

RAYTHEON CO/
Form 10-K
February 22, 2012
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011.

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

For the transition period from to

Commission File Number 1-13699

RAYTHEON COMPANY

(Exact Name of Registrant as Specified in its Charter)

Delaware

95-1778500

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

870 Winter Street, Waltham, Massachusetts 02451
(Address of Principal Executive Offices) (Zip Code)

(781) 522-3000

(Registrant's telephone number, including area code)

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 ý 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 ý

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 ý 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 ý 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

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer 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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of July 3, 2011, was approximately \$17.6 billion.

The number of shares of Common Stock outstanding as of February 17, 2012 was 339,876,000.

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

Portions of the Registrant's Definitive Proxy Statement for its 2012 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 2011, 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 43-60 of this Form 10-K.

Integrated Defense Systems (IDS)—IDS, headquartered in Tewksbury, Massachusetts, is a leading provider of integrated air and missile defense, radar solutions, and naval combat and ship electronic systems. Through world class mission systems integration and technology expertise, IDS delivers combat-proven performance against the complete spectrum of airborne and ballistic missile threats and is a world leader in large-scale radar development, technology and production. Key customers include the U.S. Navy, Army, Air Force, and Missile Defense Agency (MDA) and numerous international customers.

In 2011, IDS received two significant contracts as the prime contractor for the Patriot Air and Missile Defense System: a foreign military sales contract to build additional new Patriot fire units for Taiwan, and a direct commercial sales contract to upgrade Saudi Arabia's Patriot Air and Missile Defense System to the latest Configuration-3. The Saudi award includes ground-system hardware, a full training package and support equipment upgrades. IDS also received a contract for two Army Navy/Transportable Radar Surveillance-Model 2 (AN/TPY-2) radars from the United Arab Emirates (UAE) as the radar component of two Terminal High Altitude Area Defense (THAAD) air defense systems, marking the first international sale of the AN/TPY-2. IDS was also awarded, in the second phase of a multiphase acquisition program, a strategic radar contract to further develop the preliminary design for the U.S. Air Force Space Fence system. Also in 2011, IDS maintained its position as the U.S. Navy's sole production supplier for lightweight torpedoes by winning a competitive contract for the MK 54 torpedo and continued to serve as the prime

mission systems integrator for all electronic and combat systems of the U.S. Navy's Zumwalt-class destroyer program (DDG 1000). The DDG 1000 program continued to be impacted by the U.S. Navy's extension of the program schedule in connection with the third ship of a three ship class.

IDS has the following principal product lines:

Integrated Air & Missile Defense (IAMD)—IAMD provides reliable and cost-effective missile defense systems that are interoperable. IAMD provides the Patriot Air and Missile Defense System, which serves as the foundation for integrated air and missile defense for the U.S. Army and international partners, including the Netherlands, Germany, Japan, Israel, Saudi Arabia, Kuwait, Taiwan, Greece, Spain, South Korea and UAE. The National Advanced Surface-to-Air Missile System (NASAMS), also offered by IAMD, is a highly adaptable mid-range solution for any operational air defense requirement, and is deployed in the U.S. National Capital Region, Norway, Spain, and the Netherlands. Additionally, IAMD provides the Hawk XXI, an advanced air defense system against low- to medium-altitude air threats, with advanced fire control and battle management.

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Global Integrated Sensors (GIS)—GIS provides integrated whole-life air and missile defense systems for the U.S. Army, Navy, Air Force, MDA, and international partners. These systems enable warfighters to detect, track and engage threats through air and ground-based sensors and command and control systems, as well as provide joint system solutions and intelligence support for air and ballistic missile defense. GIS produces systems and solutions, such as the Joint Land Attack Cruise Missile Defense Elevated Netted Sensor (JLENS), which is a theater-based, advanced sensor system that provides long-endurance, over-the-horizon detection and tracking capabilities required to defeat hostile cruise missiles. GIS also produces Early Warning Radars, including the X-band Family of Radars, such as the AN/TPY-2, the world's most advanced mobile X-band radar, and the Sea-based X-band (SBX) radar, which provide threat detection, precision tracking, discrimination and classification of ballistic missile threats. GIS also offers integrated capabilities for persistent surveillance, multi-domain awareness, decision-making, information fusion and space situational awareness through a broad range of solutions.

Seapower Capability Systems (SCS)—SCS is a provider and integrator of submarine and surface ship combat management, airborne anti-submarine and mine warfare, and integrated ship systems, as well as sensors, maritime naval navigation systems 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 combat system and providing the Ship Self Defense System, an open, distributed combat management system for U.S. Navy carriers and amphibious ships. For the DDG 1000 program, SCS designs and produces the software and hardware for the mission systems equipment, which includes the Total Ship Computing Environment, radar, sonar, and the associated electronics systems. SCS also offers a range of navigation and integrated bridge systems for military and commercial markets worldwide. In addition, SCS is developing and supporting several large dual-frequency naval radar programs, including the U.S. Navy's Dual Band Radar, the primary sensor for CVN 78 Ford-class carriers, and Cobra Judy Replacement, a program for which Raytheon is the prime contractor. SCS is also currently developing a technology demonstrator for the Air and Missile Defense Radar program (AMDR), a scalable and technologically advanced radar system which is expected to provide the U.S. Navy with significantly increased detection range and powerful discrimination accuracy.

Intelligence and Information Systems (IIS)—IIS, headquartered in Garland, Texas, is a leader in intelligence, surveillance and reconnaissance (ISR), advanced cyber solutions, and U.S. Department of Defense (DoD) space, weather and environmental solutions. Approximately half of its business is for classified customers. Key customers include the U.S. Intelligence Community, DoD agencies, the National Oceanic and Atmospheric Administration, the Department of Homeland Security, the Federal Bureau of Investigation and the National Aeronautics and Space Administration (NASA).

In 2011, IIS was awarded a number of classified contracts, and recorded major bookings on the Joint Polar Satellite System (JPSS), the latest generation of U.S. polar-orbiting, non-geosynchronous, environmental satellites. Also in 2011, the Company acquired Pikewerks Corporation, a privately-held company headquartered in the Huntsville, Alabama area, bolstering IIS' end-to-end cyber capabilities by adding deep expertise and products in the areas of insider threat protection, software protection and forensics. The Company also acquired Henggeler Computer Consultants, Inc., a privately-held company headquartered in Columbia, Maryland, further extending IIS' capabilities to serve the cybersecurity, enterprise architecture and systems engineering needs of customers in the Intelligence Community as well as in the DoD. In 2011, IIS was negatively impacted by the drawdown on U.K. Border Agency (UKBA) Program letters of credit by the UKBA as described under "Commitments and Contingencies" on page 65.

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.

Enterprise Intelligence Solutions (EIS)—EIS primarily supports classified programs in support of the U.S. Intelligence Community. EIS 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.

Information Security Solutions (ISS)—ISS provides cybersecurity products and end-to-end system solutions to government and

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critical infrastructure customers worldwide. Through ISS, Raytheon protects mission critical systems against a wide range of internal and external threats. ISS is an industry leader in computer network operations, cross security domain information sharing, insider threat prevention, and protection from the enterprise to the edge, including wireless devices. In addition to expanding within the direct cybersecurity market, Raytheon is leveraging and incorporating the cyber-capabilities within ISS broadly across the Company, embedding information assurance technologies and know-how into our internal company systems and our core solutions and products. ISS provides products, advanced research and high-level cybersecurity solutions to the U.S. Intelligence Community, DoD, various federal agencies and Fortune 500 companies.

Mission Operations Solutions (MOS)—MOS provides operations, maintenance, sustainment and systems engineering for civil agencies, the U.S. Intelligence Community and the DoD. MOS' innovative approaches, proven tools and cutting edge technologies optimize limited resources, achieve operational improvements, and accomplish mission success. Core competencies include IT infrastructure, mission systems, facilities management, commercial of-the-shelf (COTS) life cycle management, complex data systems, and domain-specific expertise.

Special Missions and Technologies (SMT)—SMT provides innovative solutions for a new generation of special missions. It applies advanced technology and special skills to address complex problems for U.S. intelligence and operational commands. SMT solutions enable advanced technical intelligence as well as Human Intelligence (HUMINT), Open Source Intelligence (OSINT), and close access collection. These solutions enable decision makers to plan thoroughly, orchestrate multiple systems toward a single objective, collect large amounts of diverse data, create information and knowledge from that data, and increase the value of intelligence with greater efficiency and effectiveness.

