RAYTHEON CO/
Form 10-K
February 23, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 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	**95-1778500**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

870 Winter Street, Waltham, Massachusetts 02451

(Address of Principal Executive Offices) (Zip Code)

(781) 522-3000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 x Accelerated filer ¨ Non-accelerated filer ¨ 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 x

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 27, 2010, was approximately $18.7 billion.

The number of shares of Common Stock outstanding as of February 11, 2011 was 359,694,000.

Documents incorporated by reference and made a part of this Form 10-K:

Portions of the Registrant s Definitive Proxy Statement for its 2011 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

General

Raytheon Company, together with its subsidiaries, is a technology and innovation leader specializing in defense, homeland security and other government markets throughout the world. We provide state-of-the-art electronics, mission systems integration and other capabilities in the areas of sensing, effects, and command, control, communications and intelligence systems (C3I), as well as a wide range of mission support services. 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 were founded in 1922 and have grown internally and through a number of acquisitions. We are incorporated in the state of Delaware. Our principal executive offices are located at 870 Winter Street, Waltham, Massachusetts 02451.

In this section, we describe our business, including our business segments, product lines, customers, operations and other considerations.

Business Segments

We operate in six business segments:

- Integrated Defense Systems;
- Intelligence and Information Systems;
- Missile Systems;
- Network Centric Systems;
- Space and Airborne Systems; and
- Technical Services.

The following is a description of each of our business segments. As part of the description, we include a discussion of some of the segment s notable initiatives and achievements in 2010, such as certain key contract awards, new product introductions and acquisitions. For a discussion of the financial performance of our business segments and other financial information, see pages 46-59 of this Form 10-K.

Integrated Defense Systems (IDS) IDS, headquartered in Tewksbury, Massachusetts, is a leader in global capabilities integration, providing affordable, integrated solutions to a broad international and domestic customer base. IDS leverages its core domain knowledge and capabilities in sensors, command, control and communication (C3), persistent surveillance/intelligence, surveillance and reconnaissance (ISR), effects and mission support, to provide integrated naval, air and missile defense and civil security response solutions. Key customers include the U.S. Navy, Army and Air Force, and the U.S. Missile Defense Agency (MDA), and numerous international customers.

In 2010, IDS, as the prime contractor for the Patriot Air & Missile Defense System, a long-range, high-altitude system designed to defeat advanced threats, provided Patriot Configuration 3 upgrades to the U.S. Army as well as Patriot System upgrades to international customers. IDS also continued to serve as the prime mission systems integrator for all electronic and combat systems of the Zumwalt Class Destroyer program (DDG 1000), the development of mission critical software and the continued delivery of elements of mission systems equipment to the U.S. Navy. IDS was also awarded a contract to construct, integrate and test an Army/Navy Transportable Radar Surveillance (AN/TPY-2) radar to meet warfighter urgent needs.

IDS has the following principal product lines:

Patriot Programs (PP) PP, as the prime contractor, designs, develops and produces the Patriot Air & Missile Defense System for the U.S. Army, which serves as the foundation of the U.S. Army s integrated air and missile defense against the escalating tactical ballistic missile threat. PP also provides the Patriot System to key international customers

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including Germany, Greece, Spain, and The Netherlands in Europe; Israel, Kuwait, Saudi Arabia, and the United Arab Emirates (UAE) in the Middle East; and Japan, South Korea and Taiwan in the Far East. In addition, PP provides the HAWK XXI system, an advanced air defense system against low- to medium-altitude air threats with advanced fire control and battle management, to international and coalition partners.

National and Theater Security Programs (NTSP) NTSP provides integrated whole-life air and missile defense systems for the U.S. Army, Navy, Air Force, MDA, Inter-agencies and international partners which enable warfighters to sense, detect and engage threats through air and ground-based sensors and command and control systems as well as joint system solutions and intelligence support for air and ballistic missile defense. NTSP produces systems and solutions such as the Joint Land Attack Cruise Missile Defense Elevated Netted Sensor (JLENS), a theater-based, advanced sensor system that provides long-endurance, over-the-horizon detection and tracking capabilities required to defeat the threat of cruise missiles; Early Warning Radars, including the X-band Family-of-Radars, such as the Transportable Radar Surveillance (TPY-2) radar, which enable threat detection, precision tracking, discrimination and classification of ballistic missile threats. NTSP also provides integrated capabilities in persistent surveillance, multi-domain awareness, decision support, information fusion and space situational awareness through a broad range of solutions to detect, identify, track and disseminate actionable information, as well as warfare robotics development through Raytheon Sarcos.

Seapower Capability Systems (SCS) SCS is a provider and integrator of submarine and surface ship combat management, anti-submarine, mine warfare and integrated ship systems, as well as sensors and torpedoes for U.S. and international navies. SCS is a leader in the U.S. Navy s Open Architecture initiatives for surface combatants, serving as the prime contractor of mission systems for the Navy s DDG 1000, Zumwalt class combat system and providing Ship Self Defense System (SSDS), an open, distributed combat management system for U.S. Navy carriers and amphibious ships. For the DDG 1000, SCS designs and produces mission systems equipment, which includes the Total Ship Computing Environment (TSCE), radar, sonar, associated electronics systems and the software and hardware for these systems. These capabilities are planned to be leveraged across the U.S. Navy s family of ships. SCS is also developing the Dual Band Radar (DBR) which will be the first dual frequency radar produced for the U.S. Navy as the primary sensor for CVN 78 Ford class carriers. SCS is also prime contractor for the Cobra Judy Replacement (CJR) mission system and equipment.

Intelligence and Information Systems (IIS) IIS, headquartered in Garland, Texas, is a leader in intelligence, surveillance and reconnaissance (ISR), advanced cyber solutions, weather and environmental solutions, and information-based solutions for law enforcement and homeland security. Approximately half of its business is for classified customers. Other key customers include the U.S. Intelligence Community, U.S. Department of Defense (DoD) agencies, the Federal Bureau of Investigations (FBI), and the National Oceanographic and Atmospheric Association (NOAA).

In 2010, IIS was awarded the initial $886 million contract to develop the first two development deliverables of the advanced control segment (OCX) of the Global Positioning System (GPS). Also in 2010, the Company acquired Trusted Computer Solutions Inc. and Technology Associates Inc., both headquartered in Northern Virginia, as well as Compucat Research Pty, based in Belconnen, Australia to support and strengthen IIS ability to deliver end-to-end cyber capabilities by adding a host of new solutions including cross-domain information sharing, data extraction and analysis, digital media intercept and exploitation and embedded system programming. In 2010, IIS was negatively impacted by the UK Border Agency Program termination as described under Commitments and Contingencies on page 64.

IIS has the following principal product lines:

Defense and Civil Mission Solutions (DCMS) DCMS provides multi-INT ground systems, unmanned systems technology, environmental information management systems and satellite command and control. Additionally, DCMS provides large-scale information processing, information integration and visualization systems for intelligence, satellite and space-based programs for commercial and DoD customers. Key programs include advanced ground solutions for strategic and tactical ISR missions, including Global Hawk, U-2, and the U.S. Air Force s

Distributed Common Ground System (DCGS), a network-centric system for the U.S. armed forces designed to enable real-time information sharing. DCMS also provides ground stations for the Joint Polar Satellite System (JPSS) weather observation system, the Global Positioning System (GPS-OCX) and the NASA earth-observing research mission.

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Ground Enterprise Solutions (GES) GES primarily supports classified programs in support of the U.S. Intelligence Community. GES capabilities include ground systems for Geospatial Intelligence (GEOINT) and Signals Intelligence (SIGINT) systems, large-scale data processing and exploitation, storage architectures and high performance data handling and processing systems.

Mission Operations Solutions (MOS) MOS provides integrated mission support and systems engineering for civil, intelligence and defense agencies, as well as international governments. Its scalable, secure and integrated business systems are focused on delivering enterprise-wide performance improvement and reliable results. Core competencies include business excellence, mission critical operations, mission systems engineering, enterprise solutions and infrastructure services.

Operational Technologies and Solutions (OTS) OTS provides cutting-edge management and dissemination of massive volumes of intelligence data, as well as intelligence operations support capabilities for Human Intelligence (HUMINT), Open Source Intelligence (OSINT), wireless and close access collection for intelligence, law enforcement and other government agencies. OTS also has strong capabilities in geospatial, geologic and technical analysis and support.

Information Security Solutions (ISS) ISS is focused on providing information security solutions and services to government and Fortune 500 customers worldwide. Through ISS, Raytheon combines its legacy information assurance solutions with a number of products from recent key acquisitions to provide leading cybersecurity offerings, including Active Defense protecting mission critical systems against a wide range of internal and external threats. ISS capabilities are used to counter sophisticated and dangerous advanced persistent threats in the world. In addition to expanding in information assurance and cyber-operations areas, Raytheon is leveraging and incorporating the cyber-capabilities within ISS broadly across the company, embedding information assurance technologies and know-how into many of its core solutions and products. ISS provides high-level cyber security support to the Defense Intelligence Systems Agency on the Insider Threat Focused Observation Tool program and manages information assurance for the National Geospatial Intelligence Agency.

Advanced Programs (AP) AP is focused on providing innovative solutions for a new generation of special missions. It applies advanced technology to address complex problems for U.S. intelligence and operational commands.

Missile Systems (MS) MS, headquartered in Tucson, Arizona is a premier developer and producer of missile systems for the armed forces of the U.S. and other allied nations. Leveraging its key capabilities in advanced airframes, guidance and navigation systems, high-resolution sensors, targeting, and netted systems, MS develops and supports a broad range of cutting-edge weapon systems, including missiles, smart munitions, close-in weapon systems, projectiles, kinetic kill vehicles and directed energy effectors. Key customers include the U.S. Navy, Army, Air Force and Marine Corps, the MDA and the armed forces of more than 40 allied nations.

In 2010, MS continued to demonstrate its missile systems capabilities with several key contract awards and significant test successes. MS won a $450 million contract to launch development of the Small Diameter Bomb Increment II (SDB II) for the U.S. Air Force and Navy. The U.S. Army selected MS as the winner for the next phase of the Excalibur Ib program: the next-generation, 155 mm, precision-guided projectile. MS continued to gain key contract awards from a broad international customer base, including more than $600 million in international awards for the Paveway™ program and more than $250 million for the Advanced Medium-Range Air-to-Air Missile (AMRAAM) program. In addition, the Standard Missile-3 (SM-3) program had another successful flight test. SM-3 is a key element of the U.S. Government s missile defense strategy. MS also completed the risk reduction phase of the Joint Air-to-Ground Missile (JAGM) with several key flight test successes demonstrating the tri-mode seeker. MS and Boeing are partnering on the JAGM program, which will be a competitively awarded program intended to replace Hellfire, Maverick and air-launched TOW missiles.

MS has the following principal product lines:

Air Warfare Systems (AWS) AWS products and services enable the U.S. armed forces and international customers to attack, suppress and destroy air- and ground-based targets. Products include the AMRAAM, a state-of-the-art, highly dependable and battle-proven air-to-air missile that also has a surface-to-air launch application; the Tomahawk cruise missile, an advanced surface- or submarine-launched cruise missile with loitering and network

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communication capability; the SDB II, a 250 lb. class air-to-ground glide weapon with a tri-mode seeker and dual-band data link; the Joint Standoff Weapon (JSOW), a family of air-to-ground weapons that employ an integrated GPS/inertial navigation system that guides the weapon to the target; the Paveway family of laser- and GPS-guided smart bombs; the AIM-9X Sidewinder short-range air-to-air missile; the Miniature Air-Launched Decoy (MALD); the High-Speed Anti-Radiation Missile (HARM) and the HARM Targeting System; and the Maverick precision strike missile.

Air & Missile Defense Systems (AMDS) AMDS designs, develops, produces and supports air defense and ballistic missile defense interceptor systems. AMDS primary customers are the MDA, the U.S. Navy and various international navies around the world. AMDS develops, manufactures and supports the Standard Missile family of weapons with capabilities ranging from anti-air warfare to ballistic missile defense. AMDS is responsible for the first line of ship defense weapons, the Standard Missile-2 (SM-2) and Standard Missile-6 (SM-6). AMDS is also responsible for the SM-3, which is a core element of the MDA s phased adaptive approach to global missile defense. AMDS builds and supports the Exoatmospheric Kill Vehicle (EKV), which is part of the U.S. ground-based midcourse defense system that defends our nation against ballistic missile attack. AMDS is also involved in a number of advanced missile defense concepts that seek to pace the evolving ballistic missile threat.

Naval Weapon Systems (NWS) NWS products and services provide layered defense capability and naval surface fire support for the navies of more than 30 countries, providing highly effective ship defense across multiple platforms to counter the anti-ship threats of today and tomorrow. NWS leverages its capabilities to provide forward-operating base defense for the U.S. Army, Air Force and Marine Corps. NWS produces the Phalanx Close-In Weapon System (afloat and ashore), RAM, SeaRAM and the Evolved Sea Sparrow/Sparrow family of missiles for ship self-defense against air and surface threats. Additionally, NWS continues to expand its commitment to international cooperative endeavors with international partners and to evolve its products and technologies to encompass the full spectrum of threats, including the protection of land bases and high-value infrastructure sites to counter terrorist threats.

Land Combat Land Combat provides precision missiles and projectiles to the U.S. Army and Marine Corps and more than 40 U.S. allied nations, and focuses on accelerating the deployment of precision munitions capability to land combat forces and on expanding its mission support capabilities. Land Combat provides the Stinger weapon system for air defense; the Tube-launched, Optically-tracked, Wireless-guided (TOW) weapon system, a long-range precision anti-armor/anti-fortification/anti-amphibious-landing weapon system; the Javelin, a shoulder-fired, fire-and-forget anti-tank weapon; and Excalibur, a GPS-guided artillery round designed to provide organic indirect precision fire for ground forces. Land Combat is also developing two new products: Laser-Guided Rocket (LGR), a low-cost, lightweight, rapidly deployable and lethal weapon for helicopters and fixed-wing aircraft; and the Shoulder-Launched Multipurpose Assault Weapon (SMAW II) for the U.S. Marine Corps.

Other MS product lines include Advanced Missiles and Unmanned Systems and Advanced Security and Directed Energy Systems (AS&DES). Advanced Missiles and Unmanned Systems focuses on the development and early introduction of next-generation, end-to-end system solutions supporting the AWS, NWS and Land Combat product lines, and leading our entry into unmanned systems. AS&DES pursues opportunities in the directed energy and adjacent markets, including the development of force protection solutions, information operations/information assurance (IO/IA), high-power microwave, high-energy laser systems, space applications, and counterterrorism solutions.

Network Centric Systems (NCS) NCS, headquartered in McKinney, Texas, is a leading provider of net-centric mission solutions for federal, state and local government and civil customers. NCS leverages its capabilities in networking, sensors, command and control, and communications to develop and produce solutions for customers in key markets such as U.S. Army modernization, international and domestic homeland security, civil communications, and transportation solutions. NCS customers include the DoD and other U.S. Government customers, as well as numerous international customers.

In 2010, NCS Standard Terminal Automation Replacement System (STARS) was selected by the Federal Aviation Agency (FAA) to upgrade 11 existing regional Air Traffic Control (ATC) systems. NCS is continuing to expand its entry in civil communications markets and was selected as the integrator of mobile systems for the Los Angeles Sheriff s department. NCS was also awarded production for U.S. Navy Multi-band Terminal (NMT), a single terminal for the U.S. Navy s next generation satellite communications which is designed to expand high capacity critical satellite communications to

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multiple naval platforms. In addition, Raytheon BBN Technologies was chosen to support the National Cyber Range and continued to provide innovative solutions with its further development of multi-lingual automatic translation capabilities.

NCS has the following principal product lines:

Integrated Communications Systems (ICS) ICS offers wireless, high-bandwidth and transformational communication solutions for every DoD agency, and for civil and international customers. These solutions enable connectivity for Net-centric Operations (NCO) and the Global Information Grid (GIG) and provide mission assurance to customers with satellite, point-to-point and networked communications services that are effective on land, sea, undersea, air and space. Solutions include MAINGATE, an interoperable communications platform for battlefield communications that provides a broadband gateway between separate radio systems, the Enhanced Position Location Reporting System (EPLRS), an integrated networking system that provides robust, high-speed battlefield communications for warfighters; the Secure Mobile Anti-Jam Reliable Tactical Terminal (SMART-T), a low-cost, extremely high frequency (EHF) satellite terminal that provides robust, low probability-of-detection, jam-resistant, multi-channel communications in support of the field commander; and the U.S. Navy Multi-band Terminal (NMT). ICS also includes Raytheon BBN Technologies and its advanced networking and cybersecurity technologies and capabilities.

Command and Control Systems (C2S) C2S develops, delivers and supports domestic and international military and civil customers, including the FAA, Department of Transportation and DoD, with integrated networked command and control (C2) systems encompassing ground, air, space and security systems. Command and control systems are designed to securely capture, present and tailor actionable knowledge in real-time to the needs of decision makers (i.e. military commander, air traffic controller, border patrol, and others) to minimize information overload and enable rapid decisions. C2S ground, air and space capabilities include integrated communications, navigation, surveillance, air traffic management, and open road tolling systems. C2S products include the U.S. Army s Advanced Field Artillery Tactical Data System (AFATDS) and Joint Automated Deep Operations Coordination System (JADOCS), which provide for the command and control of battlefield weapons, effects and operations. C2S also is continuing to develop advanced airspace management capabilities with the FAA-certified Wide Area Augmentation System (WAAS), Japan s Multifunction Transport Satellite-based Augmentation System (MSAS) and India s Geosynchronous Augmented Navigation System (GAGAN) to improve airspace design flexibility and efficiency by removing route dependency on ground-based navigational aids. C2S also is developing open road tolling systems, the Perimeter Intrusion Detection System (PIDS) at four airports under the Port Authority of New York and New Jersey, and is deploying ClearView, a comprehensive yet scalable security C2 capability for critical infrastructure.

Combat Systems (CS) CS provides integrated ground-based surveillance and target engagement solutions designed to provide a significant advantage to the U.S. Army and Marine Corps warfighters. CS develops advanced ground sensor capabilities for the U.S. Army s Brigade Combat Team (BCT) Modernization program such as the Mast Mounted Sensor (MMS) and the Multi-Function Radio Frequency System (MFRFS). CS also developed the Active Protection System (APS) which destroys rocket-propelled grenades or anti-tank missiles targeting combat vehicles. In addition, CS provides the Long Range Advanced Scout Surveillance System (LRAS3), a long-range multi-sensor system which provides the ability to detect, identify and geo-locate distant targets, and is now networked to enable multi-sensor improved accuracy. Other CS products include the Integrated Target Acquisition System (ITAS) for the Tube launched Optically tracked Wire guided (TOW) missile which increases target detection, acquisition, recognition and engagement ranges; the HTI 2nd Generation FLIR (Horizontal Technology Integration Forward Looking Infrared) systems which provide the host vehicle the capability to detect, recognize, acquire, and engage targets at extended ranges; and Thermal Weapon Sights (TWS) for individual and crew served soldier weapons.

