 52.8% of award value
- 2010-2012 Plan: 7 out of 36 months or 19.4% of award value

9. General Release: You agree to execute the General Release attached hereto.

10. Pension Benefits: Any pension benefits payable to you as a result of your employment by Raytheon Company shall be based on the terms and conditions of the retirement plans in which you have participated during your employment and shall be subject to applicable law and normal tax withholding.

11. Legal Proceedings: You agree that with respect to any existing or future legal or administrative proceedings or asserted claims relating to events which occurred during your employment with Raytheon in which Raytheon has an interest or is a party, and as to which in the Company's view you might have personal knowledge, otherwise have relevant information, or may be of assistance, you will cooperate reasonably with Raytheon in the prosecution or defense of any such matters, including without limitation the execution of truthful affidavits or other documents providing information requested by Raytheon. Raytheon shall reimburse you for reasonable travel expenses and will provide Company legal counsel to you if necessary; if your personal legal interests in any such matter are clearly adverse to those of the Company, you may exercise your indemnification rights with respect to such matters.

12. Security Clearance: In the course of your employment with Raytheon, you may have come into possession of or gained exposure to classified matters. The Company reminds you of your continuing obligation to protect such information and that the disclosure of any such information which came to you as a result of your security clearance, including work product, company plans and other matters, shall not be discussed or revealed in any way, except if required to do so pursuant to a proceeding instituted by an appropriate government agency, at the request of an authorized Company agent, or in compliance with legal process.

13. Confidential and Proprietary Information: Without in any way limiting your general legal obligation to maintain the confidentiality of Raytheon Company confidential and proprietary information, as a condition of receiving any of the benefits and payments provided by this Separation Agreement, you agree to keep all confidential and proprietary information of the Company, its subsidiaries and affiliated companies, including joint venture partners, strictly confidential, and not to disclose any such confidential or proprietary information to any other person except to the extent that disclosure is required by law, court order, or governmental inquiry. For purposes of this Paragraph, confidential and proprietary information includes, but is not limited to, any non-public trade secret or commercially sensitive or valuable information concerning the business affairs, customers, technologies, and personnel of Raytheon Company and any of its affiliated entities, and includes among other information:

- ı information that is related to any programs or procurements in which you have been involved or about which you have obtained information during your employment at Raytheon;
- ı information concerning Raytheon's customers, clients, or prospects, and their products, processes and policies;
- ı information concerning the management, policies, strategies, and finances of Raytheon; and
- ı information regarding the officers and employees of Raytheon.

You hereby represent, warrant, and agree that you have returned to Raytheon all Company confidential and proprietary information and property, whether located in files, memoranda, documents, or on computers, laptops, blackberries, removable media or other portable storage devices, and that you have not and will not misappropriate, upload or download, transfer to any third party, or otherwise share or distribute Company confidential or proprietary data. You may retain your rolodex and a copy of your electronic address book to the extent they only contain contact information.

14. Non-Competition and Non-Solicitation: You agree that during the twenty-four (24) month period during which you receive severance payments beginning July 31, 2010, you will not, whether directly or indirectly, on your own account or jointly with another person, unless mutually agreed in writing by you and Raytheon:

- (1) carry on or be engaged in any business activity as an employee, consultant or director of any of the following entities or their subsidiaries or affiliates: BAE, Boeing, General Dynamics, EADS, Harris, Honeywell, L-3, Lockheed Martin, MBDA, Northrop Grumman, Rockwell Collins, SAIC, Thales, United Technologies; or
- (2) either for your own account or for any other person or entity, solicit or attempt to solicit or entice into an employment or business relationship any employee of Raytheon or any of its affiliate companies.

You acknowledge that the undertakings in this Paragraph 14 are reasonable and necessary for the protection of the goodwill and legitimate business interests of Raytheon. You further acknowledge that the legal remedy of damages for breach of this Separation Agreement would be inadequate and that temporary and permanent relief by way of injunction may be granted in any proceeding which Raytheon may bring to enforce any of the provisions of this Paragraph without necessity of proof of actual damages suffered by Raytheon. In satisfaction of any breach of this Paragraph 14, Raytheon may discontinue any further payments to you of any benefits and monies provided pursuant to this Separation Agreement.

15. Non-Disparagement and Representations: You agree not to disparage Raytheon, its officers, directors, and employees, and Raytheon agrees that its officers and directors will not disparage you. Nothing in this Separation Agreement shall prohibit you or Raytheon or its officers, directors or employees from complying with any valid subpoena or court order or from responding truthfully to a governmental inquiry or investigation. Decisions by Raytheon and its officers, directors, and employees in restructuring Raytheon's organizations or making personnel decisions shall not be deemed disparaging of you. In particular, you agree that you will not, without the prior written consent of Raytheon:

- i make any third party or media statements, including any statements on the Internet or any other electronic media, or cause any such statements to be made, regarding Raytheon's business or customers or officers and employees, or the circumstances leading to the cessation of your employment with the Company;
- i represent yourself as continuing to be connected with or related to the business of Raytheon or to Raytheon after the cessation of your employment on July 30, 2010;
- i engage in any conduct or make any third party or media statements, including any statements on the Internet or any other electronic media, or cause any such statements to be made, which are disparaging of the reputation or good name of Raytheon or any of its officers, directors or employees.