Missile Systems (MS)—MS, headquartered in Tucson, Arizona, is a premier developer and producer of missile systems for the armed forces of the United States and other allied nations. Leveraging its 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 2011, MS continued to gain key contract awards from a broad international customer base, including more than \$250 million for the Advanced Medium-Range Air-to-Air Missile (AMRAAM) program. MS also secured more than \$1.3 billion in Standard Missile-3 (SM-3) contracts - maintaining the Company's leadership role in missile defense. MS completed the first flight test of an SM-3 Block IA against an intermediate range ballistic missile, and demonstrated the SM-3 Block IA's ability to engage a ballistic missile target when launched on remote. MS also successfully completed an operational demonstration of the TALON Laser-Guided Rocket from AH-64D Apache Longbow helicopters in the United Arab Emirates (UAE). MS delivered the first Standard Missile-6 (SM-6) production round to the U.S. Navy. MS also broke ground for an all-up-round Standard Missile production facility in Huntsville, Alabama. This is referred to as an all-up-round facility because once complete, the facility will provide final assembly and testing for Raytheon's SM-3 and SM-6 missiles. In June 2011, the Company acquired key business assets of Ktech Corp., a leader in pulsed power and directed energy, which is being integrated into MS. Also in 2011, MS received a Superior rating in an annual audit by the U.S. Defense Security Service and its site in Tucson, Arizona was awarded Star Certification from the Arizona Division of Occupational Safety and Health as part of the Voluntary Protection Program.

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 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 communication capability; Small Diameter Bomb II, a 250-pound 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 and Missile Defense Systems (A&MDS)—A&MDS designs, develops, produces and supports air defense and ballistic missile defense interceptor systems. A&MDS' primary customers are the MDA, the U.S. Navy and various international navies around the world. A&MDS develops, manufactures and supports the Standard Missile family of weapons with capabilities ranging from anti-air warfare to ballistic missile defense. A&MDS is responsible for the first line of ship-defense weapons - the Standard Missile-2 (SM-2) and the SM-6. A&MDS is also responsible for the SM-3, which is a core element of the MDA's

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Phased Adaptive Approach to global missile defense. A&MDS builds and supports the Exoatmospheric Kill Vehicle (EKV), which is part of the U.S. ground-based midcourse defense system that defends against ballistic missile attack. A&MDS 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 for the navies of more than 30 countries. The NWS product portfolio provides highly effective layered 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), the Rolling Airframe Missile (RAM), the SeaRAM and the Evolved Seasparrow/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 allied nations. Land Combat 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 that support the AWS, NWS and Land Combat product lines, and leads MS' 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 enabled 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 key customers include the DoD and other U.S. Government customers, as well as numerous international customers.

In 2011, the U.S. Army chose NCS' Improved Sentinel Radar as an important tool for battlefield Counter-Rocket, Artillery and Mortar (CRAM) sense and warning, and awarded NCS a multi-year contract for the purchase of radars. NCS won a contract for its Enhanced Precision Location Radio System (EPLRS) as the digital radio backbone solution for Australia's Battlefield Command Support System. NCS continued production and global deployment of enhanced Electro-Optic systems, and performed as a principal source of sensors and targeting solutions for the new U.S. Army Ground Combat Vehicle and multiple platform upgrades for the U.S. military and international customers. Raytheon BBN Technologies' (Raytheon BBN) Boomerang sniper detection system was further deployed among U.S. Forces and was selected by the United Kingdom Army as the best solution for soldier-worn sniper alert needs. The U.S. Navy awarded NCS a low-rate initial production (LRIP) contract for the U.S. Navy Multi-band Terminal (NMT), a single satellite terminal for the U.S. Navy's next generation satellite communications needs and designed for a wide

variety of Navy ship and shore installations.

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 many 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 battlefield communications platform that provides a broadband gateway between separate radio systems; the EPLRS; 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 NMT.

Security and Transportation Solutions (STS)—STS develops, delivers and supports domestic and international defense, federal and civil customers with integrated, networked, actionable command and control (C2) transportation and security systems.

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STS is the leading provider of Air Traffic Management (ATM) solutions for the U.S. Federal Aviation Administration (FAA) and the DoD with its Standard Terminal Automation Replacement System (STARS), and is a key provider of ATM solutions internationally with its AutoTrac III product line and surveillance radars. STS 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. STS is developing the Joint Precision Approach and Landing System (JPALS) for the DoD with initial capabilities under contract for the U.S. Navy. STS is also a key provider of open-road tolling systems throughout the U.S. and internationally, the Perimeter Intrusion Detection System (PIDS) at major metropolitan airports, and is deploying ClearView, a comprehensive yet scalable security C2 capability for critical infrastructure protection.

Combat and Sensing Systems (CSS)—CSS provides integrated ground-based surveillance and target engagement solutions designed to provide a significant advantage to the U.S. Army and Marine Corps warfighters. CSS 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). CSS also developed the Active Protection System (APS) capability which destroys rocket-propelled grenades or anti-tank missiles targeting combat vehicles. In addition, CSS provides the Long Range Advanced Scout Surveillance System (LRAS3), a 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 and available in an enhanced version for the U.S. Army. Other CSS products include the Integrated Target Acquisition System (ITAS) for the tube-launched optically-tracked wireless-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 capability to detect, recognize, acquire, and engage targets at extended ranges; and, Thermal Weapon Sights (TWS) for weapons serving individual and crews of soldiers. CSS also provides industry leading technologies in Virtual Immersion close-quarters combat training in an exclusive collaboration with Motion Reality, Inc.

Advanced Programs (AP)—AP provides a broad range of imaging capabilities, including next-generation X-ray, visible, infrared, and millimeter wave focal plane and scanning arrays for weapons, thermal imaging, earth remote sensing and astronomy applications. AP also includes Raytheon BBN's advanced networking and cybersecurity technologies and capabilities and products including Boomerang and TransTalk, a smartphone application that automatically translates speech into another language. Raytheon BBN is the Defense Advanced Research Project Agency's largest supplier of Cooperative Research and Development. AP also develops advanced concepts for urgent operational needs incorporating next-generation communications, sensing, and command and control solutions.

Command, Control, Communications, Computers and Intelligence (C4I)—C4I includes Thales-Raytheon Systems, LLC (TRS LLC) which is the U.S. operating subsidiary of the Thales-Raytheon joint venture (TRS). C4I is a leader in complex information systems, command and control, communications systems including terrestrial, satellite and voice communications, as well as long range and tactical short- to medium-range air defense radars and weapon locating radars. C4I 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 Control System (BCS) air command and control system used by the U.S. Air Force and Canada; the NATO Air Command and Control System (ACCS); and the non-TRS 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.

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 2011, SAS delivered its 300th APG-79 Active Electronically Scanned Array (AESA) radar for integration on the U.S. Navy's F/A-18E/F Super Hornet and EA-18 Growler. SAS also received approval from the U.S. Air Force to begin low-rate initial production (LRIP) of the APG-82(V)1 AESA radar for the F-15E radar modernization program. In maritime surveillance radars, SAS was awarded an LRIP contract to deliver six APY-10 radars for the P-8A Poseidon aircraft and also delivered a SeaVue XMC radar to the U.S. Customs and Border Protection's Guardian unmanned aircraft system. SAS received contracts to deliver the AAS-44C(V) Multi-Spectral Targeting System on MH-60R and MH-60S helicopters to the U.S. Navy, deliver the AN/AAQ-29A forward looking infrared imaging system on a Pave Hawk HH-60G helicopter to the U.S. Air Force, and

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develop the processing technology for the Advanced Distributed Aperture System (ADAS) for the U.S. Army. SAS also received the first production contract from the U.S. Air Force for Airborne Cueing and Exploitation System Hyperspectral (ACES HY), an airborne tactical hyperspectral sensor. Additionally, SAS received a contract to supply the ALR-69A digital radar warning receiver on the U.S. Air Force KC-46 tanker program and a contract to supply the ALR-67(V)3 digital radar warning receiver on the U.S. Navy's F/A-18E/F. In space systems, the National Preparatory Project (NPP) satellite successfully launched into orbit from California's Vandenberg Air Force Base carrying the SAS Visible Infrared Imager Radiometer Suite (VIIRS) sensor.

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 Multi-Platform Radar Technology Insertion Program for the U.S. Air Force's Block 40 Global Hawk, the AAS-44(V) forward looking infrared sensor on the U.S. Navy's MH-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 Block 20/30 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 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, radar 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) weather/environmental monitoring programs.

Other SAS product lines include Advanced Concepts and Technologies (ACT), Integrated Technology Programs (ITP), and Raytheon Applied Signal Technology (RAST). 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 develops sophisticated GPS systems and anti-jam solutions for many customers, including the U.S. Air Force and Navy, and provides a wide range of state-of-the art

product families and engineering services in support of the DoD's need to respond to a dynamic threat environment. RAST provides advanced ISR solutions to enhance global security.

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 and operational support services for the mission support, homeland security, space, civil aviation, counter proliferation and counterterrorism markets. Key customers include all branches of the U.S. Armed Forces, as well as the Department of Homeland Security (DHS), NASA, Federal Aviation Administration (FAA), Department of State (DOS), Department of Energy (DOE), Defense Threat Reduction Agency (DTRA), international governments and commercial entities.