Operations and Precision Components (OPC) OPC provides a broad range of imaging capabilities, including next-generation X-ray, visible, infrared, and millimeter wave focal plane arrays for thermal imaging, earth remote sensing and astronomy applications. Precision optical and electronic solutions, electronic hardware and software products that enhance the interoperability of communications systems are provided through its Raytheon Vision Systems and ELCAN products. OPC also designs and manufactures strategic precision mechanical and electronic components and provides related services through its Raytheon Precision Manufacturing products. Customers include the DoD, NASA, and international customers.

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Thales-Raytheon Systems, LLC (TRS LLC) TRS LLC is the U.S. operating subsidiary of the Thales-Raytheon joint venture (TRS) and is part of NCS. TRS is a leader in complex information systems, command and control, communications systems including terrestrial, satellite and voice communications, as well as long range air defense radars, tactical short to medium range air defense radars and weapon locating radars. TRS LLC solutions include the Sentinel air defense and Firefinder weapon locating radar systems used by the U.S. Army and Marine Corps and over 20 allied nations; the Battle Command System (BCS) air command and control system used by the U.S. Air Force and Canada; and the ACCS NATO air command and control system.

Space and Airborne Systems (SAS) SAS, headquartered in El Segundo, California, is a leader in the design and development of integrated systems and solutions for advanced missions, including traditional and non-traditional intelligence, surveillance and reconnaissance (ISR), precision engagement, unmanned aerial operations and space. Leveraging advanced concepts, state-of-the-art technologies and mission systems knowledge, SAS provides electro-optical/infrared sensors, airborne radars for surveillance and fire control applications, lasers, precision guidance systems, processors, electronic warfare systems and space-qualified systems for civil and military applications. Key customers include the U.S. Navy, Air Force and Army, as well as classified and international customers.

In 2010, SAS delivered the first APG-82(V)1 Active Electronically Scanned Array (AESA) radar for the U.S. Air Force s F-15E radar modernization program. SAS also completed a feasibility study and won a follow-on contract from the U.S. Navy to mature the technology for key elements of a Next Generation Jammer capability, a replacement for the current ALQ-99 jamming system on the EA-18G Growler. SAS Multi-Spectral Targeting System achieved a major milestone by completing its one millionth operational flight hour and having 1,000 systems fielded both domestically and internationally. In the international market, SAS was selected to provide an Advanced Countermeasures Electronic System with self-protection capabilities for F-16 aircraft. SAS also won a major surveillance radar program as part of the India P-8I Maritime Surveillance Aircraft. In space, SAS was selected to provide the Visible Infrared Imager Radiometer Suite (VIIRS) sensor to the restructured NASA/NOAA Joint Polar Satellite System (JPSS) and U.S. Air Force Defense Weather Satellite System (DWSS) programs. VIIRS flight unit one was delivered as part of the National Polar-orbiting Operational Environmental Satellite System preparatory project program, a precursor to the JPSS and DWSS programs. Additionally, Space Systems supported the transition of ARTEMIS, a sophisticated hyperspectral imaging sensor, from AFRL to the U.S. Air Force Space Command, as an operational system. On January 31, 2011, the Company completed its acquisition of Applied Signal Technology, Inc. (AST). AST will be integrated into SAS and is expected to enhance SAS s capabilities across the full spectrum of integrated sensor solutions for classified and other government customers.

SAS has the following principal product lines:

Intelligence, Surveillance and Reconnaissance Systems (ISRS) ISRS designs and manufactures sensor, surveillance and targeting solutions that enable actionable information for strike, persistent surveillance and special mission applications. ISRS provides maritime and overland surveillance radars, terrain following/terrain avoidance radars and electro-optical/infrared sensors to customers including every branch in the DoD, the Department of Homeland Security (DHS) and international governments. The ISRS portfolio includes the APY-10 radar on the U.S. Navy s P-8A Poseidon, the SeaVue radar on the Predator Guardian unmanned aerial system (UAS), the AAS-44(V) forward looking infrared sensor on the U.S. Navy s H-60 helicopters, the Multi-spectral Targeting System on the U.S. Air Force s Reaper and Predator UAS, the DAS-2 on the Army s Gray Eagle UAS, and the ASQ-228 ATFLIR targeting pod on the F/A-18 Hornet and Super Hornets. ISRS also provides the Enhanced Integrated Sensor Suite for the Global Hawk UAS, which enables the Global Hawk to scan large geographic areas and produce outstanding high-resolution reconnaissance imagery. In addition, ISRS provides integrated solutions for all tiers of airborne intelligence, surveillance and reconnaissance systems, including the dual mode Synthetic Aperture Radar/Moving Target Indicator sensor for the ASTOR program for the U.K. Ministry of Defence, which enables high-resolution images and the monitoring of hostile forces.

Tactical Airborne Systems (TAS) TAS designs and manufactures cost-effective, high-performance integrated sensor solutions for tactical and strategic platforms, delivering trusted, actionable information and mission assurance. TAS provides sensors and integrated sensor systems with advanced fire control radars, electronic warfare and processor technologies to customers including the U.S. Navy, Marine Corps, and Air Force and international governments. TAS produces radars using AESA antennas for the U.S. Air Force s F-15 and B-2 aircraft, the U.S. Navy and Royal Australian

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Air Forces F/A-18, and the U.S. Navy s EA-18G. TAS also provides electronic warfare systems for large body and tactical aircraft, helicopters and surface ships. The TAS electronic warfare portfolio includes towed decoys, radar warning receivers, jammers, missile warning systems and integrated electronic warfare suites. In addition, TAS advanced airborne processors form the basis of the secure mission computer/signal processing systems on the F-16, F-22 and F-35 aircraft.

Space Systems (SS) SS designs and manufactures space and space-qualified sensor payloads for large national programs and develops innovative solutions for emerging intelligence, defense and civil space applications. SS provides electro-optical, infrared, radio frequency and laser space-based sensors to customers including branches of the DoD, MDA, NASA, classified customers and international governments. Its major non-classified program is VIIRS, an advanced imaging and radiometric sensor for future NASA/NOAA (JPSS) and U.S. Air Force (DWSS) weather/environmental monitoring programs.

Other SAS product lines include Advanced Concepts and Technologies (ACT) and Integrated Technology Programs (ITP). ACT conducts internal research and development for SAS and contract research and development for customers, including the U.S. Air Force Research Laboratory (ARFL) and Defense Advanced Research Projects Agency (DARPA). ITP provides a wide range of state-of-the-art product families and engineering services in support of the DoD s recent efforts to transform the capabilities and structure of the U.S. Armed Forces, including a variety of sophisticated GPS systems and anti-jam solutions for many customers, including the U.S. Air Force and Navy.

Technical Services (TS) TS, headquartered in Dulles, Virginia, provides a full spectrum of technical, scientific and professional services to defense, federal, international and commercial customers worldwide. It specializes in training, logistics, engineering services and solutions, product support and operational support services. TS provides solutions for mission support, homeland security, space, civil aviation, counterproliferation and counterterrorism markets. Key customers include all branches of the U.S. Armed Forces, as well as the DHS, NASA, FAA, Department of Energy, Defense Threat Reduction Agency (DTRA) and international governments.

In 2010, TS continued to expand its training, logistics and engineering solutions capabilities and offerings domestically and internationally. The TS-led Air Traffic Control Optimum Training Solution (ATCOTS) program trained more than 4,000 FAA air traffic controllers. In support of customer engineering upgrades and transformation, TS won two contracts to support F-16 aircraft with a revolutionary helmet-mounted display system and an upgraded Center Display Unit. TS also won a contract to engineer and manufacture an advanced Multi-Purpose Bomb Rack for the U.S. Navy. In addition, the TS-led Warfighter Field Operations Customer Support (FOCUS) activities have been providing integrated training and training support, primarily to the U.S. Army, at numerous locations around the world for nearly three years.

TS has the following principal product lines:

Warfighter Support Services (WSS) WSS provides training solutions, logistics and engineering support throughout the world. Within WSS, the TS-led Warrior Training Alliance (WTA) operates activities in support of the U.S. Army s Warfighter FOCUS contract, conducting integrated operational training with the U.S. Army, as well as U.S. Air Force and Marine Corps among other customers. TS is leading a team of subcontractors on this ten year program which is composed of various contracts for education, live, virtual and constructive training, including operational training for domestic and foreign locations. Work performed includes: support for live, virtual and constructive training exercises and operations; maintenance for all training and range systems; curriculum development and instruction; management oversight and administration for contractor activities; and supply support for all government-owned property and material.

Mission Support Operations (MSO) MSO supports systems and products from design to deployment, providing services to the mission support, civil aviation, homeland security and threat reduction markets. MSO offers a range of capabilities including engineering services and solutions,

field support, integrated logistics support, training, maintenance, installation and integration services for U.S. and international government customers and contractors. MSO provides support to NASA s Neutral Buoyancy Lab and Space Vehicle Mockup Facility at the Johnson Space Center and also works with DTRA on international counterproliferation and counterterrorism programs in the former Soviet Union.

Customized Engineering & Depot Support (CEDS) CEDS provides a broad spectrum of engineering and limited-production services, including Capability Maturity Model Integration for Development (CMMI-DEV®) Maturity

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Level 3 capability for all engineering functions. CEDS also provides full life-cycle support for air, sea and land-based electronics and weapons. For the V-22 Osprey aircraft program, CEDS manages the Systems Integration Lab, leads the software support activity, performs updates to operational flight profile software and provides mission planning software and training devices. CEDS also provides integration and field support for the Shared Reconnaissance Pod, which enables real-time, high-resolution imaging for F/A-18E/F air crews and air operation commanders. CEDS provides upgrades and integration services to a number of air platforms, including the A-10, the HH-60, the B-52 and the F-16, and ground-based platforms, including radars and tanks. CEDS also provides Mission Support to Canada s military across numerous platforms, including the Phalanx Close-In Weapon System, the SPS-49 Air Defense Radar and the APG-73 Radar.

Raytheon Professional Services (RPS) RPS designs, implements and manages highly complex training solutions that align an organization s employees, customers and partners. Using systems engineering practices, RPS applies commercial solutions, processes, tools and training experts to make its training programs available anytime, anywhere. This enables RPS clients to scale competencies and resources to meet the geographic, cultural and regulatory demands of their distributed enterprise. RPS helps leading companies in numerous countries rethink the way training is delivered internally. RPS clients include General Motors Corporation, NASA and the FAA.

Raytheon Polar Services Raytheon Polar Services is the prime operations and logistics contractor to the National Science Foundation to support scientific research and maintain a geopolitical presence in Antarctica. It provides core business applications, information security processes and oversight in accordance with stringent federal guidelines.

International Subsidiaries We conduct the operations and activities of our business segments in certain countries through international subsidiaries, including Raytheon Systems Limited (RSL) for the U.K., Raytheon Australia and Raytheon Canada Limited (RCL). RSL designs, develops and manufactures advanced systems for network-enabled operations, safety critical control functions and precision systems for the U.K. Ministry of Defence and commercial air traffic control organizations. Programs include the Airborne Standoff Radar (ASTOR), a world-class ground surveillance capability (with SAS) and the Joint Effects Tactical Targeting System (JETTS) (with NCS). Raytheon Australia is a Mission Support and mission systems integration provider to the Australian Government. Programs include the Air Warfare Destroyer contract to design, develop and procure the combat system for the new Hobart Class destroyers (with IDS). Raytheon Australia also manages the entire operations and maintenance requirements of the Canberra Deep Space Communication Complex and provides design, integration and lifecycle operations and maintenance services for the Royal Australian Defense Force s aerospace capability (with TS). RCL provides persistent surveillance radar for air traffic management systems (primarily with NCS).

Sales to the U.S. Government

Our total net sales to the U.S. Government were $22.3 billion in 2010, $22.0 billion in 2009 and $20.2 billion in 2008, representing 88% of total net sales in 2010 and 2009 and 87% of total net sales in 2008. Included in U.S. Government sales were foreign military sales through the U.S. Government of $3.3 billion, $2.8 billion and $1.8 billion in 2010, 2009 and 2008, respectively. Our principal U.S. Government customer is the DoD; other U.S. Government customers include the Departments of Homeland Security, Justice, State and Energy, Intelligence Community agencies, NASA and the FAA.

U.S. Government Contracts and Regulation

We act as a prime contractor or major subcontractor for numerous U.S. Government programs. As a result, we are subject to extensive regulations and requirements of the U.S. Government agencies and entities which govern these programs, including with respect to the award, administration and performance of contracts under such programs. We are also subject to certain unique business risks associated with U.S. Government program funding and appropriations and government contracts and with supplying technologically-advanced, cutting edge defense-related products and services to the U.S. Government.

U.S. Government contracts generally are subject to the Federal Acquisition Regulation (FAR), which sets forth policies, procedures and requirements for the acquisition of goods and services by the U.S. Government, department-specific regulations that implement or supplement FAR, such as the DoD s Defense Federal Acquisition Regulation Supplement (DFARS) and other applicable laws and regulations. These regulations impose a broad range of requirements, many of which are unique to government contracting, including various procurement, import and export, security, contract

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pricing and cost, contract termination and adjustment, and audit requirements. A contractor s failure to comply with these regulations and requirements could result in reductions to the value of contracts, contract modifications or termination, and the assessment of penalties and fines and lead to suspension or debarment, for cause, from government contracting or subcontracting for a period of time. In addition, government contractors are also subject to routine audits and investigations by U.S. Government agencies such as the Defense Contract Audit Agency (DCAA) and Defense Contract Management Agency (DCMA). These agencies review a contractor s performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The DCAA also reviews the adequacy of and a contractor s compliance with its internal control systems and policies, including the contractor s purchasing, property, estimating, compensation and management information systems. For a discussion of certain risks associated with compliance with U.S. Government contract regulations and requirements, see Item 1A Risk Factors of this Form 10-K.

U.S. Government contracts include both cost reimbursement and fixed-price contracts. Cost reimbursement contracts, subject to a contract-ceiling amount in certain cases, provide for the reimbursement of allowable costs plus the payment of a fee. These contracts fall into three basic types: (i) cost plus fixed fee contracts which provide for the payment of a fixed fee irrespective of the final cost of performance, (ii) cost plus incentive fee contracts which provide for increases or decreases in the fee, within specified limits, based upon actual cost results compared to contractual cost targets, and (iii) cost plus award fee contracts which provide for the payment of an award fee determined at the discretion of the customer based upon the performance of the contractor against pre-established criteria. Under cost reimbursement type contracts, the contractor is reimbursed periodically for allowable costs and is paid a portion of the fee based on contract progress. Some costs incident to performing contracts have been made partially or wholly unallowable for reimbursement by statute, FAR or other regulation. Examples of such costs include charitable contributions, certain merger and acquisition costs, lobbying costs, interest expense and certain litigation defense costs.

Fixed-price contracts are either firm fixed-price contracts or fixed-price incentive contracts. Under firm fixed-price contracts, the contractor agrees to perform a specific scope of work for a fixed price and as a result, benefits from cost savings and carries the burden of cost overruns. Under fixed-price incentive contracts, the contractor shares with the government savings accrued from contracts performed for less than target costs and costs incurred in excess of targets up to a negotiated ceiling price (which is higher than the target cost) and carries the entire burden of costs exceeding the negotiated ceiling price. Accordingly, under such incentive contracts, the contractor s profit may also be adjusted up or down depending upon whether specified performance objectives are met. Under firm fixed-price and fixed-price incentive type contracts, the contractor usually receives either milestone payments equaling up to 90% of the contract price or monthly progress payments from the government generally in amounts equaling 80% of costs incurred under government contracts. The remaining amount, including profits or incentive fees, is billed upon delivery and acceptance of end items under the contract. For a discussion of certain risks associated with fixed price and cost reimbursement contracts, see Item 1A Risk Factors of this Form 10-K.

U.S. Government contracts generally also permit the government to terminate the contract, in whole or in part, without prior notice, at the government s convenience or for default based on performance. If a contract is terminated for convenience, the contractor is generally entitled to payments for its allowable costs and will receive some allowance for profit on the work performed. If a contract is terminated for default, the contractor is generally entitled to payments for its work that has been accepted by the government. The U.S. Government s right to terminate its contracts has not had a material adverse effect upon our operations or financial condition. For a discussion of the risks associated with the U.S. Government s right to terminate its contracts, see Item 1A Risk Factors of this Form 10-K.

U.S. Government programs generally are implemented by the award of individual contracts and subcontracts. Congress generally appropriates funds on a fiscal year basis even though a program may extend across several fiscal years. Consequently, programs are often only partially funded initially and additional funds are committed only as Congress makes further appropriations. The contracts and subcontracts under a program generally are subject to termination for convenience or adjustment if appropriations for such programs are not available or change. The U.S. Government is required to equitably adjust a contract price for additions or reductions in scope or other changes ordered by it. For a discussion of the risks associated with program funding and appropriations, see Item 1A Risk Factors and Overview within Item 7 of this Form 10-K. In addition, because we are engaged in supplying technologically-advanced, cutting edge defense-related products and services to the U.S. Government, we are subject to certain business risks, some of which are

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specific to our industry. These risks include: the cost of obtaining and retaining trained and skilled employees; the uncertainty and instability of prices for raw materials and supplies; the problems associated with advanced designs, which may result in unforeseen technological difficulties and cost overruns; and the intense competition and the constant necessity for improvement in facilities and personnel training. Our sales to the U.S. Government may be affected by changes in procurement policies, budget considerations, changing concepts of national defense, political developments abroad and other factors. See Item 1A Risk Factors and Overview within Item 7 of this Form 10-K for a more detailed discussion of these and other related risks.

We are also involved in U.S. Government programs, principally through our IIS and SAS business segments, which are classified by the U.S. Government and cannot be specifically described in this Form 10-K. The operating results of these classified programs are included in our consolidated financial statements. The business risks and considerations associated with these and our international classified programs generally do not differ materially from those of our other programs and products. Total classified sales were 14%, 13% and 12% of total net sales in 2010, 2009 and 2008, respectively.

We are subject to government regulations and contract requirements which may differ from U.S. Government regulation with respect to our sales to non-U.S. customers. See International Sales below for more information regarding our sales outside of the U.S. and Item 1A Risk Factors for a discussion of the risks associated with international sales.

See Sales to the U.S. Government on page 8 of this Form 10-K for information regarding the percentage of our revenues generated from sales to the U.S. Government.