16. Ethics Compliance: You hereby represent and warrant that, to the best of your knowledge, you have complied fully with all Raytheon policies related to ethics and compliance, and that you have disclosed to Raytheon all matters of which you are aware which are required to be disclosed by such policies, including any allegations regarding the possible violation of any of Raytheon's ethical standards, compliance obligations or legal obligations. In particular, you represent and warrant that, to the best of your knowledge except as so disclosed by you in writing to a responsible officer of the Company, you have no information which you believe could be the basis for any violation of Raytheon ethics standards, policies or legal obligations or the basis of any ethical complaint against the Company or any of its officers and employees.

17. Insider Information: In the course of your employment with Raytheon, you have been treated as an "insider" for securities law purposes. Please review your obligations regarding your treatment of insider information, and remember that any financial plan, program, estimate, financial performance data or matter not readily available to the general public shall be maintained in strict confidence and may not be disclosed or discussed publicly. Remember that you remain subject to Raytheon's securities trading policies and practices for a period of ninety (90) days following your Separation Date.

18. Confidentiality of this Separation Agreement: You and Raytheon mutually agree to keep the terms and conditions of this Separation Agreement confidential and not to disclose the terms hereof to anyone, except to immediate family members, tax accountants, lawyers, financial advisors, potential employers to the extent relevant, or to comply with any law or requirement of any regulatory body.

19. Governing Law and Arbitration: This Separation Agreement shall be governed by and construed and enforced in accordance with the laws of Massachusetts. Any dispute arising under the Separation Agreement, except as noted in Paragraph 14, shall be settled exclusively through arbitration. Such arbitration shall be conducted in accordance with the employment arbitration rules of the American Arbitration Association before a single arbitrator in a Massachusetts venue to be determined by mutual agreement. The decision of the arbitrator shall be final and binding on both parties. Judgment may be entered on the award of the Arbitrator in any court having proper jurisdiction. Each party shall be responsible for its own fees and arbitration costs, and the parties shall share equally the fees of the arbitrator.

20. Severability of Provisions: The provisions of this Separation Agreement are severable. If any one or more of the provisions contained herein, or the application thereof in any circumstances, are held illegal, invalid, or unenforceable in any respect and for any reason, the validity, legality and enforceability of any such provisions in every other respect and of the remaining provisions hereof shall not be affected or impaired in any way, it being intended that all of the parties' rights and privileges arising hereunder shall be enforceable to the fullest extent permitted by law.

You understand that, if you materially breach any provision of this Separation Agreement, Raytheon has the right to discontinue any further payment of benefits and monies payable pursuant to this Separation Agreement and that such breach can be the predicate for repayment by you of any benefits and monies already paid pursuant to this Agreement. You also understand that, if you elect to revoke the General Release attached

hereto within seven (7) days after its execution, the Separation Agreement shall be null and void and each party will have all rights and obligations afforded them under the law as if this Separation Agreement had not been signed by the parties and as if the General Release had never been signed by you. You agree, in the event of revocation of the General Release, to return immediately any consideration received in support of said Release.

This Separation Agreement shall be binding upon and inure to the benefit of you and Raytheon Company and each party's respective successors and assigns.

This Separation Agreement sets forth the entire agreement and the understandings of the parties, and it supersedes all previous discussions, commitments or agreements, including, but not limited to, the terms of the Raytheon Company Change in Control Severance Agreement as amended on January 1, 2010. This Agreement shall not limit any rights you may have with respect to indemnification and Directors' and Officers' liability insurance coverage in accord with the terms and conditions of the Company's Directors' and Officers' liability insurance coverage, your indemnification agreement with the Company, and the Company's Charter and By-Laws. This Agreement may not be modified, changed or discharged, in whole or in part, except by written agreement signed by the Senior Vice President, Human Resources on behalf of the Company. No payments authorized by this Agreement shall be made until the effective date of this Agreement and all periods of time for revocation shall have expired.

If you have any questions about this Separation Agreement, please contact me. All questions or comments regarding this Separation Agreement should be directed to me.

Sincerely,

/s/ Keith J. Peden

Keith J. Peden
Senior Vice President, Human Resources

ACCEPTED:

/s/ Daniel L. Smith

Daniel L. Smith

Date: August 3, 2010

Attachments

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

Commissioners:

We are aware that our report dated October 28, 2010 on our review of interim financial information of Raytheon Company and its subsidiaries (the Company) for the three and nine month periods ended September 26, 2010 and September 27, 2009 and included in the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 2010 is incorporated by reference in its Registration Statements on Form S-3 (File Nos. 333-154677; 333-71974; 333-58474; and 333-82529) and Form S-8 (File Nos. 333-124690; 333-56117; 333-52536; 333-64168; 333-45629; and 333-168415).

Very truly yours,

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Boston, Massachusetts

October 28, 2010

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William H. Swanson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Raytheon Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons fulfilling the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2010

/s/ William H. Swanson

William H. Swanson
Chairman and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David C. Wajsgras, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Raytheon Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons fulfilling the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2010

/s/ David C. Wajsgras

David C. Wajsgras

Senior Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Raytheon Company (the "Company") on Form 10-Q for the period ending September 26, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William H. Swanson, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William H. Swanson

William H. Swanson
Chairman and Chief Executive Officer
October 28, 2010

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Raytheon Company (the "Company") on Form 10-Q for the period ending September 26, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David C. Wajsgras, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David C. Wajsgras

David C. Wajsgras

Senior Vice President and Chief Financial Officer

October 28, 2010

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.