In 2011, TS continued to expand its training, logistics and engineering solutions capabilities and offerings domestically and internationally. TS won a significant number of task orders in support of the DoD's counter-narcoterrorism activities, including

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the provision of equipment, material and services to the Counter-Narcoterrorism Technology Program Office (CNTPO). In addition, TS won the Operations, Planning, Training and Resource Support Services (OPTARSS) II contract to provide training, modeling and simulation, flight operations, mobilization plans and execution, and deployment operations for the U.S. Army Forces Command (FORSCOM). TS also won a contract to conduct Afghan Air Force training in support of the NATO Air Training Command-Afghanistan under the U.S. Army's Warfighter Field Operations Customer Support (FOCUS) contract. Also in 2011, TS made inroads into the healthcare market with the provision of diagnostics and simulations in training and courseware for the commercial healthcare provider market space with two leading healthcare networks. The TS-led Air Traffic Control Optimum Training Solution (ATCOTS) program trained more than 4,000 FAA air traffic controllers during the year. In addition, TS won a contract to produce a Counter-Improvised Explosive Devices (C-IED) system, and with Raytheon Australia, was awarded the contract to provide operations, maintenance and support services for the Naval Communications Station - Harold E. Holt in Exmouth, Western Australia.

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 more than 100 subcontractors on this ten year program which is composed of various contracts for education, and for 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. Key MSO activities include the manufacture, overhaul and equipment repair services primarily for the U.S. Marine Corps Logistics Command through the Secondary Reparables program (SECREPS), as well as providing equipment, material and other services for DoD's CNTPO. MSO also works with DTRA on international counter proliferation and counterterrorism programs in the former Soviet Union. In addition, MSO supports NASA's Neutral Buoyancy Lab (NBL) and Space Vehicle Mockup Facility at the Johnson Space Center and has entered into a strategic partnership in support of NASA for commercializing the use of the NBL for safety training in industries such as oil and gas.

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 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 program software and provides mission planning software and training devices. CEDS also provides integration and field support for a variety of podded aircraft systems, including 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 is working with the U.S. Air Force and Air National Guard on the Helmet Mounted Integrated Targeting (HMIT) system for pilots to enhance situational awareness that will be fully compatible with U.S. military-standard airborne night vision systems. CEDS extends its 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 training requirements with its core business needs. 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 industries and countries rethink the way training is delivered internally. RPS is a provider of apprenticeship training programs to the U.K. government and has renewed training support programs with customers in the automotive industry including its key customer General Motors.

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.

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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 United Kingdom (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, excluding foreign military sales, were \$18.4 billion in 2011, \$19.0 billion in 2010 and \$19.2 billion in 2009, representing 74%, 76% and 77% of total net sales in 2011, 2010 and 2009, respectively. Foreign military sales through the U.S. Government were \$3.0 billion, \$3.3 billion and \$2.8 billion in 2011, 2010 and 2009, respectively. Our principal U.S. Government customer is the DoD; other U.S. Government customers include Intelligence Community agencies, the Departments of Homeland Security, Justice, State and Energy, 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 that 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 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

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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. Through recent initiatives, the DoD has expressed a preference to utilize progress payments based on costs incurred on new fixed-price contract awards as opposed to performance-based payments (PBPs) unless the contractor negotiates for PBPs. Generally speaking and subject to a number of factors, PBPs can provide improved cash flows as compared to progress payments but introduce risk to contractors in return. In the event we experience a greater proportion of progress payments for our fixed-price DoD contracts in the future than historically, it could have an adverse affect on our operating cash flow and liquidity. For a discussion of certain risks associated with fixed price and cost reimbursement contracts and risks associated with changes in U.S. Government procurement rules, regulations and business practices, 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 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 facility utilization and personnel training. Our sales to the U.S. Government may be affected by changes in procurement policies, budget considerations, changing priorities for 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, that 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 the applicable business segment's and our consolidated results of operations. 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 15%, 14% and 13% of total net sales in 2011, 2010 and 2009, respectively.

We are subject to government regulations and contract requirements that 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., including foreign military sales through the U.S. Government, were \$6.2 billion or 25% of total net sales in 2011, \$5.8 billion or 23% of total net sales in 2010, and \$5.3 billion or 21% of total net sales in 2009. In 2010, international sales were negatively impacted by the U.K. Border Agency Program termination as described in

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“Commitments and Contingencies” on page 65. Foreign military sales through the U.S. Government were \$3.0 billion, \$3.3 billion and \$2.8 billion, in 2011, 2010 and 2009, respectively. International sales were principally in the areas 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 various 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. 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 \$35.3 billion at December 31, 2011 and \$34.6 billion at December 31, 2010. Included in total backlog was \$28.4 billion and \$28.5 billion from the U.S. Government at December 31, 2011 and 2010, respectively. Included in U.S. Government backlog was foreign military sales backlog of \$6.3 billion and \$5.6 billion at December 31, 2011 and 2010, respectively. Also included in total backlog was direct foreign government backlog and non-government foreign backlog of \$6.1 billion and \$0.5 billion at December 31, 2011 and \$5.3 billion and \$0.4 billion at December 31, 2010, respectively. Also, included in total backlog was \$0.3 billion and \$0.2 billion of non-U.S. government domestic backlog at December 31, 2011 and 2010, respectively. Total international backlog including foreign military sales backlog was \$13.0 billion or 37% of total backlog at the end of 2011 compared with \$11.3 billion or 33% of total backlog at the end of 2010. Approximately \$17.5 billion of the 2011 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 2011 and 2010, we expended \$625 million on research and development efforts compared with \$565 million in 2009. 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

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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 new program awards, the availability of U.S. Government funding and product delivery schedules are among the factors affecting the periods in which revenues are recorded. We expect this trend to continue in 2012.

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 trade secrets and know-how, data, software, trademarks and copyrights, all of which contribute to the preservation of our competitive 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 particular trade secret, 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.

Employment

As of December 31, 2011, we had approximately 71,000 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—or, in the case of multi-party sites, our reasonably expected share thereof—where we have determined that it is probable that we will incur such costs in the future in connection with (i) facilities that are now, or were previously, owned or operated by us, (ii) sites where we have been named a Potentially Responsible Party (PRP) by the Environmental Protection Agency (EPA) or similarly designated by other environmental agencies, or (iii) sites where we have been named in a cost recovery or contribution claim by a non-governmental third party. 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 or have been named in a cost recovery or contribution claim from a non-governmental third party, 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. However, a portion of these costs is eligible for future recovery through the pricing of our products and services to the U.S. Government.

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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 is 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,” “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.

Additionally, 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, Public Affairs Committee and Special Activities 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 backlog, our pension expense and funding, the impact of new accounting pronouncements, our

unrecognized tax benefits and the impact and 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 statements are not statements of historical facts and represent only our current expectations regarding such matters. These statements inherently involve a wide range of known and unknown uncertainties. Our actual actions and results could differ materially from what is expressed or implied by these statements. Specific factors that could cause such a difference include, but are not limited to, those set forth 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.

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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 2011, U.S. Government sales, excluding foreign military sales, accounted for approximately 74% of our total net sales. 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 factors, including geo-political events, macroeconomic conditions, and the ability of the U.S. Government to enact relevant legislation, such as accords on the debt ceiling.

The overall level of U.S. defense spending steadily increased from fiscal year (FY) 2001 through FY 2010 for numerous reasons, including increases in funding of operations in Iraq and Afghanistan and the DoD's modernization initiatives. However, since FY 2010, funding has decreased for operations in Iraq and Afghanistan and has leveled for the DoD base budget (excluding Iraq and Afghanistan funding). Looking forward, defense spending levels are becoming increasingly difficult to predict and will be affected by numerous factors. Notably, whether sequestration currently required under the Budget Control Act of 2011 will take effect on January 2, 2013 and the actual impact of sequestration on the DoD budget and our programs are uncertain. Other factors include the external threat environment, funding for ongoing operations in Iraq and Afghanistan, priorities of the Administration and the Congress, budget deficits and national debt and the overall health of the U.S. and world economies and the state of governmental finances. Due to these and other factors, domestic defense spending levels may remain level and possibly decline in inflation adjusted terms over the next several years.

Significant changes in defense spending could have long-term consequences for our size and structure. In addition, changes in government priorities, policies and requirements could impact the funding, or the timing of funding, of our programs that 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. Appropriations can also be impacted by other budgetary considerations, such as failure to increase the statutory debt ceiling of the U.S. Government. 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

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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.

As a U.S. Government contractor, we are subject to extensive procurement rules and regulations and changes in such rules, regulations and business practice could negatively affect current programs and potential awards.

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 initiatives focused on efficiencies, affordability and cost growth and other changes to its procurement practices such as changes in payment term preferences. If and to the extent such changes occur as a result of these initiatives or otherwise, 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 the procurement 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.

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 2011, our sales to customers outside the U.S. (including foreign military sales through the U.S. Government) accounted for 25% of our total net sales. 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), 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. International contract laws, regulations and contractual terms differ from those of the U.S. and may be interpreted differently by foreign courts. 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.