International Sales

Our sales to customers outside the U.S. were $5.8 billion or 23% of total net sales in 2010, $5.3 billion or 21% of total net sales in 2009, and $4.6 billion or 20% of total net sales in 2008. In 2010, international sales were negatively impacted by the UK Border Agency Program termination as described in Commitments and Contingencies on page 64. Included in sales to customers outside the U.S. were foreign military sales through the U.S. Government of $3.3 billion, $2.8 billion and $1.8 billion, in 2010, 2009 and 2008, respectively. International sales were principally in the fields of air defense systems, missile systems, airborne radars, naval systems, air traffic control systems, missile defense systems, electronic equipment, computer software and systems, homeland security solutions, personnel training, equipment maintenance and microwave communication and other products and services permitted under the International Traffic in Arms Regulations (ITAR). Generally, we finance our foreign subsidiary working capital requirements in the applicable countries. Sales and income from international operations and investments are subject to U.S. Government laws, regulations and policies, including the ITAR and the Foreign Corrupt Practices Act and the export laws and regulations described below, as well as foreign government laws, regulations and procurement policies and practices, which may differ from U.S. Government regulation, including import-export control, investments, exchange controls, repatriation of earnings and requirements to expend a portion of program funds in-country. In addition, embargoes, international hostilities and changes in currency values can also impact our international sales. Exchange restrictions imposed by various countries could restrict the transfer of funds between countries and between Raytheon and its subsidiaries. We have acted to protect ourselves against most undue risks through insurance, foreign exchange contracts, contract provisions, government guarantees and/or progress payments. See revenues derived from external customers and long-lived assets by geographical area set forth in Note 16: Business Segment Reporting within Item 8 of this Form 10-K.

In connection with certain foreign sales, we utilize the services of sales representatives who are paid commissions in return for services rendered.

The export from the U.S. of many of our products may require the issuance of a license by either the U.S. Department of State under the Arms Export Control Act of 1976 (formerly the Foreign Military Sales Act) and its implementing regulations under the ITAR, the U.S. Department of

Commerce under the Export Administration Act and its implementing regulations as kept in force by the International Emergency Economic Powers Act of 1977 (IEEPA), and/or the U.S. Department of the Treasury under IEEPA or the Trading with the Enemy Act of 1917. Such licenses may be denied for reasons of U.S. national security or foreign policy. In the case of certain exports of defense equipment and services, the Department of State must notify Congress at least 15-60 days (depending on the identity of the importing country that will utilize the equipment and services) prior to authorizing such exports. During that time, Congress may take action to block or delay a proposed export by joint resolution which is subject to Presidential veto.

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Additional information regarding the risks associated with our international business is contained in Item 1A Risk Factors of this Form 10-K.

Backlog

Our total backlog of orders was $34.6 billion at December 31, 2010 and $36.9 billion at December 31, 2009. Included in total backlog was $28.5 billion and $30.3 billion from the U.S. Government at December 31, 2010 and 2009, respectively. Included in U.S. Government backlog was foreign military sales backlog of $5.6 billion and $7.2 billion at December 31, 2010 and 2009, respectively. Also included in total backlog was direct foreign government backlog and non-government foreign backlog of $5.3 billion and $0.4 billion at December 31, 2010 and $5.6 billion and $0.6 billion at December 31, 2009, respectively. Also, included in total backlog was $0.2 billion and $0.4 billion of non-U.S. government domestic backlog at December 31, 2010 and 2009, respectively. Total international backlog including foreign military sales backlog was $11.3 billion or 33% of total backlog at the end of 2010 compared with $13.4 billion or 36% of total backlog at the end of 2009. Approximately $16.0 billion of the 2010 year-end backlog is not expected to be filled during the following twelve months. These amounts include 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 or obligated to us). For additional information related to backlog figures, see Segment Results within Item 7 of this Form 10-K.

Research and Development

We conduct extensive research and development activities to continually enhance our existing products and services and develop new products and services to meet our customers changing needs and requirements and address new market opportunities. During 2010, we expended $625 million on research and development efforts compared with $565 million in 2009 and $517 million in 2008. These expenditures principally have been for product development for the U.S. Government, including bid and proposal efforts related to U.S. Government programs. We also conduct funded research and development activities under U.S. Government contracts which are included in net sales. For additional information related to our research and development activities, see Note 1: Summary of Significant Accounting Policies within Item 8 of this Form 10-K.

Raw Materials, Suppliers and Seasonality

We are dependent upon the delivery of materials by suppliers and the assembly of major components and subsystems by subcontractors used in our products. Some products require relatively scarce raw materials. In addition, we must comply with specific procurement requirements which may, in effect, limit the suppliers and subcontractors we may utilize. In some instances, for a variety of reasons, we are dependent on sole-source suppliers. We enter into long-term or volume purchase agreements with certain suppliers and take other actions to ensure the availability of needed materials, components and subsystems. We generally have not experienced material difficulties in procuring the necessary raw materials, components and other supplies for our products.

In recent years, our revenues in the second half of the year have generally exceeded revenues in the first half. The timing of U.S. Government awards, the availability of U.S. Government funding and product deliveries are among the factors affecting the periods in which revenues are recorded. We expect this trend to continue in 2011.

Competition

We directly participate in most major areas of development in the defense and government electronics, space, information technology and technical services and support markets. Technical superiority, reputation, price, past performance, delivery schedules, financing and reliability are among the principal competitive factors considered by customers in these markets. We compete worldwide with a number of U.S. and international companies in these markets, some of which may have more extensive or more specialized engineering, manufacturing and

marketing capabilities than we do in some areas. The on-going consolidation of the U.S. and global defense, space and aerospace industries continues to intensify competition and has reduced the number of principal prime contractors in the U.S. As a result of this consolidation, we frequently partner on various programs with our major suppliers, some of whom are, from time to time, competitors on other programs. In addition, U.S. defense spending levels in the near future are increasingly difficult to predict. Changes in U.S. defense spending may potentially limit certain future market opportunities. See Item 1A Risk Factors and Overview within Item 7 of this Form 10-K for a more detailed discussion of these and other related risks.

Patents and Licenses

We own an intellectual property portfolio which includes many United States and foreign patents, as well as unpatented know-how, data, software, trademarks and copyrights, all of which contribute to the preservation of our competitive

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position in the market. In certain instances, we have augmented our technology base by licensing the proprietary intellectual property of others. We also license our intellectual property to others. While our intellectual property rights in the aggregate are important to the operation of Raytheon, we do not believe that any existing patent, license or other intellectual property right is of such importance that its loss or termination would have a material adverse effect on our business, taken as a whole.

Employment

As of December 31, 2010, we had approximately 72,000 employees. Approximately 8% of our employees are unionized. We consider our union-management relationships to be generally satisfactory.

Environmental Regulation

Our operations are subject to and affected by a variety of international, federal, state and local environmental protection laws and regulations. We have provided for the estimated cost to complete remediation where we have determined that it is probable that we will incur such costs in the future to address the environmental impact at current or formerly owned operating facilities or at sites where we have been named a Potentially Responsible Party (PRP) by the Environmental Protection Agency (EPA) or similarly designated by other environmental agencies. It is difficult to estimate the timing and ultimate amount of environmental cleanup costs to be incurred in the future due to the uncertainties regarding the extent of the required cleanup, the discovery and application of innovative remediation technologies, and the status of the law, regulations and their interpretations.

In order to assess the potential impact on our consolidated financial statements, we estimate the possible remediation costs that we could reasonably incur. Such estimates take into consideration the professional judgment of our environmental professionals and, in most cases, consultations with outside environmental specialists.

If we are ultimately found to have liability at those sites where we have been designated a PRP, we expect that the actual costs of remediation will be shared with other liable PRPs. Generally, PRPs that are ultimately determined to be responsible parties are strictly liable for site clean-up and usually agree among themselves to share, on an allocated basis, the costs and expenses for investigation and remediation of hazardous materials. Under existing environmental laws, however, responsible parties are, in most circumstances and jurisdictions, jointly and severally liable and, therefore, potentially liable for the full cost of funding such remediation. In the unlikely event that we are required to fund the entire cost of such remediation, the statutory framework provides that we may pursue rights of contribution from the other PRPs. The amounts we record do not reflect the unlikely event that we would be required to fund the entire cost of such remediation, nor do they reflect the possibility that we may recover some of these environmental costs from insurance policies or from other PRPs, because neither manner of recovery is deemed probable. However, a portion of these costs are eligible for future recovery through the pricing of our products and services to the U.S. Government.

We manage various government-owned facilities on behalf of the U.S. Government. At such facilities, environmental compliance and remediation costs have historically been primarily the responsibility of the government and we relied (and continue to rely with respect to past practices) upon government funding to pay such costs. While the government remains responsible for capital and operating costs associated with environmental compliance, responsibility for fines and penalties associated with environmental noncompliance are typically borne by either the government or the contractor, depending on the contract and the relevant facts. Fines and penalties are unallowable costs under the contracts pursuant to which such facilities are managed.

Most of the laws governing environmental matters include criminal provisions. If we were convicted of a criminal violation of certain federal environmental statutes, including the Federal Clean Air Act and the Clean Water Act, the facility or facilities involved in the violation would be

placed by the EPA on the Excluded Parties List maintained by the Government Services Administration. The listing would continue until the EPA concluded that the cause of the violation had been cured. Listed facilities cannot be used in performing any U.S. Government contract awarded during any period of listing by the EPA.

Additional information regarding the effect of compliance with environmental protection requirements and the resolution of environmental claims against Raytheon and its operations is contained in Item 1A Risk Factors, Item 3

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Legal Proceedings, Commitments and Contingencies within Item 7 and Note 11: Commitments and Contingencies within Item 8 of this Form 10-K.

Available Information

Our internet address is www.raytheon.com. We use our Investor Relations website as a routine channel for distribution of important information, including news releases, analyst presentations, and financial information. We make available free of charge on or through our Investor Relations web site our annual reports and quarterly reports on Forms 10-K and 10-Q (including related filings in XBRL format), current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Our SEC filings are also at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling 1-800-SEC-0330. In addition, the SEC also maintains an internet site at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically, including Raytheon.

We also make available on or through our website copies of our key corporate governance documents, including our Governance Principles, Certificate of Incorporation, By-laws and charters for the Audit Committee, Management Development and Compensation Committee, Governance and Nominating Committee and Public Affairs Committee of the Board of Directors and our code of ethics entitled Code of Conduct . Stockholders may request free copies of these documents from our Investor Relations Department by writing to Raytheon Company, Investor Relations, 870 Winter Street, Waltham, MA 02451, or by calling (781) 522-5123 or by sending an email request to invest@raytheon.com.

The content on any website referred to in this Form 10-K is not incorporated by reference into this Form 10-K unless expressly noted.

ITEM 1A. RISK FACTORS

This Form 10-K and the information we are incorporating by reference contain forward-looking statements within the meaning of federal securities laws, including information regarding our financial outlook, future plans, objectives, business prospects, trends and anticipated financial performance including with respect to our liquidity and capital resources, our pension expense and funding, our unrecognized tax benefits and the outcome of legal and administrative proceedings, claims, investigations, commitments and contingencies, as well as information regarding domestic and international defense spending and budgets. You can identify these statements by the fact that they include words such as will, believe, anticipate, expect, estimate, intend, plan, or variations of these words, or similar expressions. These forward-looking s are not statements of historical facts and represent only our current expectations regarding such matters. These statements inherently involve a wide range of known and unknown uncertainties. Our actual actions and results could differ materially from what is expressed or implied by these statements. Specific factors that could cause such a difference include, but are not limited to, those set forth below and other important factors disclosed previously and from time to time in our other filings with the Securities and Exchange Commission. 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.

We depend on the U.S. Government for a substantial portion of our business and changes in government defense spending could have consequences on our financial position, results of operations and business.

In 2010, U.S. Government sales accounted for approximately 88% of our total net sales. U.S. Government sales included foreign military sales through the U.S. Government of $3.3 billion in 2010. Our revenues from the U.S. Government largely result from contracts awarded to us under various U.S. Government programs, primarily defense-related programs with the Department of Defense (DoD), as well as a broad range of programs with the Department of Homeland Security, the Intelligence Community and other departments and agencies. The funding of our programs is subject to the overall U.S. Government budget and appropriation decisions and processes which are driven by numerous

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factors, including geo-political events and macroeconomic conditions. The overall level of U.S. defense spending has increased in recent years for numerous reasons, including increases in funding of operations in Iraq and Afghanistan and the DoD s modernization initiatives. Looking forward, defense spending levels are becoming increasingly difficult to predict and will be affected by numerous factors. Such factors include the external threat environment, funding for on-going operations in Iraq and Afghanistan, priorities of the Administration and the Congress, and the overall health of the U.S. and world economies and the state of governmental finances.

Significant changes in defense spending could have long-term consequences for our size and structure. In addition, changes in government priorities and requirements could impact the funding, or the timing of funding, of our programs which could negatively impact our results of operations and financial condition.

In addition, we are involved in U.S. Government programs, principally through our IIS and SAS business segments, which are classified by the U.S. Government and our ability to discuss these programs, including any risks and disputes and claims associated with and our performance under such programs, could be limited due to applicable security restrictions.

Our financial performance is dependent on our ability to perform on our U.S. Government contracts, which are subject to uncertain levels of funding and termination.

Our financial performance is dependent on our performance under our U.S. Government contracts. While we are involved in numerous programs and are party to thousands of U.S. Government contracts, the termination of one or more large contracts, whether due to lack of funding, for convenience, or otherwise, or the occurrence of delays, cost overruns and product failures in connection with one or more large contracts, could negatively impact our results of operations and financial condition. Furthermore, we can give no assurance that we would be awarded new U.S. Government contracts to offset the revenues lost as a result of termination of any of our contracts.

The funding of U.S. Government programs is subject to congressional appropriations. Congress generally appropriates funds on a fiscal year basis even though a program may extend over several fiscal years. Consequently, programs are often only partially funded initially and additional funds are committed only as Congress makes further appropriations. If appropriations for one of our programs become unavailable, or are reduced or delayed, our contract or subcontract under such program may be terminated or adjusted by the government, which could have a negative impact on our future sales under such contract or subcontract. From time to time, when a formal appropriation bill has not been signed into law before the end of the U.S. Government s fiscal year, Congress may pass a Continuing Resolution that authorizes agencies of the U.S. Government to continue to operate, generally at the same funding levels from the prior year, but does not authorize new spending initiatives, during a certain period. During such period (or until the regular appropriation bills are passed), delays can occur in procurement of products and services due to lack of funding, and these delays can affect our results of operations during the period of delay.

In addition, U.S. Government contracts generally also permit the government to terminate the contract, in whole or in part, without prior notice, at the government s convenience or for default based on performance. If one of our contracts is terminated for convenience, we would generally be entitled to payments for our allowable costs and would receive some allowance for profit on the work performed. If one of our contracts is terminated for default, we would generally be entitled to payments for our work that has been accepted by the government. A termination arising out of our default could expose us to liability and have a negative impact on our ability to obtain future contracts and orders. Furthermore, on contracts for which we are a subcontractor and not the prime contractor, the U.S. Government could terminate the prime contract for convenience or otherwise, irrespective of our performance as a subcontractor.

Our government contracts also typically involve the development, application and manufacture of advanced defense and technology systems and products aimed at achieving challenging goals. New technologies may be untested or unproven. In some instances, product requirements or specifications may be modified. As a result, we may experience technological and other performance difficulties, which may result in delays, setbacks, cost overruns and product failures, in connection with performing our government contracts.

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Our international business is subject to geo-political and economic factors, regulatory requirements and other risks.

Our international business exposes us to geo-political and economic factors, regulatory requirements and other risks associated with doing business in foreign countries. These risks differ from and potentially may be greater than those associated with our domestic business. In addition, our exposure to such risks may increase if our international business continues to grow as we anticipate.

Our international business is sensitive to changes in the priorities and budgets of international customers and geo-political uncertainties, which may be driven by changes in threat environments and potentially volatile worldwide economic conditions, various regional and local economic and political factors, risks and uncertainties, as well as U.S. foreign policy. Our international sales are subject to U.S. laws, regulations and policies, including the International Traffic in Arms Regulations (ITAR) and the Foreign Corrupt Practices Act and other export laws and regulations. Due to the nature of our products, we must first obtain licenses and authorizations from various U.S. Government agencies before we are permitted to sell our products outside of the U.S. We can give no assurance that we will continue to be successful in obtaining the necessary licenses or authorizations or that certain sales will not be prevented or delayed. Any significant impairment of our ability to sell products outside of the U.S. could negatively impact our results of operations and financial condition.

Our international sales are also subject to local government laws, regulations and procurement policies and practices which may differ from U.S. Government regulations, including regulations relating to import-export control, investments, exchange controls and repatriation of earnings, as well as to varying currency, geo-political and economic risks. Our international contracts may include industrial cooperation agreements requiring specific in-country purchases, manufacturing agreements or financial support obligations, known as offset obligations, and provide for penalties if we fail to meet such requirements. Our international contracts may also be subject to termination at the customer s convenience or for default based on performance, and may be subject to funding risks. We also are exposed to risks associated with using foreign representatives and consultants for international sales and operations and teaming with international subcontractors, partners and suppliers in connection with international programs.

As a result of these factors, we could experience award and funding delays on international programs and could incur losses on such programs which could negatively impact our results of operations and financial condition.

Competition within our markets may reduce our revenues and market share.

We operate in highly competitive markets and our competitors may have more extensive or more specialized engineering, manufacturing and marketing capabilities than we do in some areas. We anticipate increasing competition in our core markets as a result of defense industry consolidation, which has enabled companies to enhance their competitive position and ability to compete against us. In addition, as discussed in more detail above, U.S. defense spending levels in the near future are increasingly difficult to predict. Changes in U.S. defense spending and the U.S. Government procurement environment may potentially limit certain future market opportunities. We are also facing increasing competition in our domestic and international markets from foreign and multinational firms. Additionally, some customers, including the DoD, are increasingly turning to commercial contractors, rather than traditional defense contractors, for information technology and other support work. If we are unable to continue to compete successfully against our current or future competitors, we may experience declines in revenues and market share which could negatively impact our results of operations and financial condition. In the current competitive environment there may be an increase in bid protests from unsuccessful bidders on new program awards. Generally, a bid protest will delay the start of contract activities, and could result in the award decision being overturned, requiring a re-bid of the contract.

Our future success depends on our ability to develop new offerings and technologies for our current and future markets.

To achieve our business strategies and continue to grow our revenues and operating profit, we must successfully develop new or adapt or modify our existing offerings and technologies for our current core defense markets and our future markets, including adjacent and emerging markets. Accordingly, our future performance depends on a number of factors, including our ability to:

- Identify emerging technological trends in our current and future markets;
- Identify additional uses for our existing technology to address customer needs in our current and future markets;

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- Develop and maintain competitive products and services for our current and future markets;
- Enhance our offerings by adding innovative features that differentiate our offerings from those of our competitors;
- Develop and manufacture and bring solutions to market quickly at cost-effective prices; and
- Effectively structure our businesses, through the use of joint ventures, collaborative agreements and other forms of alliances, to reflect the competitive environment.