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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 new growth 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;
- 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 approximately 60% 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

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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 or investigatory finding by the U.S. Government.

As a government contractor, we are subject to audits and investigations by U.S. Government agencies including the Defense Contract Audit Agency (DCAA), the Defense Contract Management Agency, the Inspector General of the DoD and other departments and agencies, the Government Accountability Office, the Department of Justice (DoJ) and Congressional Committees. 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 or investigation 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.

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 31 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 collaborative 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, 2011, we had goodwill and other intangible assets of approximately \$13.2 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.

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.

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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 cybersecurity threats and other security threats and 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. Our information technology networks and related systems are critical to the operation of our business and essential to our ability to successfully perform day-to-day operations. Cybersecurity threats, such as computer viruses, attempts to access to information, and other security breaches, are persistent, continue to evolve and require highly skilled IT resources. 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 5,600 of our employees are unionized, which represents approximately 8% of our employee-base at December 31, 2011. 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.

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

We use and generate 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 past practices at a number of 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

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hazardous substance releases.

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 Environmental Protection Agency (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.

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 interpretation and 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.

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, 2011, we owned, leased and/or utilized (through operating agreements) approximately 29.4 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 46% was owned (or held under a long-term ground lease with ownership of the improvements), approximately 48% was leased, and approximately 5% was made available under facilities contracts for use in the performance of United States Government contracts. Of the 29.4 million square feet of floor space owned, leased and/or utilized by us, approximately 400,000 square feet was leased or subleased to unrelated third parties. In addition to the 29.4 million square feet, we had approximately 640,000 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 adequate for the existing real estate requirements of the Company.

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As of December 31, 2011, 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; and Springfield, VA.

Missile Systems—East Camden, AR; Tucson, AZ; Rancho Cucamonga, CA; Louisville, KY; Albuquerque, NM; 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; McKinney TX; and Sunnyvale, CA.

Technical Services—Chula Vista, CA; Orlando, FL; Indianapolis, IN; Burlington, MA; Troy, MI; Dulles, VA; Norfolk, VA; Canberra, Australia; and Christchurch, New Zealand.

Corporate—Billerica, MA; Waltham, MA; Garland, TX; Plano, TX; Arlington, VA; and Dulles, VA.

A summary of the space owned, leased and/or utilized by us as of December 31, 2011, by business segment is as follows:

	Leased	Owned ⁽¹⁾	Government Owned ⁽²⁾	Total ⁽³⁾
Integrated Defense Systems	1,400,293	3,929,461	109,566	5,439,320
Intelligence and Information Systems	2,296,462	783,877	—	3,080,339
Missile Systems	2,719,067	1,166,901	1,246,237	5,132,205
Network Centric Systems	2,191,510	3,381,421	—	5,572,931
Space and Airborne Systems	2,558,004	3,723,713	—	6,281,717
Technical Services	2,531,224	215,183	207,804	2,954,211
Corporate	567,756	402,494	—	970,250
Totals	14,264,316	13,603,050	1,563,607	29,430,973

(1) Ownership may include either fee ownership of land and improvements or a long-term land lease with ownership of improvements.

(2) “Government Owned” means space owned by the U.S. or a foreign government utilized by the Company pursuant to an operating agreement with the U.S. or a foreign government (GOCO).

(3) Excludes approximately 639,661 square feet of vacant space, and includes 399,834 square feet of space leased or subleased to unrelated third parties.

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 have completed 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 identified possible areas of concern involving certain practices related to operations in a foreign jurisdiction where we do business. We voluntarily disclosed and shared the results of our review with the Securities and Exchange Commission and the Department of Justice. 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.

On August 18, 2010, the U.K. Border Agency (UKBA) initiated arbitration proceedings in the London Court of International

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Arbitration against Raytheon Systems Limited (RSL) in connection with the parties' dispute with respect to the UKBA's termination of RSL for cause on a program. The UKBA claimed that RSL had failed to perform on certain key milestones and other matters and that the UKBA was entitled to recovery of certain losses incurred and previous payments made to RSL. In March 2011, the UKBA gave notice that it had presented a demand to draw on the approximately \$80 million of letters of credit provided by RSL upon the signing of the contract with the UKBA in 2007. At RSL's request, the Arbitration Tribunal initially issued an interim order restraining the drawdown but, following a hearing on the issue, lifted the restraint and concluded that any decision on the UKBA's right to call on the letters of credit is inextricably intertwined with the ultimate decision on the merits in the arbitration. The Tribunal also preserved RSL's right to claim damages should RSL later establish that the drawdown was not valid. To date, the UKBA has submitted claims in the arbitration for damages and clawback of previous payments of approximately £415 million (approximately \$645 million based on foreign exchange rates as of December 31, 2011) excluding any credit for capability delivered or draw on the letters of credit. RSL has submitted in the arbitration its defenses to the UKBA claim as well as substantial counterclaims in the amount of approximately £500 million (approximately \$777 million based on foreign exchange rates as of December 31, 2011) against the UKBA for the collection of receivables and damages.

RSL is pursuing vigorously the collection of all receivables for the program and damages in connection with the wrongful termination and mounting a strong defense to the UKBA's alleged claims for losses and previous payments. We believe the remaining receivables and other assets are probable of recovery in litigation or arbitration. We currently do not believe it is probable that RSL is liable for losses, previous payments (which includes the \$80 million related to the drawdown on the letters of credit), clawback or other claims asserted by the UKBA. If we fail to collect the receivable balances or are required to make payments against claims or other losses asserted by the UKBA in excess of the amounts we have recorded, it could have a material adverse effect on our financial position, results of operations or liquidity. Arbitration hearings are scheduled to commence in late 2012 and we expect to have a decision in 2013.

Additional information regarding arbitration with the UKBA is contained in "Commitments and Contingencies" within Item 7 and "Note 11: Commitments and Contingencies" within Item 8 of this Form 10-K.

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. MINE SAFETY DISCLOSURES

Not applicable.

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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 49.

Thomas M. Culligan

Mr. Culligan has served as Senior Vice President of Business Development since March 2001. From 2000 to March 2001, he was Vice President and General Manager of Defense and Space at Honeywell International, Inc. (formerly AlliedSignal, Inc.). From 1994 to 2000, he held various positions at Allied Signal, including Vice President and General Manager, Vice President - Europe, Africa and Middle East - Marketing, Sales and Service, and President of Government Operations. Prior to joining Allied Signal, he held executive positions at McDonnell Douglas Corporation. Age 60.

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 52.

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 60.

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 50.

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 56.

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 48.

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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 61.

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 65.

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 63.

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 52.

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 43.

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 60.

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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 17, 2012, there were 31,907 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, 2011.

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	6,859,166	\$38.98	10,778,898
Equity compensation plans not approved by stockholders	—	—	—
Total	6,859,166	\$38.98	10,778,898

This amount includes 2,272,970 shares, which is the aggregate of the actual number of shares issued pursuant to the 2009 Long-Term Performance Plan (LTTP) awards and the maximum number of shares that may be issued upon settlement of outstanding 2010 and 2011 LTTP awards, including estimated dividend equivalent amounts.

(1) The shares to be issued pursuant to the 2009, 2010 and 2011 LTTP awards will be issued under the Raytheon 2010 Stock Plan (2010 Stock Plan). The material terms of the 2009, 2010 and 2011 LTTP 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 187,958 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 3,949,508 shares issuable upon exercise of stock options granted under the Raytheon Company 2001 Stock Plan.

This amount also includes 448,730 shares issuable upon exercise of stock options granted under the Raytheon Company 1995 Stock Option Plan (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 unit awards do not have an exercise price, the weighted average exercise price does not take into account the 2009, 2010 and 2011 LTTP awards and restricted stock units generally granted to non-U.S.

employees.

Stock Performance Graph

The following chart compares the total return on a cumulative basis of \$100 invested in our common stock on December 31, 2006 to the Standard & Poor's 500 Stock Index and the Standard & Poor's Aerospace & Defense Index.