We believe that, in order to remain competitive in the future, we will need to continue to invest significant financial resources to develop new and adapt or modify our existing offerings and technologies, including through internal research and development, acquisitions and joint ventures or other teaming arrangements. These expenditures could divert our attention and resources from other projects, and we cannot be sure that these expenditures will ultimately lead to the timely development of new offerings and technologies. Due to the design complexity of our products, we may in the future experience delays in completing the development and introduction of new products. Any delays could result in increased costs of development or deflect resources from other projects. In addition, there can be no assurance that the market for our offerings will develop or continue to expand as we currently anticipate. The failure of our technology to gain market acceptance could significantly reduce our revenues and harm our business. Furthermore, we cannot be sure that our competitors will not develop competing technologies which gain market acceptance in advance of our products.

The possibility exists that our competitors might develop new technology or offerings that might cause our existing technology and offerings to become obsolete. If we fail in our new product development efforts or our products or services fail to achieve market acceptance more rapidly than our competitors, our ability to procure new contracts could be negatively impacted, which would negatively impact our results of operations and financial condition.

We enter into fixed-price and other contracts which could subject us to losses in the event that we experience cost growth that cannot be billed to customers.

Generally, our customer contracts are either fixed-priced or cost reimbursable contracts. Under fixed-priced contracts, which represent about half of our backlog, we receive a fixed price irrespective of the actual costs we incur and, consequently, we must carry the burden of any cost overruns. Due to their nature, fixed-priced contracts inherently have more risk than cost reimbursable contracts, particularly fixed-price development contracts where the costs to complete the development stage of the program can be highly variable, uncertain and difficult to estimate. Under cost reimbursable contracts, subject to a contract-ceiling amount in certain cases, we are reimbursed for allowable costs and paid a fee, which may be fixed or performance based. If our costs exceed the contract ceiling and are not authorized by the customer or are not allowable under the contract or applicable regulations, we may not be able to obtain reimbursement for all such costs and our fees may be reduced or eliminated. Because many of our contracts involve advanced designs and innovative technologies, we may experience unforeseen technological difficulties and cost overruns. Under both types of contracts, if we are unable to control costs or if our initial cost estimates are incorrect, we can lose money on these contracts. In addition, some of our contracts have provisions relating to cost controls and audit rights, and if we fail to meet the terms specified in those contracts, we may not realize their full benefits. Lower earnings caused by cost overruns and cost controls would have a negative impact on our results of operations.

Our business could be adversely affected by a negative audit by the U.S. Government.

As a government contractor, we are subject to routine audits and investigations by U.S. Government agencies such as the Defense Contract Audit Agency (DCAA). These agencies review a contractor s performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The DCAA also reviews the adequacy of and a contractor s compliance with its internal control systems and policies, including the contractor s purchasing, property, estimating, compensation and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed or must be refunded if already reimbursed. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, which may include termination of contracts,

forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. Government. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us.

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As a U.S. Government contractor, we are subject to a number of procurement rules and regulations.

Government contractors must also comply with specific procurement regulations and other requirements. These requirements, although customary in government contracts, impact our performance and compliance costs. In addition, current U.S. Government budgetary constraints could lead to changes in the procurement environment, including the DoD s recent initiative focused on efficiencies, affordability and cost growth and other changes to its procurement practices. If and to the extent such changes occur, they could impact our results of operations and liquidity, and could affect whether and, if so, how we pursue certain opportunities and the terms under which we are able to do so.

In addition, failure to comply with these regulations and requirements could result in reductions of the value of contracts, contract modifications or termination, and the assessment of penalties and fines, which could negatively impact our results of operations and financial condition. Our failure to comply with these regulations and requirements could also lead to suspension or debarment, for cause, from government contracting or subcontracting for a period of time. Among the causes for debarment are violations of various statutes, including those related to procurement integrity, export control, government security regulations, employment practices, protection of the environment, accuracy of records and the recording of costs, and foreign corruption. The termination of a government contract as a result of any of these acts could have a negative impact on our results of operations and financial condition and could have a negative impact on our reputation and ability to procure other government contracts in the future.

We depend on component availability, subcontractor performance and our key suppliers to manufacture and deliver our products and services.

We are dependent upon the delivery by suppliers of materials and the assembly by subcontractors of major components and subsystems used in our products in a timely and satisfactory manner and in full compliance with applicable terms and conditions. Some products require relatively scarce raw materials. We are generally subject to specific procurement requirements, which may, in effect, limit the suppliers and subcontractors we may utilize. In some instances, we are dependent on sole-source suppliers. If any of these suppliers or subcontractors fails to meet our needs, we may not have readily available alternatives. While we enter into long-term or volume purchase agreements with certain suppliers and take other actions to ensure the availability of needed materials, components and subsystems, we cannot be sure that such items will be available in the quantities we require, if at all. In addition, some of our suppliers or subcontractors may be impacted by the recent global financial crisis, which could impair their ability to meet their obligations to us. If we experience a material supplier or subcontractor problem, our ability to satisfactorily and timely complete our customer obligations could be negatively impacted which could result in reduced sales, termination of contracts and damage to our reputation and relationships with our customers. We could also incur additional costs in addressing such a problem. Any of these events could have a negative impact on our results of operations and financial condition.

We use estimates in accounting for many of our programs and changes in our estimates could adversely affect our future financial results.

Contract accounting requires judgment relative to assessing risks, including risks associated with customer directed delays and reductions in scheduled deliveries, unfavorable resolutions of claims and contractual matters, judgments associated with estimating contract revenues and costs, and assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. For example, we must make assumptions regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials; consider whether the intent of entering into multiple contracts was effectively to enter into a single project in order to determine whether such contracts should be combined or segmented; consider incentives or penalties related to performance on contracts in estimating sales and profit rates, and record them when there is sufficient information for us to assess anticipated performance; and use estimates of award fees in estimating sales and profit rates based on

actual and anticipated awards. Because of the significance of the judgments and estimation processes described above, it is likely that materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect our future results of operations and financial condition.

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Significant changes in key estimates and assumptions, such as discount rates and assumed long-term return on assets (ROA), as well as our actual investment returns on our pension plan assets, and other factors could affect our earnings, equity and pension contributions in future periods.

We must determine our pension and other benefit plans expense or income which involves significant judgment, particularly with respect to our discount rate, long-term ROA and other actuarial assumptions. If our assumptions change significantly due to changes in economic, legislative, and/or demographic experience or circumstances, our pension and other benefit plans expense and funded status, and our cash contributions to such plans could negatively change which would negatively impact our results of operations. In addition, differences between our actual investment returns and our long-term ROA assumption would result in a change to our pension and other benefit plans expense and funded status and our required contributions to the plans. They may also be impacted by changes in regulatory, accounting and other requirements applicable to pensions.

For a complete discussion regarding how our financial statements can be affected by pension and other benefit plan accounting policies, see Critical Accounting Estimates on page 35 within Item 7 of this Form 10-K.

We have made, and expect to continue to make, strategic acquisitions and investments, and these activities involve risks and uncertainties.

In pursuing our business strategies, we continually review, evaluate and consider potential investments and acquisitions. In evaluating such transactions, we are required to make difficult judgments regarding the value of business opportunities, technologies and other assets, and the risks and cost of potential liabilities. Furthermore, acquisitions and investments involve certain other risks and uncertainties, including the difficulty in integrating newly-acquired businesses, the challenges in achieving strategic objectives and other benefits expected from acquisitions or investments, the diversion of our attention and resources from our operations and other initiatives, the potential impairment of acquired assets and the potential loss of key employees of the acquired businesses.

We have entered, and expect to continue to enter, into joint venture, teaming and other arrangements, and these activities involve risks and uncertainties.

We have entered, and expect to continue to enter, into joint venture, teaming and other arrangements. These activities involve risks and uncertainties, including the risk of the joint venture or applicable entity failing to satisfy its obligations, which may result in certain liabilities to us for guarantees and other commitments, the challenges in achieving strategic objectives and expected benefits of the business arrangement, the risk of conflicts arising between us and our partners and the difficulty of managing and resolving such conflicts, and the difficulty of managing or otherwise monitoring such business arrangements.

Goodwill and other intangible assets represent a significant portion of our assets and any impairment of these assets could negatively impact our results of operations.

At December 31, 2010, we had goodwill and other intangible assets of approximately $12.6 billion, net of accumulated amortization, which represented approximately 51% of our total assets. Our goodwill is subject to an impairment test on an annual basis and is also tested whenever events and circumstances indicate that goodwill may be impaired. Any excess goodwill resulting from the impairment test must be written off in the period of determination. Intangible assets (other than goodwill) are generally amortized over the useful life of such assets. In addition, from

time to time, we may acquire or make an investment in a business which will require us to record goodwill based on the purchase price and the value of the acquired assets. We may subsequently experience unforeseen issues which adversely affect the value of our goodwill or the intangible assets and trigger an evaluation of the recoverability of the recorded goodwill and intangible assets. Future determinations of significant write-offs of goodwill or intangible assets as a result of an impairment test or any accelerated amortization of other intangible assets could have a negative impact on our results of operations and financial condition.

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The outcome of litigation in which we have been named as a defendant is unpredictable and an adverse decision in any such matter could have a material adverse effect on our financial position or results of operations.

We are defendants in a number of litigation matters and are subject to various other claims, demands and investigations. These matters may divert financial and management resources that would otherwise be used to benefit our operations. No assurances can be given that the results of these matters will be favorable to us. An adverse resolution or outcome of any of these lawsuits, claims, demands or investigations could have a negative impact on our financial condition, results of operations and liquidity.

We depend on the recruitment and retention of qualified personnel, and our failure to attract and retain such personnel could seriously harm our business.

Due to the specialized nature of our business, our future performance is highly dependent upon the continued services of our key engineering personnel and executive officers, the development of additional management personnel and the hiring of new qualified engineering, manufacturing, marketing, sales and management personnel for our operations. Competition for personnel is intense, and we may not be successful in attracting or retaining qualified personnel. In addition, certain personnel may be required to receive security clearance and substantial training in order to work on certain programs or perform certain tasks. The loss of key employees, our inability to attract new qualified employees or adequately train employees, or the delay in hiring key personnel could seriously harm our business, results of operations and financial condition.

Our business could be negatively impacted by security threats and other disruptions.

As a U.S. defense contractor, we face certain security threats, including threats to our information technology infrastructure, attempts to gain access to our proprietary or classified information, and threats to physical security. These types of events could disrupt our operations, require significant management attention and resources, and could negatively impact our reputation among our customers and the public, which could have a negative impact on our financial condition, results of operations and liquidity.

Some of our workforce is represented by labor unions so our business could be harmed in the event of a prolonged work stoppage.

Approximately 5,800 of our employees are unionized, which represents approximately 8% of our employee-base at December 31, 2010. As a result, we may experience work stoppages, which could adversely affect our business. We cannot predict how stable our union relationships will be or whether we will be able to successfully negotiate successor agreements without impacting our financial condition. In addition, the presence of unions may limit our flexibility in dealing with our workforce. Work stoppages could negatively impact our ability to manufacture our products on a timely basis, which could negatively impact our results of operations and financial condition.

We may be unable to adequately protect our intellectual property rights, which could affect our ability to compete.

We own many U.S. and foreign patents and patent applications, and have rights in unpatented know-how, data, software, trademarks and copyrights. The U.S. Government has licenses under certain of our patents and certain other intellectual property that are developed in performance of government contracts, and it may use or authorize others to use such patents and intellectual property for government purposes. There can be no assurance that any of our patents and other intellectual property will not be challenged, invalidated, misappropriated or circumvented by third parties. In some instances, we have augmented our technology base by licensing the proprietary intellectual property of others. In the future, we may not be able to obtain necessary licenses on commercially reasonable terms. We enter into confidentiality and invention assignment agreements with our employees and enter into non-disclosure agreements with our suppliers and appropriate customers so as to limit access to and prevent disclosure of our proprietary information. These measures may not suffice to deter misappropriation or third party development of similar technologies. Moreover, the laws concerning intellectual property vary among nations and the protection provided to our intellectual property by the laws and courts of foreign nations may not be as advantageous to us as the remedies available under U.S. law.

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Our operations expose us to the risk of material environmental liabilities.

We use and generate large quantities of hazardous substances and wastes in our manufacturing operations. As a result, we are subject to potentially material liabilities related to personal injuries or property damages that may be caused by hazardous substance releases and exposures. For example, we are investigating and remediating contamination related to our past practices at numerous properties and, in some cases, have been named as a defendant in related toxic tort claims for costs of cleanup and property damages.

We are also subject to increasingly stringent laws and regulations that impose strict requirements for the proper management, treatment, storage and disposal of hazardous substances and wastes, restrict air and water emissions from our manufacturing operations, including government-owned facilities we manage, and require maintenance of a safe workplace. These laws and regulations can impose substantial fines and criminal sanctions for violations, and may require the installation of costly pollution control equipment or operational changes to limit pollution emissions and/or decrease the likelihood of accidental hazardous substance releases. In addition, if we were convicted of a violation of the Federal Clean Air Act or the Clean Water Act, the facility involved in the violation could not be used in performing any U.S. Government contract awarded during the violation period. We incur, and expect to continue to incur, capital and operating costs to comply with these laws and regulations. In addition, new laws and regulations, changes in the enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements could require us to incur costs in the future that would have a negative effect on our financial condition or results of operations.

We face certain significant risk exposures and potential liabilities that may not be adequately covered by indemnity or insurance.

A significant portion of our business relates to designing, developing and manufacturing advanced defense and technology systems and products. New technologies may be untested or unproven. In addition, we may incur significant liabilities that are unique to our products and services, including missile systems, command and control systems, border security systems, and air traffic management systems. In some, but not all, circumstances, we may be entitled to indemnification from our customers, either through contractual provisions, qualification of our products and services by the Department of Homeland Security under the SAFETY Act provisions of the Homeland Security Act of 2002, or otherwise. The amount of our insurance coverage we maintain may not be adequate to cover all claims or liabilities, and it is not possible to obtain insurance to protect against all operational risks and liabilities. Accordingly, we may be forced to bear substantial costs resulting from risks and uncertainties of our business which would negatively impact our results of operations and financial condition.

Unanticipated changes in our tax provisions or exposure to additional income tax liabilities could affect our profitability.

We are subject to income taxes in the United States and many foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Furthermore, changes in domestic or foreign income tax laws and regulations, or their interpretation, could result in higher or lower income tax rates assessed or changes in the taxability of certain sales or the deductibility of certain expenses, thereby affecting our income tax expense and profitability. In addition, we regularly are under audit by tax authorities. The final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. Additionally, changes in the geographic mix of our sales could also impact our tax liabilities and affect our income tax expense and profitability.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We and our subsidiaries operate in a number of plants, laboratories, warehouses and office facilities in the United States and abroad.

As of December 31, 2010, we owned, leased and/or utilized (through operating agreements) approximately 29.3 million square feet of floor space for manufacturing, engineering, research, administration, sales and warehousing, approximately 93% of which was located in the United States. Of such total, approximately 44% was owned (or held under a long term ground lease with ownership of the improvements), approximately 51% was leased, and approximately 5% was made available under facilities contracts for use in the performance of United States Government contracts. Of the 29.3 million square feet of floor space owned, leased and/or utilized by us, approximately 0.7 million square feet was leased or subleased to unrelated third parties. In addition to the 29.3 million square feet, we had approximately 0.7 million square feet of floor space that was vacant.

There are no major encumbrances on any of our facilities other than financing arrangements which in the aggregate are not material. In the opinion of management, our properties have been well maintained, are suitable and adequate for us to operate at present levels, and the productive capacity and extent of utilization of the facilities are appropriate for the existing real estate requirements of the Company.

As of December 31, 2010, our business segments had major operations at the following locations:

Integrated Defense Systems Huntsville, AL; San Diego, CA; Andover, MA; Billerica, MA; Maple Lawn, MD; Sudbury, MA; Tewksbury, MA; Woburn, MA; Portsmouth, RI; Keyport, WA; and Kiel, Germany;
Intelligence and Information Systems Aurora, CO; Riverdale, MD; Omaha, NE; State College, PA; Garland, TX; Dulles, VA; Reston, VA; Springfield, VA; and Uxbridge, England;
Missile Systems East Camden, AR; Tucson, AZ; Rancho Cucamonga, CA; Louisville, KY; and Farmington, NM;
Network Centric Systems Fullerton, CA; Goleta, CA; Largo, FL; Ft. Wayne, IN; Marlboro, MA; Cambridge, MA; Dallas, TX; McKinney, TX; Plano, TX; Richardson, TX; Midland, Ontario, Canada; Waterloo, Ontario, Canada; Harlow, England; Malaga, Spain; and Glenrothes, Scotland;
Space and Airborne Systems El Segundo, CA; Goleta, CA; Forest, MS; Dallas, TX; and McKinney TX;
Technical Services Chula Vista, CA; Orlando, FL; Indianapolis, IN; Burlington, MA; Troy, MI; Norfolk, VA; Dulles, VA; Canberra, Australia; and Christchurch, New Zealand;
Corporate Billerica, MA; Waltham, MA; Garland, TX; Plano, TX; Dulles, VA; and Arlington, VA;

A summary of the space owned, leased and/or utilized by us as of December 31, 2010, by business segment is as follows:

	Leased	Owned[1]	Government Owned[2]	Total[3]
Integrated Defense Systems	2,143,000	3,219,000	109,000	5,471,000
Intelligence and Information Systems	2,197,000	792,000		2,989,000
Missile Systems	2,705,000	1,150,000	1,247,000	5,102,000
Network Centric Systems	2,542,000	3,367,000		5,909,000
Space and Airborne Systems	2,210,000	3,691,000		5,901,000
Technical Services	2,652,000	207,000	188,000	3,047,000
Corporate	547,000	378,000		925,000
Totals	14,996,000	12,804,000	1,544,000	29,344,000

(1) Ownership may include either fee ownership of land and improvements or a long term land lease with ownership of improvements.
(2) Government Owned shall mean space utilized by the Company pursuant to an operating agreement (GOCO).

(3) Excludes approximately 660,000 square feet of vacant space.

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ITEM 3. 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 Defense Contract Management Agency, the Inspector General of the Department of Defense and other departments and agencies, the Government Accountability Office, the Department of Justice (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 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 and Note 11: Commitments and Contingencies within Item 8 of this 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. We expect the arbitration procedures to commence in the first half of 2011. 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.

As a result of the termination notice, we adjusted our estimated amount of revenue and costs under the program in the second quarter of 2010. 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, respectively, for the year ended December 31, 2010. At

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December 31, 2010, we had approximately $80 million in letters of credit and approximately $70 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. Due to the inherent uncertainties in litigation and arbitration as noted above, and the complexity and technical nature of potential claims and counterclaims, as well as the resolution of the related matters involving subcontractors, it is reasonably possible that the ultimate amount of any resolution of the termination could be less or greater than our estimate and at this time, we are unable to estimate a range of the potential difference in such amounts, if any. If we are unsuccessful in recovering amounts drawn on the letters of credit, if any, 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 made in connection with the adjustment in the second quarter of 2010 described above, it could have a material adverse effect on our financial position, results of operations or liquidity.

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 4. (REMOVED AND RESERVED)

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers are listed below. Each executive officer was elected by our Board of Directors to serve for a term of one year and until his or her successor is elected and qualified or until his or her earlier removal, resignation or death.

Daniel J. Crowley

Mr. Crowley has served as Vice President of Raytheon Company and President of the Network Centric Systems (NCS) business unit since December 2010. From November 2010 to December 2010, he was President of the NCS business unit. Prior to joining Raytheon, Mr. Crowley spent 27 years in various management positions of increasing responsibility at Lockheed Martin Corporation, a global security and information technology company. From June 2010 to November 2010, Mr. Crowley served as chief operating officer of Lockheed Martin Corporation s Aeronautics business unit and from May 2005 to June 2010, he served as executive vice president and general manager of the F-35 Joint Strike Fighter program. Age 48.

Lynn A. Dugle

Ms. Dugle has served as Vice President of Raytheon Company and President of the Intelligence and Information Systems (IIS) business unit since January 2009. From June 2008 to December 2008, she was Vice President and Deputy General Manager of the IIS business unit. From April 2004 to June 2008, she served as Vice President, Engineering, Technology and Quality for the Network Centric Systems business unit. Prior to rejoining Raytheon in April 2004, Ms. Dugle held a wide range of officer-level positions with ADC Communications, Inc., a global provider of network infrastructure products and services. Age 51.

Richard A. Goglia

Mr. Goglia has served as Vice President and Treasurer since January 1999. From August 2006 to May 2009, Mr. Goglia also served as Vice President Corporate Development. Prior to joining Raytheon in March 1997, Mr. Goglia spent 16 years in various financial and management positions at General Electric Company, a diversified technology, media and financial services company, and General Electric Capital Corporation where his last position was Senior Vice President Corporate Finance. Age 59.

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John D. Harris II

Mr. Harris has served as Vice President of Raytheon Company and President of the Technical Systems (TS) business unit since March 2010. From May 2005 to May 2010, he was Vice President Contracts and Supply Chain. From June 2003 to May 2005, Mr. Harris was Vice President of Contracts. From September 2002 to June 2003, Mr. Harris was Vice President of Contracts for Raytheon s government and defense businesses. From April 2001 to September 2002, he was Vice President of Operations for the former Electronic Systems business unit. Age 49.

Thomas A. Kennedy

Mr. Kennedy has served as Vice President of Raytheon Company and President of the Integrated Defense Systems (IDS) business unit since June 2010. From July 2007 to June 2010, he was Vice President of the Tactical Airborne Systems product line within the Space and Airborne Systems (SAS) business unit, and from May 2003 to July 2007 was Vice President of the Mission System Integration product line within the SAS business unit. Mr. Kennedy joined Raytheon in 1983 and has held positions of increasing responsibility as a new business leader and program manager for several radar and electronic warfare systems development programs. Age 55.

Taylor W. Lawrence

Dr. Lawrence has served as Vice President of Raytheon Company and President of the Missiles Systems (MS) business unit since July 2008. Dr. Lawrence joined Raytheon in April 2006 and until July 2008, he served as Vice President, Engineering, Technology and Mission Assurance. From August 2001 to April 2006, Dr. Lawrence was sector vice president and general manager, C4ISR & Space Sensors Division for Northrop Grumman Electronic Systems. From March 1999 to August 2001, Dr. Lawrence was vice president, Products and Technology for Northrop Grumman s Systems Development & Technology Division. Before joining Northrop Grumman, Dr. Lawrence served as the staff director for the Select Committee on Intelligence for the U.S. Senate and, previously, as deputy director, Information Systems Office of the Defense Advanced Research Projects Agency. Age 47.

Keith J. Peden

Mr. Peden has served as Senior Vice President Human Resources since March 2001. From November 1997 to March 2001, Mr. Peden was Vice President and Deputy Director Human Resources. From April 1993 to November 1997, Mr. Peden was Corporate Director of Benefits and Compensation. Age 60.

Jay B. Stephens

Mr. Stephens has served as Senior Vice President and General Counsel since October 2002. In December 2006, he was also elected as Secretary of the Company. From January 2002 to October 2002, Mr. Stephens served as Associate Attorney General of the United States. From 1997 to 2002, Mr. Stephens was Corporate Vice President and Deputy General Counsel for Honeywell International, Inc. (formerly AlliedSignal, Inc.). From 1993 to 1997, he was a partner in the Washington office of the law firm of Pillsbury, Madison & Sutro (now Pillsbury Winthrop Shaw Pittman LLP). Mr. Stephens served as United States Attorney for the District of Columbia from 1988 to 1993. From 1986 to 1988, he served in the White House as Deputy Counsel to the President. Mr. Stephens currently serves on the Board of the New England Legal Foundation. Age 64.

William H. Swanson

Mr. Swanson has served as Chairman since January 2004 and as Chief Executive Officer since July 2003. Mr. Swanson joined Raytheon in 1972 and has held increasingly responsible management positions, including: President from July 2002 to May 2004; Executive Vice President of

Raytheon Company and President of Raytheon s Electronic Systems business unit from January 2000 to July 2002; Executive Vice President of Raytheon Company and Chairman and CEO of Raytheon Systems Company from January 1998 to January 2000; Executive Vice President of Raytheon Company and General Manager of Raytheon s Electronic Systems business unit from March 1995 to January 1998; and Senior Vice President and General Manager of the Missile Systems division from August 1990 to March 1995. Mr. Swanson has served on the Board of Directors of NextEra Energy, Inc., a leading clean energy company, since October 2009. Age 62.

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David C. Wajsgras

Mr. Wajsgras has served as Senior Vice President and Chief Financial Officer since March 2006. From August 2005 to March 2006, Mr. Wajsgras served as Executive Vice President and Chief Financial Officer of Lear Corporation, an automotive interior systems and components supplier. From January 2002 to August 2005, he served as Senior Vice President and Chief Financial Officer of Lear. Mr. Wajsgras joined Lear in September 1999 as Vice President and Controller. Age 51.

Michael J. Wood

Mr. Wood has served as Vice President and Chief Accounting Officer since October 2006. Prior to joining Raytheon, Mr. Wood held positions of increasing responsibility over a 16-year career at KPMG LLP, an accounting firm, including most recently as an Audit Partner serving various aerospace and defense clients. Age 42.

Richard R. Yuse

Mr. Yuse has served as Vice President of Raytheon Company and President of the Space and Airborne Systems (SAS) business unit since March 2010. From May 2007 to March 2010, he was President of the TS business unit. From March 2007 to May 2007, Mr. Yuse was Vice President and Deputy General Manager of the TS business unit, and from January 2006 to March 2007, he served as Vice President of the Integrated Air Defense product line of the IDS business unit. Mr. Yuse joined Raytheon in 1976 and has held positions of increasing responsibility on a variety of programs ranging from system architecture and design to flight test director and program manager. Age 59.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

At February 11, 2011, there were 34,217 record holders of our common stock. Our common stock is traded on the New York Stock Exchange under the symbol RTN . For information concerning stock prices and dividends paid during the past two years, see Note 17: Quarterly Operating Results (Unaudited) within Item 8 of this Form 10-K.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information about our equity compensation plans that authorize the issuance of shares of our common stock. This information is provided as of December 31, 2010.

Plan Category	(A) Number of securities to be issued upon exercise of outstanding options, warrants and rights[1]	(B) Weighted average exercise price of outstanding options, warrants and rights[2]	(C) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A)
Equity compensation plans approved by stockholders	8,897,787	$ 37.23	11,865,166
Equity compensation plans not approved by stockholders			
Total	8,897,787	$ 37.23	11,865,166

(1) This amount includes 2,266,538 shares, which is the aggregate of the actual number of shares issued pursuant to the 2008 Long-Term Performance Plan (LTTP) awards and the maximum number of shares that may be issued upon settlement of outstanding 2009 and 2010 LTPP awards, including estimated dividend equivalent amounts. The shares to be issued pursuant to the 2008, 2009 and 2010 LTPP awards will be issued under the 2010 Stock Plan. The material terms of the 2008, 2009 and 2010 LTPP awards are described in more detail in Note 13: Stock-based Compensation Plans within Item 8 of this Form 10-K. These awards, which are granted as restricted stock units, may be settled in cash or in stock at the discretion of the Management Development and Compensation Committee.

This amount also includes 181,067 shares that may be issued upon settlement of restricted stock units, generally issued to non-U.S. employees. The shares to be issued in settlement of the restricted stock units will be issued under the 2010 Stock Plan. The awards of restricted stock units generally vest one-third per year on the second, third and fourth anniversaries of the date of grant.

This amount also includes 1,818,069 shares issuable upon exercise of stock options granted under the 1995 Stock Option Plan. The 1995 Stock Option Plan expired in March 2005 and no additional options may be granted pursuant to that plan.

(2) Since restricted stock awards and restricted stock unit awards do not have an exercise price, the weighted average exercise price does not take into account restricted stock awards and the 2008, 2009 and 2010 LTPP awards and restricted stock units generally granted to non-U.S. employees.

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Stock Performance Graph

The following chart compares the total return on a cumulative basis of $100 invested in our common stock on December 31, 2005 to the Standard & Poor s 500 Stock Index and the Standard & Poor s Aerospace & Defense Index.

Total Return To Shareholders

(Includes reinvestment of dividends)

Annual Return Percentage

	Years Ending				
Company / Index	12/31/2006	12/31/2007	12/31/2008	12/31/2009	**12/31/2010**
Raytheon Common Stock	34.17	17.02	(14.20)	3.62	**(8.00)**
S&P 500 Index	15.79	5.49	(37.00)	26.46	**15.06**
S&P Aerospace & Defense Index	25.16	19.32	(36.54)	24.64	**15.11**

Indexed Returns

	Base Period	Years Ending				
Company / Index	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	**12/31/2010**
Raytheon Common Stock	100	134.17	157.01	134.71	139.59	**128.42**
S&P 500 Index	100	115.79	122.16	76.96	97.33	**111.99**
S&P Aerospace & Defense Index	100	125.16	149.34	94.77	118.12	**135.98**

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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 Plans	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan[2]
October (September 27, 2010-October 24, 2010)	7,102	$ 45.33		$ 1.7 billion
November (October 25, 2010-November 21, 2010)	2,654,375	47.54	2,628,185	$ 1.5 billion
December (November 22, 2010-December 31, 2010)	2,681,503	46.75	2,677,662	$ 1.4 billion
Total	5,342,980	$ 47.14	5,305,847	

(1) Includes shares purchased related to treasury activity under our stock plans. Such activity during the fourth quarter of 2010 includes the surrender by employees of 37,133 shares to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

(2) In March, 2010 our Board of Directors authorized the repurchase of up to an additional $2.0 billion of our outstanding common stock. All previous repurchase programs have been completed as of December 31, 2010. Share repurchases will take place from time to time at management s discretion depending on market conditions.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the information contained in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in Item 8 of this Form 10-K, which are incorporated herein by reference, in order to understand the factors that may affect the comparability of the financial data presented below.

FIVE-YEAR STATISTICAL SUMMARY

(In millions, except per share amounts and total employees)	**2010**	2009	2008	2007	2006
Results of Operations					
Total net sales	**$ 25,183**	$ 24,881	$ 23,174	$ 21,301	$ 19,707
Operating income	**2,607**	3,042	2,620	2,354	1,966
Interest expense, net	**110**	109	65	33	197
Income from continuing operations	**1,843**	1,977	1,698	1,719	1,209
Income (loss) from discontinued operations, net of tax	**36**	(1)	(2)	885	96
Net income	**1,879**	1,976	1,696	2,604	1,305
Net income attributable to Raytheon Company	**1,840**	1,935	1,672	2,578	1,283
Net cash provided by operating activities from continuing operations	**1,931**	2,745	2,036	1,249	2,477
Net cash provided by operating activities	**1,942**	2,725	2,015	1,198	2,743
Diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders	**$ 4.79**	$ 4.89	$ 3.93	$ 3.78	$ 2.62
Diluted earnings per share attributable to Raytheon Company common stockholders	**4.88**	4.89	3.92	5.75	2.83
Dividends declared per share	**1.50**	1.24	1.12	1.02	0.96
Average diluted shares outstanding	**377.0**	395.7	426.5	448.4	453.9
Financial Position at Year-End					
Cash and cash equivalents	**$ 3,638**	$ 2,642	$ 2,259	$ 2,655	$ 2,460
Current assets	**8,822**	7,868	7,417	7,616	9,517
Property, plant and equipment, net	**2,003**	2,001	2,024	2,058	2,025
Total assets	**24,422**	23,607	23,134	23,152	25,396
Current liabilities	**5,960**	5,523	5,149	4,788	6,715
Long-term liabilities (excluding debt)	**4,962**	5,816	6,488	3,467	4,232
Long-term debt	**3,610**	2,329	2,309	2,268	3,278
Total debt	**3,610**	2,329	2,309	2,268	3,965
Total equity	**9,890**	9,939	9,188	12,629	11,171
General Statistics					
Bookings	**$ 24,449**	$ 25,058	$ 26,820	$ 25,498	$ 22,417
Total backlog	**34,551**	36,877	38,884	36,614	33,838
Additions to property, plant and equipment	**319**	280	304	313	294
Depreciation and amortization	**420**	402	390	372	361
Total employees from continuing operations	**72,400**	75,100	72,800	72,100	69,900

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Introduction

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

We operate in six business segments: Integrated Defense Systems (IDS), Intelligence and Information Systems (IIS), Missile Systems (MS), Network Centric Systems (NCS), Space and Airborne Systems (SAS) and Technical Services (TS). For a more detailed description of our segments, see Business Segments within Item 1 of this Form 10-K.

In this section, we discuss our industry and how certain factors may affect our business, key elements of our strategy, how our financial performance is assessed and measured by management, and other business considerations, including certain risks and challenges to our business. Next, we discuss our critical accounting estimates, which are those estimates that are most important to both the reporting of our financial condition and results of operations and require management s subjective judgment. We then review our results of operations for 2010, 2009 and 2008 beginning with an overview of our total company results, followed by a more detailed review of those results by business segment. We also review our financial condition and liquidity including our capital structure and resources, off-balance sheet arrangements, commitments and contingencies, and conclude with a discussion of our exposure to various market risks.

Industry Considerations

Domestic Considerations

U.S. Government budget deficits for 2010 and 2011 are expected to be high by historical standards. The U.S. economic recovery has been weaker than anticipated and unemployment remains high. As a result, we expect that the Administration and the Congress will have to consider deficit reduction initiatives within the context of a weak economy and competing spending priorities. These spending priorities include entitlement spending, such as Social Security, Medicare, and Medicaid, and programs that are appropriated on an annual basis, including defense, homeland security, international affairs, and a host of civil programs, ranging from education to veterans health care to law enforcement to transportation infrastructure and more.

In February 2010, the Department of Defense (DoD) released the Quadrennial Defense Review (QDR), setting forth its strategic priorities for the next four years. The QDR emphasized the need to successfully prosecute the operations in Afghanistan and Iraq while also reshaping DoD forces to be able to respond to a wide range of future contingencies. Among the priorities emphasized in the QDR were Intelligence, Surveillance and Reconnaissance, cyberwarfare, missile defense, unmanned systems, and interoperability with allied forces. We believe that these priorities are well aligned with our product offerings, technologies and capabilities.

The 2010 mid-term election results are expected to elevate the priority of deficit reduction. It remains unclear how much of the deficit will be reduced by revenue changes and cuts to entitlement programs. We therefore expect all programs that are appropriated on an annual basis, including defense, to undergo close scrutiny by both the Administration and the Congress in the near future. We also anticipate that the fragile economic recovery will mean that policymakers will take potential job losses into consideration, which could mitigate calls for more significant cuts in spending, particularly in the near term.

In June 2010, the DoD launched its own series of initiatives to ensure more efficient use of its resources in order to sufficiently fund its highest priorities: maintaining force structure and modernizing its weapons systems and equipment. According to the DoD, its Efficiencies Initiative, coupled with funding the base budget at one percent annual real

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growth, should enable it to adequately pursue its strategic objectives as outlined in the QDR. If and to the extent that aspects of the Efficiencies Initiative are implemented, they could impact our results of operations and liquidity and could affect whether and, if so, how we pursue certain opportunities and the terms under which we are able to do so.

In addition, the U.S. Government has been operating under a series of Continuing Resolutions since the start of fiscal year (FY) 2011 on October 1, 2010. A Continuing Resolution authorizes agencies of the U.S. Government to continue to operate, generally at the same funding levels from the prior year, but does not authorize new spending initiatives. If the Continuing Resolution continues in effect for an extended period, it could impact the performance of our current programs and continue to delay new awards.

The U.S. Government including foreign military sales accounted for 88% of our total net sales in 2010. Our principal U.S. Government customer is the DoD, and DoD funding has grown substantially since fiscal year (FY) 2001, when it was $300 billion. However, given the current environment, defense spending levels in the near future are difficult to predict. At a minimum, we expect lower growth rates in the overall DoD budget than those of the past decade, with a number of factors potentially impacting the DoD budget, including the following:

- External threats to our national security, including potential security threats posed by terrorists, emerging nuclear states and other countries;
- Funding for on-going operations in Iraq and Afghanistan, which will require funding above and beyond the DoD base budget for their duration;
- Priorities of the Administration and the Congress, including deficit reduction given the historically high deficit and unemployment levels and the 2010 mid-term election results, and the relatively fragile state of the economic recovery, which could result in changes in the DoD budget overall and various allocations within the DoD budget; and
- The overall health of the U.S. and world economies and the state of governmental finances.

For FY 2011, the DoD had requested a base budget of $549 billion, an increase of approximately $18 billion or 3% over FY 2010, which excludes funding for operations in Afghanistan and Iraq. This request included $189 billion for DoD modernization funding (an increase of approximately $4 billion or 2%), consisting of procurement and research and development (R&D), and $200 billion for the DoD Operations and Maintenance Account (O&M) (an increase of approximately $16 billion or 9%), including funding for training, services and other logistical support functions.

Overseas Contingency Operations (OCO) in Afghanistan and Iraq have largely been funded apart from the DoD base budget to better maintain visibility and oversight of war costs. The DoD s request for FY 2011 OCO funding was $159 billion, which is just slightly lower than the $163 billion enacted for FY 2010 OCO activities. Looking forward, OCO funding is expected to decline as troops redeploy out of Iraq and later from Afghanistan. The request for future OCO funding will be determined on an as-needed basis and will likely be closely correlated to the amount of troops required for each operation.

With respect to other domestic customers beyond the DoD, we have contracts with a wide range of U.S. Government agencies, including the Department of Homeland Security (DHS), the Department of Justice (DoJ), the Department of State, the Department of Energy, the Intelligence Community, the National Aeronautics and Space Administration (NASA), the Federal Aviation Administration (FAA) and the National Science Foundation (NSF). Similar to the budget environment for the DoD, we expect the Administration will have to take deficit considerations into account when determining spending priorities for these agencies. Our relationship with these agencies, however, generally is determined more by specific program requirements than by a direct correlation to the overall funding levels for these agencies. We also have contracts with various state and local government agencies that also are subject to budget constraints and conflicts in spending priorities.