Total Return To Shareholders

(Includes reinvestment of dividends)

Company / Index	Annual Return Percentage				
	Years ending				
	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Raytheon Common Stock	17.02	(14.20)	3.62	(8.00)	9.14
S&P 500 Index	5.49	(37.00)	26.46	15.06	2.11
S&P Aerospace & Defense Index	19.32	(36.54)	24.64	15.11	5.28

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Company / Index	Indexed Returns					
	Years Ending Base Period	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Raytheon Common Stock	100	117.02	100.40	104.04	95.72	104.47
S&P 500 Index	100	105.49	66.46	84.05	96.71	98.76
S&P Aerospace & Defense Index	100	119.32	75.72	94.38	108.64	114.37

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 Plans ⁽²⁾
October (October 3, 2011-October 30, 2011)	25,677	\$42.61	—	\$2.5 billion
November (October 31, 2011-November 28, 2011)	3,625,844	44.27	3,625,844	\$2.3 billion
December (November 29, 2011-December 31, 2011)	3,400,899	44.80	3,394,041	\$2.2 billion
Total	7,052,420	\$44.52	7,019,885	

Includes shares purchased related to treasury activity under our stock plans. Such activity during the fourth quarter (1) of 2011 includes the surrender by employees of 32,535 shares to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

In March 2010 our Board of Directors authorized the repurchase of up to \$2.0 billion of our outstanding common stock. In September 2011, our Board of Directors authorized the repurchase of up to an additional \$2.0 billion of (2) our outstanding common stock. 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)	2011	2010	2009	2008	2007
Results of Operations					
Total net sales	\$24,857	\$25,183	\$24,881	\$23,174	\$21,301
Operating income	2,857	2,607	3,042	2,620	2,354
Interest expense, net	155	110	109	65	33
Income from continuing operations	1,897	1,843	1,977	1,698	1,719
Income (loss) from discontinued operations, net of tax	(1)	36	(1)	(2)	885
Net income	1,896	1,879	1,976	1,696	2,604
Net income attributable to Raytheon Company	1,866	1,840	1,935	1,672	2,578
Diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders	\$5.28	\$4.79	\$4.89	\$3.93	\$3.78
Diluted earnings per share attributable to Raytheon Company common stockholders	\$5.28	\$4.88	\$4.89	\$3.92	\$5.75
Average diluted shares outstanding	353.6	377.0	395.7	426.5	448.4
Financial Position at Year-End					
Cash and cash equivalents	\$4,000	\$3,638	\$2,642	\$2,259	\$2,655
Current assets	9,309	8,822	7,868	7,417	7,616
Property, plant and equipment, net	2,006	2,003	2,001	2,024	2,058
Total assets	25,854	24,422	23,607	23,134	23,152
Current liabilities	6,130	5,960	5,523	5,149	4,788
Long-term liabilities (excluding debt)	6,779	4,962	5,816	6,488	3,467
Long-term debt	4,605	3,610	2,329	2,309	2,268
Total debt	4,605	3,610	2,329	2,309	2,268
Total equity	8,340	9,890	9,939	9,188	12,629
Cash Flow and Other Information					
Net cash provided by (used in) operating activities from continuing operations	\$2,156	\$1,931	\$2,745	\$2,036	\$1,249
Net cash provided by (used in) investing activities from continuing operations	(1,051)	(535)	(692)	(417)	2,536
Net cash provided by (used in) financing activities from continuing operations	(694)	(411)	(1,650)	(1,994)	(3,510)
Bookings	26,555	24,449	25,058	26,820	25,498
Total backlog	35,312	34,551	36,877	38,884	36,614
Dividends declared per share	\$1.72	\$1.50	\$1.24	\$1.12	\$1.02
Total employees from continuing operations	71,000	72,400	75,100	72,800	72,100

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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 primarily 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, and how our financial performance is assessed and measured by management. 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 2011, 2010 and 2009 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

The U.S. Government continues to focus on efforts to reduce federal budget deficits and curb the growing amount of national debt. Currently, the primary vehicle to reduce the deficit is the Budget Control Act of 2011 (BCA). Enacted into law on August 2, 2011, it aims to reduce deficits in two phases. The first phase reduces federal outlays by \$917 billion over the Fiscal Year (FY) 2012–FY 2021 period, primarily by establishing specific limits on annual appropriations. Senior officials of the Department of Defense (DoD) have publicly indicated that this will reduce DoD funding by \$487 billion over this period relative to the long-term DoD budget plans established in February 2011.

The second phase of the BCA established a bipartisan, bicameral select committee of Congress to identify at least an additional \$1.2 trillion in deficit reduction measures by November 23, 2011. Due to the select committee's failure to identify agreed upon deficit reduction recommendations, pursuant to the terms of the BCA, a sequestration is scheduled to commence on January 2, 2013 that would result in a total of \$1.2 trillion in reduced spending over the FY 2013–FY 2021 period. The BCA sequestration contemplates that the DoD would bear 50% of the cuts excluding reduced interest payments. DoD officials estimate that such sequestration would further reduce DoD spending by another \$500 billion over the FY 2013–FY 2021 period relative to its previous long-term plans.

It is uncertain whether the contemplated BCA sequestration will take effect on January 2, 2013 or whether it will be averted through actions of the Congress and the Administration prior to January 2, 2013. Whether sequestration goes into effect or is avoided, the resulting impact or impact of other actions on future DoD budgets and our programs are unknown at this time.

In addition, in January 2012, the DoD issued strategic guidance on the U.S. defense priorities for the next ten years in light of the geopolitical environment and U.S. Government finances. The DoD guidance identified the primary

missions of the U.S. armed forces and the capabilities expected to be critical to future success, including Intelligence, Surveillance and Reconnaissance (ISR), missile defense and cybersecurity. Although the actual impact of implementation of the strategic guidance on the DoD budget and our programs is uncertain, we believe that we are well positioned to support many of these critical capabilities.

The U.S. Government sales, excluding foreign military sales, accounted for 74% of our total net sales in 2011. Our principal U.S. Government customer is the DoD, and DoD funding has grown substantially since FY 2001, when it was approximately \$300 billion. However, given the current budget environment, future defense spending levels are difficult to predict. A number of other factors potentially impacting the DoD budget include the following:

External threats to our national security, including potential security threats posed by terrorists, emerging nuclear states and other countries;

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Support for on-going operations overseas, including Afghanistan, which will require funding above and beyond the DoD base budget for their duration;

Cost-cutting measures implemented by the DoD, such as the “Efficiencies Initiative” launched in June 2010 to ensure more efficient use of its resources in order to sufficiently fund its highest priorities;

- Priorities of the Administration and the Congress, including deficit reduction, which could result in changes in the overall DoD budget and various allocations within the DoD budget; and
- The overall health of the U.S. and world economies and the state of governmental finances.

The Congress approved a FY 2012 base budget of \$531 billion, which approximates the funding level for FY 2011. Our DoD contracts are funded primarily through modernization funding, consisting of procurement and research and development (R&D), and Operations and Maintenance Account (O&M) funding. For FY 2012, procurement and R&D and O&M funding are \$176 billion and \$197 billion, respectively, consistent with FY 2011 levels.

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 Congress approved \$115 billion for FY 2012 OCO funding, which is lower than the \$159 billion enacted for FY 2011 OCO activities, due to reduced operations in Iraq. Looking forward, OCO funding is expected to continue to decline as troops redeploy out of Iraq and 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. OCO funding has not been a significant source of new orders for Raytheon in the last two years, and is not expected to be so in future years.

In January 2012, the Administration announced its plan for a \$525 billion DoD base budget for FY 2013 with an additional \$88 billion for OCO activities.

Although the uncertainty of sequestration, among other factors, makes predicting the DoD budget beyond FY 2012 difficult, we expect the DoD to prioritize and protect the key capabilities required to execute its strategy, including ISR, cybersecurity, missile defense, unmanned systems, and interoperability with allied forces. We believe those priorities are well aligned with our product offerings, technologies, services and capabilities.

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 the spending limits imposed by the first phase of the BCA into account when determining spending priorities for these agencies. Our relationship with these agencies generally is determined more by specific program requirements than by a direct correlation to the overall funding levels for these agencies; however, if sequestration under the second phase of the BCA occurs, it may adversely impact these specific programs. We also have contracts with various state and local government agencies that also are subject to budget constraints and conflicts in spending priorities.

We currently are involved in over 15,000 contracts, with no single contract accounting for more than 5% of our total net sales in 2011. Although we believe that our diverse portfolio of programs and capabilities is well suited to a changing defense environment, we face numerous challenges and risks, as discussed above. 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 2011, our sales to customers outside of the U.S. accounted for 25% 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 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 in the future. 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 defense modernization initiatives similar to the DoD. We believe

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this trend will continue as many international customers are facing a threat environment that 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 air, land, sea, space and cyber for all markets.

Expand international business by building on our relationships and deep market expertise.

Continue to be a Customer-focused company based on performance, relationships and solutions.

Deliver innovative supply chain solutions to accelerate growth, create competitive advantage and bring valued, global solutions to our customers.

Our Markets

We believe that our broad mix of technologies, domain expertise 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 small-unit 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. Our Effects capabilities were enhanced in 2011 with the acquisition of the business assets of Ktech Corporation, a directed energy company.

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. Our C3I capabilities include situational awareness, persistent surveillance, communications, mission planning, battle management command and control, intelligence and analysis, and integrated ground solutions. We are also continuing to grow our market presence in C3I and expand our knowledge management and discovery capabilities. In 2011, we acquired California-based Applied Signal Technology, Inc., which specializes in signals intelligence and processing of electromagnetic spectrum information to provide situational awareness to warfighters and the intelligence community.