For more information on the risks and uncertainties that could impact the U.S. Government s demand for our products and services, see Item 1A Risk Factors of this Form 10-K.

International Considerations

In 2010, our sales to customers outside of the U.S. accounted for 23% of our total net sales (including foreign military sales through the U.S. Government). Internationally, the growing threat of additional terrorist activity, emerging nuclear states, long-range missiles and conventional military threats have led to an increase in demand for defense products and

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services and homeland security solutions. In North Asia, both short and long-term security concerns are increasing demand for air and missile defense, air/naval modernization, maritime security, homeland security and air traffic management. In the Middle East, threats from state and non-state actors are increasing demand for air and missile defense, air/land/naval force modernization, precision engagement, maritime security, border security, and homeland security solutions. In South America, the economic growth in some developing countries is being accompanied by an increase in defense spending. While this region has traditionally been a smaller market for U.S.-based suppliers, it is likely to see above average growth rates. Global economic challenges are likely to restrain or even shrink the defense budgets of many European nations. Overall, we believe many international defense budgets have the potential to grow faster than the U.S. defense budget.

International customers are also expected to continue to adopt similar defense modernization initiatives as the U.S. DoD. We believe this trend will continue as many international customers are facing a threat environment which is similar to the U.S. and they are looking for advanced weapons and sensor systems. Alliance members also wish to assure their forces and systems will be interoperable with U.S. and North Atlantic Treaty Organization (NATO) forces. However, international demand is sensitive to changes in the priorities and budgets of international customers and geo-political uncertainties, which may be driven by changes in threat environments and potentially volatile worldwide economic conditions, various regional and local economic and political factors, risks and uncertainties, as well as U.S. foreign policy. For more information on the risks and uncertainties that could impact international demand for our products and services, see Item 1A Risk Factors of this Form 10-K.

Our Strategy and Opportunities

The following are the broad elements of our strategy:

- Focus on key strategic pursuits, technology and Mission Assurance to protect and grow our position in four core defense markets: Sensing, Effects, C3I and Mission Support.
- Leverage our domain knowledge in these core markets as well as the Homeland Security and Cybersecurity markets.
- Expand international business by broadening our focus and satisfying customer needs in both core and growth markets.
- Continue to be a Customer-focused company based on performance, relationships and solutions.

Our Markets

We believe that our broad mix of technologies, domain knowledge and key capabilities and our cost-effective, best value solutions and their alignment with customer needs in our core defense markets, position us favorably to continue to grow and increase our market share. Our core markets also serve as a solid base from which to expand into growth areas, such as Homeland Security and Cybersecurity. We continually explore opportunities to leverage our existing capabilities, or develop or acquire additional ones, to expand into growth markets.

Sensing Sensing encompasses technologies that acquire precise situational data across air, space, ground and underwater domains and then generate the information needed for effective battlespace decisions. Our sensing technologies span the full electromagnetic spectrum, from traditional radio frequency (RF) and electro-optical (EO) to wideband, hyperspectral and acoustic sensors. We are focused on leveraging our sensing technologies to provide a broad range of capabilities as well as expanding into growth markets such as sensors to detect Weapons of Mass Destruction.

Effects Effects achieve specific military actions or outcomes, from force protection to theater/national missile defense. The missions may be achieved by kinetic means, directed energy or information operations. Our Effects capabilities include advanced airframes, guidance and navigation systems, multiple sensor seekers, targeting, net-enabled systems, multi-dimensional effects, directed energy and cyber systems.

Command, Control, Communication and Intelligence (C3I) C3I systems provide integrated real-time support to decision-makers on and off the battlefield, transforming raw data into actionable intelligence. We are seeking to continue to grow our market presence in C3I and also expand our knowledge management and discovery capabilities. Our C3I capabilities include situational awareness, persistent surveillance, communications, mission planning, battle management command and control, intelligence and analysis, and integrated ground solutions.

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Mission Support We are focused on enabling customer success through total life-cycle support that predicts customer needs, senses potential problems and proactively responds with the most appropriate solutions. Our Mission Support capabilities include technical services, system engineering, logistics, training, operations and maintenance. Our training business continues to expand and we now train in over 80 countries and in 40 different languages.

Homeland Security We also intend to continue to grow our presence in the domestic and international homeland security markets, focusing on transportation security, immigration control/identity management, critical infrastructure protection, maritime security, energy security, intelligence program support, law enforcement solutions and emergency preparedness and response.

Cybersecurity We continue to enhance our capabilities in the cybersecurity market. In 2010, we acquired three companies in this area: Compucat Research Pty, Trusted Computer Solutions Inc. and Technology Associates Inc. We are focused on providing cyber capabilities to the Intelligence, DoD and DHS markets as well as embedding cybersecurity in our products and in our own IT infrastructure.

International Growth

Because of the breadth of our offerings, our systems integration capability, the value of our solutions and our strong legacy in the international marketplace, we believe that we are well-positioned to continue to grow our international business. As discussed under International Considerations, we believe demand is growing for solutions in air and missile defense, homeland security, air traffic management, precision engagement, naval systems integration and intelligence, surveillance and reconnaissance. In addition, as coalition forces increasingly integrate military operations worldwide, we believe that our capabilities in network-enabled operations will continue to be a key discriminator in these markets.

In 2010, our international sales, including foreign military sales through the U.S. Government, were $5.8 billion compared to $5.3 billion in 2009. In 2010, our international bookings were $4.4 billion compared to $7.6 billion in 2009.

Focus on the Customer and Execution

Our customer focus continues to be a critical part of our strategy underpinned by a focus on performance, relationships and solutions. Performance means being able to meet customer commitments and is ensured through strong processes, metrics and oversight. We maintain a process architecture that spans our broad programs and pursuits. It consists of processes such as Integrated Product Development System (IPDS) which assures consistency of evaluation and execution at each step in a program s life-cycle. It also includes our Achieving Process Excellence (APEX), which is our SAP business system software for accounting, finance and program management; Process Re-Invention Integrating Systems for Manufacturing (PRISM), which is our SAP software for manufacturing operations; and Raytheon Enterprise Supplier Assessment (RESA) tool for Supply Chain Management. These processes and systems are linked to an array of front-end and back-end metrics. With this structure, we are able to track results and be alerted to potential issues through numerous oversight mechanisms, including operating reviews and annual operating plan reviews.

We are also continuing to build strong customer relationships by listening to customers, working with them as partners and including them on Raytheon Six Sigma™ teams to jointly improve their programs and processes. We are increasingly focused on responding to our customers changing requirements with rapid and effective solutions to real problems. In recognition of our customers constraints and priorities, we also continue to drive various cost reductions across the Company through Raytheon Six Sigma™, lean processes, reducing cycle times and numerous other initiatives.

Other Business Considerations

We currently are involved in over 15,000 contracts, with no single contract accounting for more than 5% of our total net sales in 2010. We believe that our diverse portfolio of programs and capabilities is well suited to a changing defense environment. However, we face numerous challenges and risks, as discussed below and under Item 1A. Risk Factors of this Form 10-K.

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We remain dependent on the U.S. Government for a substantial portion of our business. Sales to the U.S. Government may be affected by changes in procurement policies, budget/economic considerations, changing defense requirements and political developments such as changes in Congress and the Administration. The influence of these factors could impact our financial position and results of operations. In addition, we operate in highly competitive markets. These markets are becoming increasingly more concentrated in response to the trend of certain customers awarding a smaller number of large multi-service contracts. Additionally, the DoD and international customers are increasingly turning to commercial contractors for information technology and other support work.

Our future success is dependent on our ability to execute our business strategies. First, we must continue to perform on existing programs, as past performance is an important selection criteria for new competitive awards. Second, we must successfully execute our growth strategies, as discussed above. In order to execute, we must be able to identify the most appropriate opportunities to leverage our capabilities and technologies, as well as emerging customer needs in these markets. We then must successfully develop, market and support new offerings and technologies for those markets which will require the investment of significant financial resources and substantial management attention.

We also focus on significant changes in our estimates of contract sales, costs and profits, to assess program performance and the potential impact of such changes on our results of operations. As discussed in greater detail in Critical Accounting Estimates our method of accounting for our contracts requires that we estimate contract revenues and costs. Due to the size, length of time and nature of the work required to be performed on many of our contracts, our estimates are complicated and subject to many variables. We review our contract estimates periodically to assess whether revisions are warranted and make revisions and adjustments to our estimates in the ordinary course. Changes in estimates of contract sales, costs and profits are recognized using a cumulative catch-up, which recognizes in the current period the cumulative effect of the changes on current and prior periods. A significant change in one or more of these estimates could affect the profitability of one or more of our contracts. In addition, given our number of contracts and our accounting methods, we may recognize changes in multiple contracts in a fiscal quarter that, individually, may be significant, but that result, on a net basis, in no impact on our results of operations. Alternatively, we may recognize changes in numerous contracts in a fiscal quarter that, individually, may be immaterial, but that result, collectively, in a significant change to our results of operations.

FINANCIAL SUMMARY

We use the following key financial performance measures to manage our business on a consolidated basis and by business segment and to monitor and assess our results of operations:

- Bookings a forward-looking metric that measures the value of new contracts awarded to us during the year.
- Net Sales a growth metric that measures our revenue for the current year.
- Operating Income a measure of our profit from continuing operations for the year, before non-operating expenses, net and taxes.
- Operating Margin a measure of our operating income as a percentage of total net sales.

We also focus on earnings per share (EPS), including Adjusted EPS, and measures to assess our cash generation and the efficiency and effectiveness of our use of capital such as free cash flow (FCF) and return on invested capital (ROIC).

Considered together, we believe these metrics are strong indicators of our overall performance and our ability to create shareholder value. We feel these measures are balanced among long-term and short-term performance, growth and efficiency. We use these and other performance metrics for executive compensation purposes.

In addition, we maintain a strong focus on program execution and the prudent management of capital and investments in order to maximize operating income and cash and to continue to improve ROIC. 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.

Bookings were $24.4 billion, $25.1 billion and $26.8 billion in 2010, 2009 and 2008, respectively resulting in backlog of $34.6 billion, $36.9 billion and $38.9 billion at December 31, 2010, 2009 and 2008, respectively. Backlog represents the

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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. As described in Commitments and Contingencies on page 64, in the second quarter of 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. In the second quarter of 2009, Kinetic Energy Interceptor (KEI), a developmental program with the Missile Defense Agency (MDA), was terminated for convenience, which resulted in a net backlog adjustment of approximately $2.4 billion at MS. The program was cancelled by the MDA due to a change in missile defense priorities.

Total net sales were $25.2 billion, $24.9 billion and $23.2 billion in 2010, 2009 and 2008, respectively.

Operating income was $2.6 billion, $3.0 billion and $2.6 billion in 2010, 2009 and 2008, respectively. Operating margin was 10.4%, 12.2% and 11.3% in 2010, 2009 and 2008, respectively. Included in operating income was a FAS/CAS Pension Adjustment, described below in Critical Accounting Estimates, of $230 million of expense, $27 million of income and $123 million of expense in 2010, 2009 and 2008, respectively.

Operating cash flow from continuing operations was $1.9 billion, $2.7 billion and $2.0 billion in 2010, 2009 and 2008, respectively.

A discussion of our results follows below in Consolidated Results of Operations; Segment Results; Financial Condition and Liquidity; and Capital Resources.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are based on the application of U.S. Generally Accepted Accounting Principles (GAAP), which require us to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and the accompanying notes. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such differences may be material to our consolidated financial statements. We believe the estimates set forth below may involve a higher degree of judgment and complexity in their application than our other accounting estimates and represent the critical accounting estimates used in the preparation of our consolidated financial statements. We believe our judgments related to these accounting estimates are appropriate. However, if different assumptions or conditions were to prevail, the results could be materially different from the amounts recorded.

Revenue Recognition

We determine the appropriate method by which we recognize revenue by analyzing the type, terms and conditions of each contract or arrangement entered into with our customers. The significant estimates we consider in recognizing revenue for the types of revenue-generating activities in which we are involved are described below. We classify contract revenues as product or service according to the predominant attributes of the relevant underlying contracts unless the contract can clearly be split between product and service. We define service revenue as revenue from activities which are not associated with the design, development or production of tangible assets, the delivery of software code or a specific capability. Our services sales are primarily related to our TS operating segment.

Percentage-of-Completion Accounting We account for our long-term contracts associated with the design, development, manufacture, or modification of complex aerospace or electronic equipment and related services, such as certain cost-plus service contracts, using the percentage-of-completion accounting method. Under this method, revenue is recognized based on the extent of progress towards completion of

the long-term contract. The selection of the method by which to measure such progress towards completion requires judgment and is based on the nature of the products or services to be provided. Our analysis of these contracts also contemplates whether contracts should be combined or segmented. The combination of two or more contracts requires significant judgment in determining whether the intent of entering into the contracts was effectively to enter into a single project, which should be combined to reflect an overall profit rate. Additionally, judgment is involved in determining whether a single contract or group of contracts may be segmented based on how the contract was negotiated and the performance criteria. The decision to combine a group of contracts or

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segment a contract could change the amount of revenue and gross profit recorded in a given period had consideration not been given to these factors. We combine closely related contracts when all the applicable criteria under GAAP are met. Similarly, we may segment a project, which may consist of a single contract or a group of contracts, with varying rates of profitability, only if all the applicable criteria under GAAP are met.

We generally use the cost-to-cost measure of progress for all our long-term contracts unless we believe another method more clearly measures progress towards completion of the contract. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred-to-date to the total estimated costs at completion of the contract. Contract costs include material, labor and subcontracting costs, as well as an allocation of indirect costs. Revenues, including estimated earned fees or profits, are recorded as costs are incurred. Due to the nature of the work required to be performed on many of our contracts, the estimation of total revenue and cost at completion is complex and subject to many variables. Management must make various assumptions and estimates related to contract deliverables including design requirements, performance of subcontractors, cost and availability of materials, productivity and manufacturing efficiency and labor availability. These estimates also include the estimated cost of satisfying our industrial cooperation agreements, sometimes referred to as offset obligations required under certain contracts. Incentive and award fees are generally awarded at the discretion of the customer or upon achievement of certain program milestones or cost targets. Incentive and award fees, as well as penalties or other damages related to contract performance, are considered in estimating profit rates. Estimates of award fees are based on actual awards and anticipated performance, which may include the performance of subcontractor or partners depending upon the individual contract requirements. Incentive provisions that increase or decrease earnings based solely on a single significant event are generally not recognized until the event occurs. Such incentives and penalties are recorded when there is sufficient information for us to assess anticipated performance. Our claims on contracts are recorded only if it is probable the claim will result in additional contract revenue and the amounts can be reliably estimated.

We have a standard quarterly process in which management reviews the progress and performance of our significant contracts. As part of this process, management reviews include, but are not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities, and the related changes in estimates of revenues and costs. Based on this analysis, any adjustments to net sales, costs of sales and the related impact to operating income are recorded as necessary in the period they become known. Changes in estimates of net sales, costs of sales and the related impact to operating income are recognized using a cumulative catch-up, which recognizes in the current period the cumulative effect of the changes on current and prior periods. A significant change in one or more of these estimates could affect the profitability of one or more of our contracts. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined.

Other Revenue Methods To a much lesser extent, we enter into contracts that are not associated with the design, development, manufacture, or modification of complex aerospace or electronic equipment and related services. Revenue under such contracts is generally recognized upon delivery or as the service is performed. Revenue on contracts to sell software is recognized when evidence of an arrangement exists, the software has been delivered and accepted by the customer, the fee is fixed or determinable and collection is probable. Revenue from non-software license fees is recognized over the expected life of the continued involvement with the customer. Royalty revenue is recognized when earned. Revenue generated from fixed-price service contracts not associated with the design, development, manufacture or modification of complex aerospace or electronic equipment is recognized as services are rendered once persuasive evidence of an arrangement exists, our price is fixed or determinable, and we have determined collectability is reasonably assured.

We apply the separation guidance under GAAP for contracts with multiple deliverables. Revenue arrangements with multiple deliverables are evaluated to determine if the deliverables should be divided into more than one unit of accounting. For contracts with more than one unit of accounting, we recognize revenue for each deliverable based on the revenue recognition policies described above.

Other Considerations The majority of our sales are driven by pricing based on costs incurred to produce products or perform services under contracts with the U.S. Government. Cost-based pricing is determined under the Federal Acquisition Regulations (FAR). The FAR provide guidance on the types of costs that are allowable in establishing prices

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for goods and services under U.S. Government contracts. For example, costs such as those related to charitable contributions, certain merger and acquisition costs, lobbying costs, interest expense and certain litigation defense costs are unallowable. In addition, we may enter into agreements with the U.S. Government that address the allowability and allocation of costs to contracts for specific matters. Certain costs incurred in the performance of our U.S. Government contracts are required to be recorded under GAAP but are not currently allocable to contracts. Such costs are deferred and primarily include a portion of our environmental expenses, asset retirement obligations, deferred state income tax, workers compensation and certain other accruals. These costs are allocated to contracts when they are paid or otherwise agreed. We regularly assess the probability of recovery of these costs. This assessment requires us to make assumptions about the extent of cost recovery under our contracts and the amount of future contract activity. If the level of backlog in the future does not support the continued deferral of these costs, the profitability of our remaining contracts could be adversely affected.

Pension and other postretirement benefit costs are allocated to our contracts as allowed costs based upon the U.S. Government Cost Accounting Standards (CAS). The CAS requirements for pension and other postretirement benefit costs differ from the Financial Accounting Standards (FAS) requirements under GAAP. Given the inability to match with reasonable certainty individual expense and income items between the CAS and FAS requirements to determine specific recoverability, we have not estimated the incremental FAS income or expense to be recoverable under our expected future contract activity, and therefore did not defer any FAS expense for pension and other postretirement benefit plans in 2007-2009. This resulted in $230 million of expense in 2010, $27 million of income in 2009, and $123 million of expense in 2008, reflected in our results of operations for the difference between CAS and FAS requirements for our pension plans in those years.

Pension Costs

We have pension plans covering the majority of our employees, including certain employees in foreign countries. We must calculate our pension costs under both CAS and FAS requirements under GAAP. The calculations under CAS and FAS require judgment. CAS prescribes the allocation to and recovery of pension costs on U.S. Government contracts through the pricing of products and services and the methodology to determine such costs. GAAP outlines the methodology used to determine pension expense or income for financial reporting purposes. The CAS requirements for pension costs and its calculation methodology differ from the FAS requirements and calculation methodology. As a result, while both CAS and FAS use long-term assumptions in their calculation methodologies, each method results in different calculated amounts of pension cost. In addition, the cash funding requirements for our pension plans are determined under the Employee Retirement Income Security Act of 1974 (ERISA). ERISA funding requirements use a third and different method to determine funding requirements, which is primarily based on the year s expected service cost and amortization of other previously unfunded liabilities. Effective January 1, 2011, we are subject to the funding requirements under the Pension Protection Act of 2006 (PPA), which amended ERISA. Under the PPA, we are required to fully fund our pension plans over a rolling seven-year period as determined annually based upon the funded status at the beginning of each year. Due to the foregoing differences in requirements and calculation methodologies, our FAS pension expense or income is not indicative of the funding requirements or amount of government recovery. Additionally, the recognition of pension costs for government contractors under the CAS rules is required to be harmonized with the PPA. 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 (Harmonization Rule) 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. We expect that the final rule would increase our future CAS recovery amount and decrease the FAS/CAS Pension Adjustment. We record CAS expense in the results of our business segments. Due to the differences between FAS and CAS amounts, we also present the difference between FAS and CAS expense, referred to as our FAS/CAS Pension Adjustment, as a separate line item in our segment results. This effectively increases or decreases the amount of total pension expense in our results of operations so such amount is equal to the FAS expense amount under GAAP. Due to the foregoing differences in requirements and calculation methodologies, our FAS pension expense or income is not necessarily indicative of the funding requirements or amount of government recovery.

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The assumptions in the calculations of our FAS expense and CAS expense, which involve significant judgment, are described below.

FAS Expense Our long-term return on plan assets (ROA) and discount rate assumptions are the key variables in determining pension expense or income and the funded status of our pension plans under GAAP.

The long-term ROA represents the average rate of earnings expected over the long term on the assets invested to provide for anticipated future benefit payment obligations. We employ a building block approach in determining the long-term ROA assumption. Historical markets are studied and long-term relationships between equities and fixed income are assessed. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term ROA assumption is also established giving consideration to investment diversification, rebalancing and active management of the investment portfolio. Peer data and historical returns are reviewed periodically to assess reasonableness and appropriateness.

The investment policy asset allocation ranges for our domestic pension plans, as set by the Company s Investment Committee, for the year ended December 31, 2010 were as follows:

Asset Category	
U.S. equities	25% - 40%
International equities	15% - 30%
Fixed-income securities	25% - 40%
Cash and cash equivalents	3% - 15%
Other (including private equity and real estate)	0% - 20%

During 2010, the Investment Committee modified the investment policy allocation ranges for our domestic pension plans based upon the most recent periodic asset allocation study and in consideration of current market conditions. In validating the 2010 long-term ROA assumption, we also reviewed our pension plan asset performance since 1986. Our average actual annual rate of return since 1986 has exceeded our estimated 8.75% assumed annual return. Based upon these analyses and our internal investing targets, we determined our long-term ROA assumption for our domestic pension plans in 2010 was 8.75%, consistent with our 2009 assumption. Our domestic pension plans actual rates of return were approximately 11%, 17% and (26%) for 2010, 2009 and 2008, respectively. The difference between the actual rate of return and our long-term ROA assumption is included in deferred losses as described below. If we significantly change our long-term investment allocation or strategy, then our long-term ROA assumption could change.

The long-term ROA assumptions for foreign pension benefit plans are based on the asset allocations and the economic environment prevailing in the locations where the pension plans reside. Foreign pension assets do not make up a significant portion of the total assets for all of our pension plans.

The discount rate represents the interest rate that should be used to determine the present value of future cash flows currently expected to be required to settle the pension and postretirement benefit obligations. The discount rate assumption is determined by using a theoretical bond portfolio model consisting of bonds AA rated or better by Moody s for which the timing and amount of cash flows approximate the estimated benefit payments of our pension plans. The discount rate assumption for our domestic pension plans at December 31, 2010 is 5.75%, compared to the December 31, 2009 discount rate of 6.25% as a result of the bond environment at December 31, 2010.

An increase or decrease of 25 basis points in the long-term ROA and the discount rate assumptions would have had the following approximate impacts on 2010 pension results:

(In millions)	
Change in assumption used to determine net periodic benefit cost for the year ended December 31, 2010	
Discount rate	$ 49
Long-term ROA	34
Change in assumption used to determine benefit obligations for the year ended December 31, 2010	
Discount rate	$ 510

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CAS Expense In addition to providing the methodology for calculating pension costs, CAS also prescribes the method for assigning those costs to specific periods. While the ultimate liability for pension costs under FAS and CAS is similar, the pattern of cost recognition is different. The key drivers of CAS pension expense include the funded status and the method used to calculate CAS reimbursement for each of our plans, and our long-term ROA assumption. Unlike FAS, CAS requires the discount rate to be consistent with the long-term ROA assumption, which changes infrequently given its long-term nature. As a result, changes in bond or other interest rates generally do not impact CAS. In addition, unlike FAS, we can only allocate pension costs for a plan under CAS until such plan is fully funded as determined under CAS requirements. When the estimated future CAS pension costs increase, which occurred at December 31, 2008, driven mainly by the significant decline in the value of our plan assets, the estimated CAS cost to be allocated to our contracts in the future increases.

Other FAS and CAS Considerations On an annual basis, at December 31, 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 income or 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.

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

(In millions)	**2010**	2009	2008
FAS expense	**$ (896)**	$ (646)	$ (524)
CAS expense	**666**	673	401
FAS/CAS Pension Adjustment	**$ (230)**	$ 27	$ (123)

As described above, 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 differ 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.

The change in the FAS/CAS Pension Adjustment of $257 million in 2010 compared to 2009 was driven by a $250 million increase in our FAS expense. The $250 million increase in our FAS expense was driven primarily by the continued recognition of the 2008 losses in the market related value of assets, which had an impact of approximately $260 million. Our CAS expense decreased $7 million as a result of actual versus expected asset and liability experience.

The change in the FAS/CAS Pension Adjustment of $150 million in 2009 compared to 2008 was driven by a $272 million increase in our CAS expense. The $272 million increase in our CAS expense was driven primarily by negative asset returns in 2008, which caused certain plans to no longer be fully funded under CAS and had an impact of $287 million. Our FAS expense also increased by $122 million. The primary

components of the change in FAS expense included an increase of $297 million due to the lower than expected return on pension assets during 2008, partially offset by a decrease of $106 million due to the expected return on our discretionary cash contribution to our

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plans in 2008 as well as the expected return on the expected cash contributions in 2009. In addition, the FAS expense decreased by $47 million due to the recognition of previous historical asset returns which were greater than the expected return.

For 2011, we currently expect our FAS expense will increase more than our CAS expense, which will increase the FAS/CAS Pension Adjustment. We expect the FAS/CAS Pension Adjustment to be approximately $370 million of expense driven by the lower discount rate environment and the difference in amortization periods under FAS and CAS, described above, of the net unrecognized liability, principally due to the negative 2008 asset returns. This expected increase in FAS expense in excess of CAS expense is subject to our annual update, generally planned in the third quarter, of our actuarial estimate of the unfunded benefit obligation for both FAS and CAS for final 2010 census data and does not include any potential change for the Harmonization Rule. After 2011, the FAS/CAS Pension Adjustment is more difficult to predict because future FAS and CAS expense is based on a number of key assumptions for future periods. Differences between those assumptions and future actual results could significantly change both FAS and CAS expense in future periods. However, based solely on our current assumptions at December 31, 2010 and without any adjustment for the Harmonization Rule, we would expect our FAS/CAS Pension Adjustment to decline as CAS continues to recognize the market related value of the 2008 asset losses through 2013 which FAS will have fully recognized through 2011.

The pension and other postretirement plans investments are stated at fair value. Investments in equity securities (common and preferred) are valued at the last reported sales price when an active market exists. Investments in fixed-income securities are generally valued using methods based upon market transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. Investments in private equity funds, hedge funds and private real estate funds are estimated at fair market value which primarily utilizes net asset values reported by the investment manager. The pension investment team reviews independently appraised values, audited financial statements and additional pricing information to evaluate the net asset values. For the very limited group of securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value, additional information is obtained from the investment manager and evaluated internally to determine whether any adjustments are required to reflect fair value.

In addition, we had $7.9 billion and $7.5 billion of deferred losses (pre-tax) in accumulated other comprehensive loss related to our pension and other postretirement benefit plans at December 31, 2010 and 2009, respectively, composed primarily of differences between actual and expected asset returns, changes in discount rates, changes in plan provisions and differences between actual and assumed demographic experience. The $0.4 billion increase in 2010 was driven primarily by the decrease in the discount rate from 6.25% at December 31, 2009 to 5.75% at December 31, 2010, partially offset by actual asset returns which exceeded our expected return and amortization of previous deferred losses in 2009 pension expense. To the extent we continue to experience such differences between these items, our funded status and related accrued retiree benefit obligation will change. Changes to our accrued retiree benefit obligation are initially reflected as a reduction to other comprehensive income. The deferred losses are amortized and included in future pension expense over the average employee service period of approximately 11 years.

Impairment of Goodwill

We evaluate goodwill for impairment annually on the first day of the fourth quarter and in any interim period in which circumstances arise that indicate our goodwill may be impaired. Indicators of impairment include, but are not limited to, the loss of significant business, significant decreases in federal government appropriations or funding for our contracts, or other significant adverse changes in industry or market conditions. No events occurred during the periods presented that indicated the existence of an impairment with respect to our goodwill related to our continuing operations. We estimate the fair value of our reporting units using a discounted cash flow (DCF) model based on our most recent long-range plan, and compare the estimated fair value of each reporting unit to its net book value, including goodwill. We discount the cash flow forecasts using the weighted-average cost of capital method at the date of evaluation. The weighted-average cost of capital is comprised of the estimated required rate of return on equity, based on publicly available data for peer companies, plus an equity risk premium related to specific company risk factors, and the after-tax rate of return on debt, weighted at the relative values of the estimated debt and equity for the industry. Preparation of forecasts for use in the long-range plan and the selection of the discount rate involve significant judgments that we base primarily on existing firm orders, expected future orders, contracts with suppliers, labor agreements and general market

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conditions. Significant changes in these forecasts or the discount rate selected could affect the estimated fair value of one or more of our reporting units and could result in a goodwill impairment charge in a future period. The combined estimated fair value of all of our reporting units from our DCF model often results in a premium over our market capitalization, commonly referred to as a control premium. We believe our control premium is reasonable based upon historic data of premiums paid on actual transactions within our industry. When available and as appropriate, we also use comparative market multiples to corroborate our DCF model results. There was no indication of goodwill impairment as a result of our 2010 impairment analysis. The fair values of each of our reporting units exceeded their respective net book values, including goodwill. Based upon our 2010 impairment analysis, the reporting unit that was closest to impairment had a fair value in excess of net book value, including goodwill, of more than 20%. If we are required to record an impairment charge in the future, it could materially affect our results of operations.

CONSOLIDATED RESULTS OF OPERATIONS

Selected consolidated results were as follows:

				% of Total Net Sales		
(In millions, except percentages and per share data)	**2010**	2009	2008	**2010**	2009	2008
Net sales						
Products	**$ 21,386**	$ 21,761	$ 20,923	**84.9%**	87.5%	90.3%
Services	**3,797**	3,120	2,251	**15.1%**	12.5%	9.7%
Total net sales	**25,183**	24,881	23,174	**100.0%**	100.0%	100.0%
Operating expenses						
Cost of sales						
Cost of sales products	**17,022**	17,071	16,570	**67.6%**	68.6%	71.5%
Cost of sales services	**3,281**	2,676	1,919	**13.0%**	10.8%	8.3%
Total Cost of sales	**20,303**	19,747	18,489	**80.6%**	79.4%	79.8%
Administrative and selling expenses	**1,648**	1,527	1,548	**6.5%**	6.1%	6.7%
Research and development expenses	**625**	565	517	**2.5%**	2.3%	2.2%
Total operating expenses	**22,576**	21,839	20,554	**89.6%**	87.8%	88.7%
Operating income	**2,607**	3,042	2,620	**10.4%**	12.2%	11.3%
Non-operating (income) expense						
Interest expense	**126**	123	129	**0.5%**	0.5%	0.6%
Interest income	**(16)**	(14)	(64)	**(0.1)%**	(0.1)%	(0.3)%
Other (income) expense	**65**	3	33	**0.3%**	%	0.1%
Non-operating (income) expense, net	**175**	112	98	**0.7%**	0.5%	0.4%
Federal and foreign income taxes	**589**	953	824	**2.3%**	3.8%	3.6%
Income from continuing operations	**1,843**	1,977	1,698	**7.3%**	7.9%	7.3%
Income (loss) from discontinued operations, net of tax	**36**	(1)	(2)	**0.1%**	%	%
Net income	**1,879**	1,976	1,696	**7.5%**	7.9%	7.3%
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	**39**	41	24	**0.2%**	0.2%	0.1%
Net income attributable to Raytheon Company	**$ 1,840**	$ 1,935	$ 1,672	**7.3%**	7.8%	7.2%
Diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders	**$ 4.79**	$ 4.89	$ 3.93			
Diluted earnings (loss) per share from discontinued operations attributable to Raytheon Company common stockholders	**0.10**		(0.01)			
Diluted earnings per share attributable to Raytheon Company common stockholders	**4.88**	4.89	3.92			

Total Net Sales

The increase in total net sales of $302 million in 2010 compared to 2009 was primarily due to higher external net sales of $282 million at TS, $273 million at SAS and $134 million at MS, partially offset by lower external net sales of $442 million at IIS. 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 SAS was primarily due to higher volume, as planned, as work increased on

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certain classified business. The increase in external net sales at MS was primarily due to higher net sales on Standard Missile-3 and the Advanced Medium Range Air-to-Air Missile (AMRAAM) program. The decrease in external net sales at IIS was primarily due to $385 million of lower net sales on a UK Border Agency Program, on which RSL was notified of its termination in the second quarter of 2010 (UK Border Agency Program), as described in Commitments and Contingencies on page 64, 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 $375 million in 2010 compared to 2009 was primarily due to lower external product net sales of $576 million at IIS primarily due to lower net sales on the UK Border Agency Program, described above, partially offset by higher external product net sales of $179 million at SAS and $137 million at MS. The increase in service net sales of $677 million in 2010 compared to 2009 was primarily due to higher external service net sales of $312 million at TS, principally due to higher net sales from growth on TS programs, $144 million at NCS and $136 million at IIS.

The increase in total net sales of $1,707 million in 2009 compared to 2008 was primarily due to higher external net sales of $550 million at TS, $413 million at IDS, $286 million at SAS and $210 million at NCS. The increase in external net sales at TS was primarily due to higher volume on training programs. The increase in IDS external net sales was primarily due to higher volume on Patriot programs. The increase in SAS external net sales was primarily due to higher volume on certain classified business and international airborne tactical radar programs. The increase in external net sales at NCS was primarily due to higher volume across various production programs, primarily certain U.S. Army programs. The increase in product net sales of $838 million in 2009 compared to 2008 was primarily due to the higher external product sales of $261 million at IDS, $252 million at SAS, $176 million at NCS and $142 million at MS. The increase in service net sales of $869 million in 2009 compared to 2008 was primarily due to the higher external service sales of $607 million at TS and $152 million at IDS.

Sales to the U.S. DoD were 85%, 84% and 83% of total net sales in 2010, 2009 and 2008, respectively. Sales to the U.S. Government were 88% of total net sales in 2010 and 2009 and 87% of total net sales in 2008. Included in both DoD and U.S. Government sales were foreign military sales through the U.S. Government of $3.3 billion, $2.8 billion and $1.8 billion in 2010, 2009 and 2008, respectively. As described above in Industry Considerations, U.S. defense spending levels are difficult to predict due to numerous factors, including U.S. Government budget appropriation decisions and geo-political events and macroeconomic conditions. Total international sales, including foreign military sales through the U.S. Government, were $5.8 billion or 23% of total net sales, $5.3 billion or 21% of total net sales and $4.6 billion or 20% of total net sales in 2010, 2009 and 2008, respectively.

Cost of Sales

The increase in cost of sales of $556 million in 2010 compared to 2009 was primarily due to $299 million of increased costs, the primary drivers of which are described above in Total Net Sales and in Segment Results below, and higher expense of $257 million related to the FAS/CAS Pension Adjustment described below in Segment Results.

The increase in cost of sales of $1,258 million in 2009 compared to 2008 was primarily due to $1,408 million of increased costs, the primary drivers of which are described above in Total Net Sales and in Segment Results below, offset by lower expense of $150 million related to the FAS/CAS Pension Adjustment described below in Segment Results.

The FAS/CAS Pension Adjustment, which was $230 million of expense, $27 million of income and $123 million of expense in 2010, 2009 and 2008, respectively, 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 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. For more information on the FAS/CAS Pension Adjustment, see our discussion below in Segment Results.

Administrative and Selling Expenses

Administrative and selling expenses remained relatively consistent as a percentage of sales in 2010 compared to 2009. The decrease in administrative and selling expenses of $21 million in 2009 compared to 2008 was primarily due to lower state tax payments driven by the utilization of overpayment credits from 2008. The provision for state income taxes can generally be recovered through the pricing of products and services to the U.S. Government. Net state income taxes allocated to our contracts were $59 million, $25 million and $122 million in 2010, 2009 and 2008, respectively.

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Research and Development Expenses

Research and development expenses remained relatively consistent as a percent of total net sales in 2010, 2009 and 2008.

Total Operating Expenses

The increase in total operating expenses of $737 million in 2010 compared to 2009 was primarily due to $299 million of increased costs, the primary drivers of which are described above in Total Net Sales and below in Segment Results, and higher expense of $257 million related to the FAS/CAS Pension Adjustment described below in Segment Results.

The increase in total operating expenses of $1,285 million in 2009 compared to 2008 was primarily due to $1,435 million of increased costs, the primary drivers of which are described above in Total Net Sales and in Segment Results below, offset by lower expense of $150 million related to the FAS/CAS Pension Adjustment described below in Segment Results.

Operating Income

The decrease in operating income of $435 million in 2010 compared to 2009 was primarily due to the $419 million impact of the UK Border Agency Program, as described in Commitments and Contingencies on page 64, driven principally by the $395 million adjustment recorded in the second quarter of 2010 from a change in our estimated revenue and costs and higher expense of $257 million related to the FAS/CAS Pension Adjustment. These decreases were partially offset by improved program performance, which had approximately a $140 million impact on operating income and increased volume, which had approximately a $90 million impact on operating income, the primary drivers of which are described below in Segment Results.

The increase in operating income of $422 million in 2009 compared to 2008 was primarily due to lower expense of $150 million related to the FAS/CAS Pension Adjustment and increased volume, which had an impact of approximately $150 million and $69 million due to the increase in estimated future CAS pension costs at December 31, 2008 described below in Segment Results. For a discussion of the drivers of individual business operating income and related margin, see Segment Results below.