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, product support, logistics, training, operations and maintenance. Our training business continues to expand and we now train military, civil and commercial customers 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 as well as leverage the capabilities of the ten cyber acquisitions made since 2007. We are focused on providing cyber capabilities to the Intelligence, DoD and DHS markets as well as embedding information assurance capabilities in our products and our IT infrastructure. In 2011, we

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acquired Pikewerks Corporation, which specializes in cybersecurity, software protection, anti-tamper, information operations, data protection and forensics, and Henggeler Computer Consultants, Inc., which focuses on cybersecurity, enterprise architecture, analytics, software, and cloud-based solutions.

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 2011, our international sales, including foreign military sales through the U.S. Government, were \$6.2 billion compared to \$5.8 billion in 2010. In 2011, our international bookings were \$7.7 billion compared to \$4.4 billion in 2010.

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 which 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; Advanced Company Estimating System (ACES) which is our cost proposal system 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 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-world 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.

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, efficiency and growth. We also 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. We pursue a capital deployment strategy that balances funding for growing our business, including capital expenditures, acquisitions, and research and development; prudently managing our balance sheet, including debt repayments and pension contributions; and returning cash to our stockholders, including dividend payments and share repurchases.

Bookings were \$26.6 billion, \$24.4 billion and \$25.1 billion in 2011, 2010 and 2009, respectively resulting in backlog of \$35.3 billion, \$34.6 billion and \$36.9 billion at December 31, 2011, 2010 and 2009, respectively. Backlog represents the dollar value of contracts awarded for which work has not been performed. Backlog generally increases with bookings and

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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 65, in the second quarter of 2010, Raytheon Systems Limited (RSL) was notified of its termination on the U.K. 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 \$24.9 billion, \$25.2 billion and \$24.9 billion in 2011, 2010 and 2009, respectively.

Operating income was \$2.9 billion, \$2.6 billion and \$3.0 billion in 2011, 2010 and 2009, respectively. Operating margin was 11.5%, 10.4% and 12.2% in 2011, 2010 and 2009, respectively. Included in operating income was a FAS/CAS Adjustment, described below in Critical Accounting Estimates, of \$337 million of expense, \$187 million of expense and \$80 million of income in 2011, 2010 and 2009, respectively.

Operating cash flow from continuing operations was \$2.2 billion, \$1.9 billion and \$2.7 billion in 2011, 2010 and 2009, respectively.

A discussion of our results of operations and financial condition 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 make 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 that 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 arrangement was negotiated and the performance criteria. The decision to combine a group of contracts or 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

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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 (the process for which we describe below in more detail) is complex and subject to many variables. 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.

Raytheon has a Company-wide standard and disciplined quarterly Estimate at Completion (EAC) process in which management reviews the progress and performance of our 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. The risks and opportunities include management's judgment about the ability and cost to achieve the schedule (for example, the number and type of milestone events), technical requirements (for example, a newly-developed product versus a mature product), and other contract requirements. Management must make assumptions regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the contract (to estimate increases in wages and prices for materials and related support cost allocations), performance by our subcontractors, the availability and timing of funding from our customer, and overhead cost rates, among other variables. These estimates also include the estimated cost of satisfying our industrial cooperation agreements, sometimes referred to as offset obligations required under certain contracts. 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. These adjustments may result from positive program performance and an increase in operating profit during the performance of individual contracts if we determine we will be successful in mitigating risks surrounding the technical, schedule, and cost aspects of those contracts or realizing related opportunities. Likewise, these adjustments may result in a decrease in operating profit if we determine we will not be successful in mitigating these risks or realizing related opportunities. 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 based on a contract's percent complete. 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.

Our operating income included net EAC adjustments resulting from changes in estimates of approximately \$548 million, \$158 million and \$442 million for the years ended December 31, 2011, 2010 and 2009, respectively. These adjustments increased our earnings from continuing operations attributable to Raytheon Company common stockholders by approximately \$348 million (\$0.98 per diluted share), \$75 million (\$0.20 per diluted share), and \$287 million (\$0.73 per diluted share) for the years ended December 31, 2011, 2010 and 2009, respectively.

Other Revenue Methods—To a much lesser extent, we enter into other types of contracts such as service, commercial, or software and licensing arrangements. Revenue under service and commercial contracts generally is recognized upon delivery or as services are rendered once persuasive evidence of an arrangement exists, our price is fixed or determinable, and collectability is reasonably assured. Costs on fixed-price service contracts are expensed as incurred, unless they otherwise qualify for deferral. We recognize revenue on contracts to sell software 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. For software arrangements that include multiple elements, including perpetual software licenses and undelivered items (e.g., maintenance and/or services; subscriptions/term licenses), we allocate and defer revenue for the undelivered items based on vendor specific objective evidence (VSOE) of the fair value of the undelivered elements, and recognize revenue on the perpetual license using the residual method. We base VSOE of each element on the price for which the undelivered element is sold separately. We determine fair value of the undelivered elements based on historical evidence of our stand-alone sales of these elements to third parties or from the stated renewal rate for the undelivered elements. When VSOE does not exist for undelivered items, we recognize the entire arrangement fee ratably over the applicable performance period. 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. Costs on these fixed-price service contracts are expensed as incurred, unless they otherwise qualify for deferral. There were no costs

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deferred on fixed price service contracts at December 31, 2011 and December 31, 2010.

We apply the separation guidance under GAAP for contracts with multiple deliverables. We analyze revenue arrangements with multiple deliverables 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 allocate the consideration we receive among the separate units of accounting based on their relative selling prices, which we determine based on prices of the deliverables as sold on a stand-alone basis, or if not sold on a stand-alone basis, the prices we would charge if sold on a stand-alone basis, and 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 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. This resulted in \$337 million of expense, \$187 million of expense and \$80 million of income in 2011, 2010 and 2009, respectively, reflected in our results of operations for the difference between CAS and FAS requirements for our pension and other postretirement 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 December 27, 2011, the CAS Pension Harmonization Rule (CAS Harmonization) was published in the Federal Register. The new rule will impact pension costs on contracts beginning in 2013 and is effective for forward pricing purposes for contracts negotiated on or after February 27, 2012. The new rule is intended to improve the alignment of the pension cost recovered through contract pricing under CAS and the pension funding requirements under the PPA. The rule shortens the CAS amortization period for gains and losses from 15 to 10 years and will result in the use of a discount rate based on high quality corporate bonds to measure liabilities in determining the CAS pension expense. While the change in amortization period is applicable in 2013, there is a transition period for the impact of the change in liability measurement method of 0% in 2013, 25% in 2014, 50% in 2015, 75% in 2016 and 100% in 2017. CAS Harmonization is currently expected to increase

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pension costs under CAS, primarily in 2014 and beyond due to the liability measurement transition period included in the rule. The projected increase in our future pension costs under CAS increased our estimated cost to complete existing contracts resulting in a reduction in revenue and profit in 2011, principally on our fixed price contracts in backlog. However, since the pension cost increases occur primarily in 2014 and beyond, the impact on our current contracts was de minimus. Furthermore, since CAS Harmonization is a mandatory change in cost accounting for government contractors, we may be entitled to an equitable adjustment for some portion of the increase in costs on contracts. Because CAS Harmonization increases our future CAS recovery, it is also expected to decrease our FAS/CAS expense in 2013 and beyond.

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, which is a component of our total FAS/CAS Adjustment disclosed 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 indicative of the funding requirements or amount of government recovery.

The assumptions in the calculations of our pension 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, 2011 were as follows:

Asset Category	
U.S. equities	25% - 40%
International equities	10% - 30%
Fixed-income securities	25% - 40%
Cash and cash equivalents	3% - 15%
Other (including private equity, real estate and absolute return funds)	0% - 20%

In validating the 2011 long-term ROA assumption, we reviewed our pension plan asset performance since 1986. Our average actual annual rate of return since 1986 has exceeded our estimated 8.75% assumed return. Based upon these analyses and our internal investing targets, we determined our long-term ROA assumption for our domestic pension plans in 2011 was 8.75%, consistent with our 2010 assumption. Our domestic pension plans’ actual rates of return were approximately (1)%, 11% and 17% for 2011, 2010 and 2009, respectively. The difference between the actual rate of return and our long-term ROA assumption is included in deferred losses. 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 Benefits plans are based on the asset allocations and the economic environment prevailing in the locations where the Pension Benefits plans reside. Foreign pension assets do not make up a significant portion of the total assets for all of our Pension Benefits 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, 2011 is 5.00%, compared to the December 31, 2010 discount rate of 5.75% as a result of the bond environment at December 31, 2011.

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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 2011 pension results:

(In millions)

Change in assumption used to determine net periodic benefit cost for the year ended December 31, 2011	
Discount rate	\$60
Long-term ROA	40
Change in assumption used to determine benefit obligations for the year ended December 31, 2011	
Discount rate	\$540

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. Under the existing CAS rules, which continue to apply through 2012, the discount rate used to measure liabilities is required to be consistent with the long-term ROA assumption, which changes infrequently given its long-term nature. In addition to certain other changes, CAS Harmonization will require contractors to compare the liability under the current CAS methodology and assumptions to a liability using a discount rate based on high quality corporate bonds and use the greater of the two liability calculations in developing CAS expense. 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, 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 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)	2011	2010	2009
FAS expense	\$(1,073)	\$(896)	\$(646)
CAS expense	733	666	673
FAS/CAS Pension Adjustment	\$(340)	\$(230)	\$27

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 \$110 million in 2011 compared to 2010 was driven by a \$177 million increase in our FAS expense. The \$177 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 \$200 million. Our CAS expense increased \$67 million as a result of actual versus expected asset and liability experience.

The change in the FAS/CAS Pension Adjustment of \$257 million in 2010 compared to 2009 was primarily 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 losses in the market-related value of assets in 2008, 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.

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For 2012 compared to 2011, we currently expect our FAS expense will increase less than our CAS expense, which will decrease the FAS/CAS Pension Adjustment. We expect the FAS/CAS Pension Adjustment to be approximately \$283 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, partially offset by the expected return on our contributions. This expected decrease 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 2011 census data. After 2012, 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, 2011 and taking into account CAS Harmonization which increases CAS expense in 2013 and beyond, we would expect our FAS/CAS Pension Adjustment expense to decline and ultimately result in the FAS/CAS Pension Adjustment income.

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 or fund administrator. 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 \$10.8 billion and \$7.9 billion of deferred losses (pre-tax) in accumulated other comprehensive loss related to our pension and other postretirement benefit plans at December 31, 2011 and 2010, 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 \$2.9 billion increase in 2011 was driven primarily by the decrease in the discount rate from 5.75% at December 31, 2010 to 5.00% at December 31, 2011, as well as actual asset returns which were lower than our expected return and amortization of previous deferred losses in 2010 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 10 years at December 31, 2011.

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. 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 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 2011 impairment analysis. The fair values of each of our reporting units exceeded their respective net book values, including goodwill. Based upon our 2011 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 10%. If we are required to record an impairment charge in the future, it could materially affect our results of operations.

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CONSOLIDATED RESULTS OF OPERATIONS

Selected consolidated results were as follows:

(In millions, except percentages and per share data)	% of Total Net Sales						
	2011	2010	2009	2011	2010	2009	
Net sales							
Products	\$20,786	\$21,386	\$21,761	83.6	% 84.9	% 87.5	%
Services	4,071	3,797	3,120	16.4	% 15.1	% 12.5	%
Total net sales	24,857	25,183	24,881	100.0	% 100.0	% 100.0	%
Operating expenses							
Cost of sales							
Products	16,275	17,022	17,071	65.5	% 67.6	% 68.6	%
Services	3,422	3,281	2,676	13.8	% 13.0	% 10.8	%
Total cost of sales	19,697	20,303	19,747	79.2	% 80.6	% 79.4	%
Administrative and selling expenses	1,678	1,648	1,527	6.8	% 6.5	% 6.1	%
Research and development expenses	625	625	565	2.5	% 2.5	% 2.3	%
Total operating expenses	22,000	22,576	21,839	88.5	% 89.6	% 87.8	%
Operating income	2,857	2,607	3,042	11.5	% 10.4	% 12.2	%
Non-operating (income) expense							
Interest expense	172	126	123	0.7	% 0.5	% 0.5	%
Interest income	(17)	(16)	(14)	(0.1)	% (0.1)	% (0.1)	%
Other (income) expense	12	65	3	—	% 0.3	% —	%
Non-operating (income) expense, net	167	175	112	0.7	% 0.7	% 0.5	%
Federal and foreign income taxes	793	589	953	3.2	% 2.3	% 3.8	%
Income from continuing operations	1,897	1,843	1,977	7.6	% 7.3	% 7.9	%
Income (loss) from discontinued operations, net of tax	(1)	36	(1)	—	% 0.1	% —	%
Net income	1,896	1,879	1,976	7.6	% 7.5	% 7.9	%
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	30	39	41	0.1	% 0.2	% 0.2	%
Net income attributable to Raytheon Company	\$1,866	\$1,840	\$1,935	7.5	% 7.3	% 7.8	%
Diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders	\$5.28	\$4.79	\$4.89				
Diluted earnings (loss) per share from discontinued operations attributable to Raytheon Company common stockholders	—	0.10	—				
Diluted earnings per share attributable to Raytheon Company common stockholders	5.28	4.88	4.89				

Total Net Sales

The composition of external net sales by product and services for each segment in 2011 was approximately the following:

External Net Sales by Products and Services (% of segment total net external sales)

	IDS	IIS	MS	NCS	SAS	TS	
Products	95	% 80	% 100	% 90	% 90	% 15	%
Services	5	% 20	% —	% 10	% 10	% 85	%

Total Net Sales - 2011 vs. 2010—The decrease in total net sales of \$326 million in 2011 compared to 2010 was primarily due to lower external net sales of \$492 million at IDS, \$380 million at NCS and \$143 million at TS, partially offset by higher external net sales of \$501 million at SAS and \$259 million at IIS. The decrease in external net sales at IDS was primarily due to lower net sales from the scheduled completion of certain design and production phases on a U.S. Navy combat systems program and the deferment of certain work due to the U.S. Navy's extension of the program schedule and lower net sales, as planned, on an

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international Patriot program driven by the completion of scheduled design and certain production efforts. The decrease in external net sales at NCS was primarily due to lower net sales on U.S. Army sensor programs due to a planned decline in production, lower net sales on a combat vehicle sensor program, due to a program restructuring and related termination for convenience, and lower net sales on a U.S. Army radar support program, principally due to the completion of significant upgrade efforts, partially offset by higher net sales on numerous programs, including acoustic sensor system sales and combat vehicle sensor program sales for domestic and international customers. The decrease in external net sales at TS was primarily due to lower net sales on a Defense Threat Reduction Agency (DTRA) program which completed significant efforts at the end of 2010 and lower net sales on training programs, principally domestic training programs supporting the U.S. Army's Warfighter FOCUS activities due to a decrease in customer determined activity levels, partially offset by higher net sales on various depot services operations programs, driven primarily by new contract awards. The increase in external net sales at SAS was primarily due to higher net sales related to RAST, which we acquired in the first quarter of 2011, higher volume on intelligence, surveillance and reconnaissance systems programs due to increased bookings over the last few years driven by customer demand for these capabilities, and higher volume, as production work increased, as planned, on an international airborne tactical radar program awarded in the first half of 2010. The increase in external net sales at IIS was primarily due to the difference in net sales from the U.K. Border Agency (UKBA) program on which Raytheon Systems Limited (RSL) was notified of its termination in the second quarter of 2010 (UKBA Program), as described in Commitments and Contingencies on page 65. Net sales from the UKBA Program in 2011 were higher than 2010 by \$240 million, primarily driven by the adjustment recorded in the second quarter of 2010 from a change in our estimated revenue and costs (UKBA Program Adjustment), which negatively impacted sales by \$316 million. Also included in the increase in external net sales at IIS was higher net sales on a GPS command, control, and mission capabilities program awarded in the first quarter of 2010, primarily as a result of scheduled design and build efforts.

Products and Services Net Sales - 2011 vs. 2010—The decrease in product net sales of \$600 million in 2011 compared to 2010 was primarily due to lower external product net sales of \$427 million at NCS, \$391 million at IDS and \$129 million at MS, partially offset by higher external product net sales of \$328 million at SAS. The decrease in external product net sales at IDS and NCS and the increase in external product net sales at SAS were primarily due to the activity in the programs described above. The decrease in external product net sales at MS was primarily due to lower net sales on the Standard Missile-2 (SM-2), Evolved Seasparrow Missile (ESSM) and Standard Missile-3 (SM-3) programs, principally from lower volume driven by scheduled lower production build rates. The decrease in external product net sales at MS was partially offset by higher net sales on the Small Diameter Bomb II (SDB II) and Paveway™ programs, principally from higher volume due to scheduled increases in design and production efforts. The increase in service net sales of \$274 million in 2011 compared to 2010 was primarily due to higher external service net sales of \$202 million at IIS and \$173 million at SAS, partially offset by lower external service net sales of \$101 million at IDS. The increase in external service net sales at IIS was primarily due to higher service net sales on classified programs. The increase in external service net sales at SAS was primarily due to increased volume on intelligence, surveillance and reconnaissance systems programs and higher service net sales related to RAST. The decrease in external service net sales at IDS was spread across numerous programs with no individual or common significant driver.