Non-Operating Expense, Net

The increase in non-operating expense, net of $63 million in 2010 compared to 2009 was primarily due to the $73 million pretax charge associated with the make-whole provision on the early repurchase of long-term debt in the fourth quarter of 2010 compared to the $22 million pretax charge associated with the make-whole provision on the early repurchase of long-term debt in the fourth quarter of 2009, and $11 million of lower year-over-year returns on investments held in rabbi trusts associated with certain of our non-qualified deferred compensation plans due to net gains of $17 million in 2010 compared to net gains of $28 million in 2009.

The increase in non-operating expense, net of $14 million in 2009 compared to 2008 was primarily due to the decrease in interest income of $50 million which was principally due to a decrease in interest rates driven by a shift in our strategy to invest more of our cash in U.S. Treasury bills, partially offset by a decrease of $30 million in other expense, net. The decrease in other expense, net was primarily due to a $58 million favorable 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 $28 million in 2009 compared to net losses of $30 million in 2008, partially offset by a $22 million pretax charge associated with the make-whole provision on early repurchase of long-term debt in the fourth quarter of 2009.

Federal and Foreign Income Taxes

Our effective tax rate, which is used to determine federal and foreign income tax expense, differs from the U.S. statutory rate due to the following:

	2010	2009	2008
Statutory tax rate	**35.0%**	35.0%	35.0%
Research and development tax credit	**-1.1%**	-0.9%	-1.0%
Tax settlements and refund claims	**-8.0%**	-0.9%	-0.5%
Domestic manufacturing deduction benefit	**-1.7%**	-0.9%	-0.5%
Other items, net	**%**	0.2%	-0.3%
Effective tax rate	**24.2%**	32.5%	32.7%

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Our effective tax rate reflects the 35% U.S. statutory rate adjusted for various permanent differences between book and tax reporting. Our effective tax rate in 2010 was 8.3% lower than 2009 primarily due to the receipt of final approval from the IRS and the U.S. Congressional Joint Committee on Taxation in the third quarter of 2010 of the IRS examination of our tax returns for the 1998-2005 tax years (Tax Settlement), which decreased our tax expense from continuing operations by $170 million in 2010, partially offset by the change in mix of jurisdictional income, as a result of the UK Border Agency Program, primarily reflected in other items, net, in the table above. Our effective tax rate in 2009 was 0.2% lower than 2008 primarily due to increased manufacturing tax benefits and certain refund claims, partially offset by various non-deductible expenses. Our effective tax rate in 2010 was lower than the U.S. statutory rate primarily due to the Tax Settlement. Our effective tax rate in 2009 was lower than the U.S. statutory rate due to various permanent differences between book and tax reporting, including domestic manufacturing tax benefits, tax benefits related to certain refund claims, including $26 million of benefits primarily related to certain U.S. and foreign research tax incentives and employee stock ownership plan dividend deductions, partially offset by various non-deductible expenses. The effective tax rate in 2008 was lower than the U.S. statutory rate due to manufacturing tax benefits, employee stock ownership plan dividend deductions and tax benefits related to certain refund claims, including $13 million of benefits primarily related to a foreign research incentive refund claim, partially offset by various non-deductible expenses.

The decrease in federal and foreign income taxes of $364 million in 2010 compared to 2009 was primarily due to the Tax Settlement described above, and lower income from continuing operations before taxes. The increase in federal and foreign income taxes of $129 million in 2009 compared to 2008 was primarily due to our higher income from continuing operations before taxes.

Income from Continuing Operations

Income from continuing operations was $1,843 million, $1,977 million and $1,698 million in 2010, 2009 and 2008, respectively. The decrease in income from continuing operations of $134 million in 2010 compared to 2009 was due to the $435 million decrease in operating income and the $63 million increase in non-operating expenses, net, partially offset by a $364 million decrease in federal and foreign income taxes as described above.

The increase in income from continuing operations of $279 million in 2009 compared to 2008 was primarily due to the $422 million increase in operating income. Partially offset by a $129 million increase in federal and foreign income taxes as described above.

Income (loss) from Discontinued Operations, Net of Tax

The increase in income (loss) from discontinued operations, net of tax, of $37 million in 2010 compared to 2009 was primarily due to the Tax Settlement, described above, which included an $89 million decrease in tax expense from discontinued operations, primarily related to our previous disposition of Raytheon Engineers and Constructors. The increase was partially offset by a $39 million, net of the federal tax benefit, excise tax assessment related to our previous disposition of Flight Options LLC (Flight Options), described below in Discontinued Operations.

Income (loss) from discontinued operations, net of tax, was ($1) million and ($2) million in 2009 and 2008, respectively.

Net Income

Net income was $1,879 million, 1,976 million and $1,696 million in 2010, 2009 and 2008, respectively. The decrease in net income of $97 million in 2010 compared to 2009 was primarily due to the decrease in income from continuing operations offset by the increase in income (loss) from discontinued operations, net of tax, described above. The increase in net income of $280 million in 2009 compared to 2008 was primarily due to the increase in income from continuing operations as described above.

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

Diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders was $4.79 per diluted share on 377.0 million average shares outstanding in 2010, $4.89 per diluted share on 395.7 million average shares outstanding in 2009 and $3.93 per diluted share on 426.5 million average shares outstanding in 2008. The decrease in diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders of $0.10 in 2010 compared to 2009 was primarily due to the $0.75 per share impact of the adjustment from a

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change in our estimated revenue and costs on the UK Border Agency Program, described above, and the FAS/CAS Pension Adjustment, which had an impact of $0.44. These decreases were partially offset by the Tax Settlement, described above, which had an impact of $0.45, operational improvements (volume, mix and program performance), which had an impact of $0.37 and a decrease in average shares outstanding, which had an impact of $0.23. The increase in diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders of $0.96 in 2009 compared to 2008 was primarily due to a decrease in average shares outstanding, which had an impact of $0.35, operational improvements (volume, mix and program performance), which had an impact of $0.28 and the FAS/CAS Pension Adjustment, which had an impact of $0.23 due to the increase in income from continuing operations. The decrease in average diluted shares outstanding in 2010 and 2009 was primarily due to the repurchase of 29.0 million and 25.8 million shares in 2010 and 2009, respectively.

Diluted Earnings (Loss) per Share from Discontinued Operations Attributable to Raytheon Company Common Stockholders

Diluted earnings (loss) per share from discontinued operations attributable to Raytheon Company common stockholders was $0.10 in 2010, had no impact per diluted share in 2009 and was $(0.01) per diluted share in 2008. The increase in diluted earnings (loss) per share from discontinued operations attributable to Raytheon Company common stockholders of $0.10 in 2010 compared to 2009 was primarily due to the Tax Settlement, described above, partially offset by the excise tax assessment related to our previous disposition of Flight Options, described below in Discontinued Operations.

Diluted Earnings per Share Attributable to Raytheon Company Common Stockholders

Diluted earnings per share attributable to Raytheon Company common stockholders was $4.88 per diluted share in 2010, $4.89 per diluted share in 2009 and $3.92 per diluted share in 2008. The decrease in diluted earnings per share attributable to Raytheon Company common stockholders of $0.01 in 2010 compared to 2009 was due to decrease in diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders, partially offset by the increase in diluted Earnings (Loss) per share from discontinued operations attributable to Raytheon Company common stockholders described above. The increase in diluted earnings per share attributable to Raytheon Company common stockholders of $0.97 in 2009 compared to 2008 was primarily due to the increase in net income.

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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, from time to time, certain other items. In addition to the FAS/CAS Pension Adjustment, our 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, the earnings per share impact of the UK Border Agency Program, and the make-whole provision on the early repurchase of debt, all previously described, and the impact of the acceleration of deferred gains related to the terminated interest rate swaps on the retired debt. Our 2008 Adjusted EPS also excludes the earnings per share impact of the unfavorable adjustment due to the impact of pension investment returns on existing contracts in 2008. We are providing Adjusted EPS because management uses it for the purpose of evaluating and forecasting the Company s financial performance and believes that it provides additional insights into the Company s underlying business performance. 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. 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:

	2010	2009	2008
Diluted EPS from continuing operations attributable to Raytheon Company common stockholders	**$ 4.79**	$ 4.89	$ 3.93
Earnings per share impact of the FAS/CAS Pension Adjustment	**0.40**	(0.04)	0.19
Earnings per share impact of the unfavorable adjustment due to the impact of pension investment returns on existing contracts			0.11
Earnings per share impact of the UK Border Agency Program	**0.75**		
Earnings per share impact of the Tax Settlement	**(0.45)**		
Earnings per share impact of the early retirement of debt charges	**0.13**	0.04	
Earnings per share impact of the acceleration of deferred gains related to terminated interest rate swaps on retired debt	**(0.03)**	(0.01)	
Adjusted EPS	**$ 5.58**	$ 4.87	$ 4.22

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 segment performance, and often these measures have significant interrelated effects as described 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

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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 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)	**2010**	2009	2008
Integrated Defense Systems	**$ 5,470**	$ 5,525	$ 5,148
Intelligence and Information Systems	**2,757**	3,204	3,132
Missile Systems	**5,732**	5,561	5,408
Network Centric Systems	**4,918**	4,822	4,510
Space and Airborne Systems	**4,830**	4,582	4,280
Technical Services	**3,472**	3,161	2,601
Corporate and Eliminations	**(1,996)**	(1,974)	(1,905)
Total	**$ 25,183**	$ 24,881	$ 23,174

Operating Income (In millions)	**2010**	2009	2008
Integrated Defense Systems	**$ 879**	$ 859	$ 870
Intelligence and Information Systems	**(150)**	259	253
Missile Systems	**654**	604	584
Network Centric Systems	**701**	674	575
Space and Airborne Systems	**686**	647	569
Technical Services	**300**	215	174
FAS/CAS Pension Adjustment	**(230)**	27	(123)
Corporate and Eliminations	**(233)**	(243)	(282)
Total	**$ 2,607**	$ 3,042	$ 2,620

Bookings (In millions)	**2010**	2009	2008
Integrated Defense Systems	**$ 3,269**	$ 5,969	$ 5,933
Intelligence and Information Systems	**3,709**	2,529	3,204
Missile Systems	**6,485**	5,548	6,043
Network Centric Systems	**4,034**	3,933	4,938
Space and Airborne Systems	**4,321**	4,446	3,927
Technical Services	**2,631**	2,633	2,753

Corporate			22
Total	**$ 24,449**	$ 25,058	$ 26,820

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Included in bookings were international bookings of $4,371 million, $7,634 million and $7,564 million in 2010, 2009 and 2008, respectively, which included foreign military bookings through the U.S. Government. International bookings amounted to 18%, 30% and 28% of total bookings in 2010, 2009 and 2008, respectively. International bookings in 2010 were affected by the timing of international awards. Classified bookings were 16%, 14% and 13% of total bookings in 2010, 2009 and 2008, 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.

	Funded Backlog			Total Backlog		
Backlog at December 31 (In millions)	**2010**	2009	2008	**2010**	2009	2008
Integrated Defense Systems	**$ 6,433**	$ 5,595	$ 4,802	**$ 8,473**	$ 10,665	$ 9,883
Intelligence and Information Systems	**725**	1,588	1,890	**4,319**	4,360	5,137
Missile Systems	**6,385**	6,454	6,082	**8,212**	7,657	9,937
Network Centric Systems	**3,740**	4,389	4,593	**4,912**	5,501	5,733
Space and Airborne Systems	**3,266**	3,402	2,731	**5,981**	5,921	5,442
Technical Services	**2,083**	2,051	1,888	**2,654**	2,773	2,752
Total	**$ 22,632**	$ 23,479	$ 21,986	**$ 34,551**	$ 36,877	$ 38,884

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. In the second quarter of 2010, IIS recorded a net backlog adjustment of $556 million as a result of the UK Border Agency Program. In the second quarter of 2009, Kinetic Energy Interceptor (KEI), a developmental program with the MDA, was terminated for convenience, which resulted in a net backlog adjustment of approximately $2.4 billion at MS. The program was cancelled by the U.S. Missile Defense Agency (MDA) due to a change in missile defense priorities.

Integrated Defense Systems

				% Change	
(In millions, except percentages)	**2010**	2009	2008	**2010 compared to 2009**	2009 compared to 2008
Total Net Sales	**$ 5,470**	$ 5,525	$ 5,148	**-1.0%**	7.3%
Total Operating Expenses	**4,591**	4,666	4,278	**-1.6%**	9.1%
Operating Income	**879**	859	870	**2.3%**	-1.3%
Operating Margin	**16.1%**	15.5%	16.9%		
Bookings	**$ 3,269**	$ 5,969	$ 5,933	**-45.2%**	0.6%
Total Backlog	**8,473**	10,665	9,883	**-20.6%**	7.9%

IDS is a leader in global capabilities integration, providing affordable, integrated solutions to a broad international and domestic customer base. IDS leverages its core domain knowledge and capabilities in sensors, command, control and communication (C3), persistent surveillance/intelligence, surveillance and reconnaissance (ISR), effects and mission support, to provide integrated naval, air and missile defense

and civil security response solutions. Key customers include the U.S. Navy, Army and Air Force, and the U.S. Missile Defense Agency (MDA), and numerous international customers.

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Total Net Sales and Total Operating Expenses The decrease in net sales of $55 million in 2010 compared to 2009 was primarily due to $243 million of lower net sales on various U.S. Navy programs due to scheduled completion of design and production efforts, including $175 million from the scheduled completion of certain design phases on a U.S. Navy combat systems program, and $211 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. The decrease in net sales was partially offset by $383 million of higher net sales on Patriot programs, primarily due to $288 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 decrease in operating expenses of $75 million in 2010 compared to 2009 was primarily due to the activity in the programs described above.

The increase in net sales of $377 million in 2009 compared to 2008 was primarily due to $660 million of higher net sales on Patriot programs principally due to $595 million of higher net sales driven by scheduled design effort on an international Patriot program awarded in the fourth quarter of 2008. The increase in net sales was partially offset by $266 million of lower net sales on various U.S. Navy programs due to scheduled completion of design and production efforts on numerous programs, including $129 million from the completion of certain design phases on a U.S. Navy combat systems program. The increase in operating expenses of $388 million in 2009 compared to 2008 was driven primarily by the activity in the programs described above.

Operating Income and Margin The increase in operating income of $20 million in 2010 compared to 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 2010 compared to 2009 was primarily due to the change in contract mix described above.

The decrease in operating income of $11 million in 2009 compared to 2008 was primarily due to a change in contract mix driven by the completion of certain international air and missile defense programs in 2008, which had an $81 million impact on operating income, partially offset by increased volume, which had a $47 million impact on operating income and $25 million from improved program performance across various programs. IDS operating income also benefited from $14 million of sales of certain licensed software in 2009 compared to $28 million in 2008. The decline in operating margin in 2009 compared to 2008 was primarily due to the change in contract mix described above.

Backlog and Bookings The decrease in backlog of $2,192 million at December 31, 2010 compared to December 31, 2009 was primarily due to lower bookings in 2010 described below. The increase in backlog of $782 million at December 31, 2009 compared to December 31, 2008 was primarily due to the 2009 bookings described below.

The decrease in bookings of $2,700 million in 2010 compared to 2009 was primarily due to higher Patriot bookings in 2009. In 2010, IDS booked $400 million to provide advanced Patriot air and missile defense capability for an international customer, $271 million on the Zumwalt-class destroyer program for the U.S. Navy, $228 million on the Aegis weapon system for the U.S. Navy, $222 million to provide engineering services support for a Patriot air and missile defense program for U.S. and international customers, $190 million for a U.S. Army/U.S. Navy Transportable Radar Surveillance (AN/TPY-2) radar for the MDA, $148 million to provide Common Contractor Logistics Support (CCLS) for the MDA, $131 million to provide Patriot Guidance Enhanced Missile-Tactical (GEM-T) missiles for Kuwait, and $112 million on the Air & Missile Defense Radar (AMDR) program for the U.S. Navy.

Bookings in 2009 remained relatively consistent with 2008. In 2009, IDS booked $3.2 billion to provide advanced Patriot air and missile defense capability for several domestic and international customers, including the U.S. Army, Taiwan and UAE. IDS also booked $650 million on the Zumwalt-class destroyer program, $157 million to provide Finland with Surface Launched Medium Range Air-to-Air Missile (SL-AMRAAM) systems and $150 million for Joint Land Attack Cruise Missile Defense Elevated Netted Sensor Systems (JLENS) for the U.S. Army.

In 2008, IDS booked $2.5 billion to provide the Patriot Air & Missile System to the UAE and $533 million on certain contracts for the design, development and support of the Patriot System for other international customers, including $288 million for South Korea, $140 million for Kuwait and $105 million for Taiwan. IDS also booked $237 million to

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provide engineering services support for Patriot air and missile defense programs and $229 million for the Rapid Aerostat Initial Deployment (RAID) program, both for the U.S. Army and $166 million for the production of torpedo kits for the U.S. Navy.

Intelligence and Information Systems

(In millions, except percentages)	**2010**	2009	2008	% Change **2010 compared to 2009**	% Change 2009 compared to 2008
Total Net Sales	**$ 2,757**	$ 3,204	$ 3,132	**-14.0%**	2.3%
Total Operating Expenses	**2,907**	2,945	2,879	**-1.3%**	2.3%
Operating Income	**(150)**	259	253	**-157.9%**	2.4%
Operating Margin	**-5.4%**	8.1%	8.1%		
Bookings	**$ 3,709**	$ 2,529	$ 3,204	**46.7%**	-21.1%
Total Backlog	**4,319**	4,360	5,137	**-0.9%**	-15.1%

IIS is a leader in intelligence, surveillance and reconnaissance (ISR), advanced cyber solutions, weather and environmental solutions, and information-based solutions for law enforcement and homeland security. Approximately half of its business is for classified customers. Other key customers include the U.S. Intelligence Community, DoD agencies, the Federal Bureau of Investigations (FBI), and the National Oceanographic and Atmospheric Association (NOAA).

Total Net Sales and Total Operating Expenses The decrease in net sales of $447 million in 2010 compared to 2009 was primarily due to $385 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, $68 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 $65 million of lower net sales on certain classified programs. The decrease in net sales was partially offset by $104 million of higher net sales, as a result of scheduled design and build efforts on Global Positioning System Advanced Control Segment (GPS-OCX), a GPS command, control and mission capabilities program awarded in the first quarter of 2010. Operating expenses in 2010 remained relatively consistent with 2009.

The increase in net sales of $72 million in 2009 compared to 2008 was primarily due to $114 million of higher net sales on three major classified programs and $29 million of higher net sales on a U.S. Air Force program, principally from higher volume driven by additional task orders from expanded customer scope, partially offset by $98 million of lower net sales on an international advanced border control and security program, principally from lower volume as subcontractor work related to the initial development phase was completed in June 2009. The increase in operating expenses of $66 million in 2009 compared to 2008 was driven primarily by the activity in the programs described above.

Operating Income and Margin The decrease in operating income of $409 million in 2010 compared to 2009 and the related decrease in operating margin was primarily due to $419 million of operating income impact related to the UK Border Agency Program driven by the $395 million adjustment recorded in the second quarter of 2010 from a c