Total Net Sales - 2010 vs. 2009—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, principally domestic and foreign training programs supporting the U.S. Army's Warfighter FOCUS activities due to an increase in customer determined activity levels, and higher net sales from programs with the Transportation Security Administration (TSA), driven primarily by system integration efforts on a program awarded in the first quarter of 2010. The increase in external net sales at SAS was primarily due to higher volume, as planned, as work increased on certain classified business awarded principally in the first half of 2009, higher net sales on a multi-spectral targeting system program driven by increased planned production efforts to

meet the program delivery schedule and higher net sales from higher volume, as planned, as production work increased on an international airborne tactical radar program awarded in the first quarter of 2010. The increase in external net sales at SAS was partially offset by lower net sales from lower volume, as planned, as an advanced targeting program moved toward completion. The increase in external net sales at MS was primarily due to higher net sales on SM-3, principally from higher volume driven by scheduled development efforts, the Advanced Medium Range Air-to-Air Missile (AMRAAM) program, principally from higher volume driven by scheduled higher production build rates, higher net sales on the tube-launched, optically-tracked, wireless-guided (TOW) missile program, principally from higher volume driven by scheduled higher production build rates, and higher net sales on the PavewayTM program, principally from higher volume driven by scheduled production efforts on an international award. The increase in external net sales at MS was partially offset by lower net sales on a non line-of-sight missile program, principally from lower volume as the program received a stop work-order in the second quarter of 2010, and lower net sales on the KEI program, which was terminated for convenience in the second quarter of 2009. The decrease in external net sales at IIS was primarily due to \$385 million of lower net sales on the UKBA Program, as described above and in Commitments and Contingencies on page 65, driven principally by the \$316

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million adjustment recorded in the second quarter of 2010 from a change in our estimated revenue and costs.

Products and Services Net Sales - 2010 vs. 2009—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 UKBA Program, described above, partially offset by higher external product net sales of \$179 million at SAS and \$137 million at MS, both principally due to the activity in the programs described above. 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 service net sales from growth on TS' training programs described above, \$144 million at NCS, principally due to higher service net sales related to command and control systems programs, and \$136 million at IIS, principally due to higher service net sales on classified programs.

Sales to Major Customers—Sales to the DoD were 82%, 85% and 84% of total net sales in 2011, 2010 and 2009, respectively. Sales to the U.S. Government were 86% of total net sales in 2011, and 88% of total net sales in 2010 and 2009. Included in both DoD and U.S. Government sales were foreign military sales through the U.S. Government of \$3.0 billion, \$3.3 billion and \$2.8 billion in 2011, 2010 and 2009, 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 \$6.2 billion or 25% of total net sales, \$5.8 billion or 23% of total net sales and \$5.3 billion or 21% of total net sales in 2011, 2010 and 2009, respectively.

Total Cost of Sales

Cost of sales, for both products and services, consists of material, labor, and subcontract costs, as well as related allocated costs. For each of our contracts, we manage the nature and amount of direct costs at the contract level, and manage indirect costs through cost pools as required by government accounting regulations. The estimate of the actual amount of direct costs and indirect costs form the basis for estimating our total costs at completion of the contract.

Total Cost of Sales - 2011 vs. 2010—The decrease in total cost of sales of \$606 million in 2011 compared to 2010 was primarily due to decreased external costs of \$479 million at IDS, driven primarily by the activity on the U.S. Navy combat systems program and international Patriot program described above in Total Net Sales, \$340 million at NCS, driven primarily by the activity on the U.S. Army sensor programs, combat vehicle sensor program and a U.S. Army radar support program described above in Total Net Sales, partially offset by the activity on numerous other programs, including acoustic sensor system sales and combat vehicle sensor program sales for domestic and international customers described above in Total Net Sales, and \$146 million at TS driven primarily by the activity on the DTRA program and training programs described above in Total Net Sales, partially offset by the activity on depot services operation programs described above in Total Net Sales. The decreases in external costs were partially offset by increased external costs of \$395 million at SAS driven primarily by the activity on RAST programs, the intelligence, surveillance and reconnaissance systems programs, and the international airborne tactical radar program described above in Total Net Sales, and \$150 million of higher expense in 2011 compared to 2010 related to the FAS/CAS Adjustment described below in Segment Results. Included in cost of sales in the 2011 was \$80 million related to the drawdown by the UKBA on letters of credit provided by RSL (UKBA LOC Adjustment), as described in Commitments and Contingencies on page 65. Included in cost of sales in 2010 was \$79 million related to the UKBA Program Adjustment described above in Total Net Sales.

Products and Services Cost of Sales - 2011 vs. 2010—The decrease in product cost of sales of \$747 million in 2011 compared to 2010 was primarily due to lower external product cost of sales of \$384 million at IDS and \$349 million at NCS, driven principally by the activity on the programs described above, \$188 million at IIS, driven primarily by activity on the UKBA Program described above in Total Net Sales and lower external product net sales on various classified programs, and \$152 million at MS, driven principally by the activity on the programs described above in

Total Net Sales. The decrease in product cost of sales was partially offset by higher external product cost of sales of \$266 million at SAS, driven primarily by the activity in the programs described above. The increase in service cost of sales of \$141 million in 2011 compared to 2010 was primarily due to higher external service cost of sales of \$129 million at SAS, driven principally by the activity on intelligence, surveillance and reconnaissance systems programs and RAST described above in Total Net Sales, and \$118 million at IIS, driven principally by the activity on classified programs described above in Total Net Sales. The increase in service cost of sales was partially offset by lower external service cost of sales of \$95 million at IDS, which was spread across numerous programs with no individual or common significant driver.

Total Cost of Sales - 2010 vs. 2009—The increase in total cost of sales of \$556 million in 2010 compared to 2009 was primarily due to increased external costs of \$219 million at SAS, driven primarily by the activity on certain classified business and the multi-spectral targeting system program described above in Total Net Sales, partially offset by the activity on the advanced targeting program described above in Total Net Sales, \$194 million at TS, driven primarily by the activity on TS' training

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programs and the programs with the Transportation Security Administration (TSA) described above in Total Net Sales, and higher expense of \$267 million related to the FAS/CAS Adjustment described below in Segment Results.

Products and Services Cost of Sales - 2010 vs. 2009—Product cost of sales in 2010 remained relatively consistent compared to 2009. The increase of \$605 million in service cost of sales was primarily due to higher external service costs of sales of \$229 million at TS, principally from the activity in training programs described above, \$152 million at IIS, principally from the activity on classified programs described above in Total Net Sales, and \$120 million at NCS, principally from the activity on command and control systems programs described above in Total Net Sales.

Administrative and Selling Expenses

The increase in administrative and selling expenses of \$30 million in 2011 compared to 2010 was primarily due to \$62 million of acquisition related expenses and \$35 million of increased marketing and selling costs, the largest increase of which was for opportunities on electronic warfare, airborne radar programs, NASA programs and certain classified programs, partially offset by a decrease of \$43 million in state income tax.

Administrative and selling expenses remained relatively consistent as a percentage of sales in 2010 compared to 2009.

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 \$16 million, \$59 million and \$25 million in 2011, 2010, and 2009, respectively.

Research and Development Expenses

Research and development expenses remained relatively consistent as a percent of total net sales in 2011, 2010 and 2009.

Total Operating Expenses

The decrease in total operating expenses of \$576 million in 2011 compared to 2010 was primarily due to the decrease in cost of sales of \$606 million, the primary drivers of which are described above in Total Cost of Sales, partially offset by the increase in administrative and selling expenses of \$30 million, the primary drivers of which are described above in Administrative and Selling Expenses.

The increase in total operating expenses of \$737 million in 2010 compared to 2009 was primarily due to the increase in cost of sales of \$556 million, the primary drivers of which are described above in Total Cost of Sales.

Operating Income

The increase in operating income of \$250 million in 2011 compared to 2010 was primarily due to the decrease in operating expenses of \$576 million, the primary drivers of which are described above in Total Operating Expenses.

The decrease in operating income of \$435 million in 2010 compared to 2009 was primarily due to the increase in operating expenses of \$737 million, the primary drivers of which are described above in Total Operating Expenses, partially offset by the increase in total net sales of \$302 million, the primary drivers of which are described above in Total Net Sales.

Non-Operating (Income) Expense, Net

The decrease in non-operating (income) expense, net of \$8 million in 2011 compared to 2010 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, partially offset by \$46 million of higher interest expense, principally due to the issuance of \$2.0 billion of fixed rate long-term debt in the fourth quarter of 2010, and an \$18 million change in the fair value of investments held in rabbi trusts associated with certain of our non-qualified deferred compensation plans due to a net

loss of \$1 million in 2011 compared to a net gain of \$17 million in 2010.

The increase in non-operating (income) 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 an \$11 million change in the fair value of investments held in rabbi trusts associated with certain of our non-qualified deferred compensation plans due to a net gain of \$17 million in 2010 compared to a net gain of \$28 million in 2009.

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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:

	2011		2010		2009	
Statutory tax rate	35.0	%	35.0	%	35.0	%
Research and development tax credit	(1.0))%	(1.1))%	(0.9))%
Tax settlements and refund claims	(2.6))%	(8.0))%	(0.9))%
Domestic manufacturing deduction benefit	(1.8))%	(1.7))%	(0.9))%
Foreign income tax rate differential	0.2	%	0.8	%	0.1	%
Other items, net	(0.3))%	(0.8))%	0.1	%