RAYTHEON CO/
Form 10-Q
April 26, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended April 1, 2012

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

For the transition period from to

Commission File Number 1-13699

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

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

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

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

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

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

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

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

Number of shares of common stock outstanding as of April 23, 2012 was 333,338,000.

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Cautionary Note Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of federal securities laws, including information regarding our financial outlook, future plans, objectives, business prospects, trends and anticipated financial performance including with respect to our liquidity and capital resources, our pension expense and funding, the impact of new accounting pronouncements, our unrecognized tax benefits and the outcome of legal and administrative proceedings, claims, investigations, and commitments and contingencies. 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 under Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011 and other important factors disclosed previously and from time to time in our other filings with the Securities and Exchange Commission (SEC). Given these factors, as well as other variables that may affect our operating results, you should not rely on forward-looking statements, assume that past financial performance will be a reliable indicator of future performance nor use historical trends to anticipate results or trends in future periods. We expressly disclaim any obligation or intention to provide updates to the forward-looking statements and the estimates and assumptions associated with them.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
RAYTHEON COMPANY
CONSOLIDATED BALANCE SHEETS

(In millions, except per share amounts)	(Unaudited) Apr 1, 2012	Dec 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$3,541	$4,000
Contracts in process, net	4,838	4,526
Inventories	395	336
Deferred taxes	229	221
Prepaid expenses and other current assets	182	226
Total current assets	9,185	9,309
Property, plant and equipment, net	1,979	2,006
Deferred taxes	575	657
Goodwill	12,544	12,544
Other assets, net	1,344	1,338
Total assets	$25,627	$25,854
LIABILITIES AND EQUITY		
Current liabilities		
Advance payments and billings in excess of costs incurred	$2,360	$2,542
Accounts payable	1,199	1,507
Accrued employee compensation	859	941
Other accrued expenses	1,313	1,140
Total current liabilities	5,731	6,130
Accrued retiree benefits and other long-term liabilities	6,787	6,774
Deferred taxes	4	5
Long-term debt	4,606	4,605
Commitments and contingencies (Note 9)		
Equity		
Raytheon Company stockholders' equity		
Common stock, par value, $0.01 per share, 1,450 shares authorized, 333 and 339 shares outstanding at April 1, 2012 and December 31, 2011, respectively, after deducting 171 and 163 treasury shares at April 1, 2012 and December 31, 2011, respectively.	3	3
Additional paid-in capital	11,774	11,676
Accumulated other comprehensive loss	(6,817)	(7,001)
Treasury stock, at cost	(8,562)	(8,153)
Retained earnings	11,938	11,656
Total Raytheon Company stockholders' equity	8,336	8,181
Noncontrolling interests in subsidiaries	163	159
Total equity	8,499	8,340
Total liabilities and equity	$25,627	$25,854

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

RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended	
(In millions, except per share amounts)	Apr 1, 2012	Apr 3, 2011
Net sales		
Products	$4,899	$5,041
Services	1,039	1,011
Total net sales	5,938	6,052
Operating expenses		
Cost of sales—products	3,785	4,061
Cost of sales—services	874	837
Administrative and selling expenses	405	426
Research and development expenses	168	139
Total operating expenses	5,232	5,463
Operating income	706	589
Non-operating (income) expense		
Interest expense	50	43
Interest income	(2)	(4)
Other (income) expense	(8)	—
Total non-operating (income) expense, net	40	39
Income from continuing operations before taxes	666	550
Federal and foreign income taxes	212	164
Income from continuing operations	454	386
Income (loss) from discontinued operations, net of tax	(2)	3
Net income	452	389
Less: Net income (loss) attributable to noncontrolling interests in subsidiaries	4	5
Net income attributable to Raytheon Company	$448	$384
Basic earnings (loss) per share attributable to Raytheon Company common stockholders:		
Income from continuing operations	$1.33	$1.07
Income (loss) from discontinued operations, net of tax	—	0.01
Net income	1.33	1.07
Diluted earnings (loss) per share attributable to Raytheon Company common stockholders:		
Income from continuing operations	$1.33	$1.06
Income (loss) from discontinued operations, net of tax	—	0.01
Net income	1.32	1.06
Amounts attributable to Raytheon Company common stockholders:		
Income from continuing operations	$450	$381
Income (loss) from discontinued operations, net of tax	(2)	3
Net income	$448	$384

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

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RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended	
(In millions)	Apr 1, 2012	Apr 3, 2011
Net income	$452	$389
Other comprehensive income (loss), before tax:		
Foreign exchange translation	23	41
Cash flow hedges and interest rate locks	6	8
Pension and other employee benefit plans:		
Net change in initial net obligation	—	1
Amortization of prior service cost included in net periodic expense	1	2
Amortization of net actuarial loss included in net income	240	200
Effect of exchange rates	—	(1)
Defined benefit pension and other employee benefit plans, net	241	202
Other comprehensive income (loss), before tax	270	251
Income tax (expense) benefit related to items of other comprehensive income	(86)	(70)
Other comprehensive income (loss), net of tax	184	181
Total comprehensive income (loss)	636	570
Less: Comprehensive income (loss) attributable to noncontrolling interests in subsidiaries	4	5
Comprehensive income (loss) attributable to Raytheon Company	$632	$565

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

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RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

Three months ended April 1, 2012 and April 3, 2011 (In millions)	Common stock	Additional paid-in capital	Accumulated other comprehensive (loss)	Treasury stock	Retained earnings	Total Raytheon Company stockholders' equity	Noncontrolling interests in subsidiaries	Total equity
Balance at December 31, 2010	$4	$ 11,406	$ (5,146)	$(6,900)	$10,390	$9,754	$ 136	$9,890
Net income					384	384	5	389
Other comprehensive income (loss)			181			181		181
Dividends declared					(154)	(154)		(154)
Common stock plans activity		29				29		29
Warrants exercised		13				13		13
Treasury stock activity				(295)		(295)		(295)
Balance at April 3, 2011	$4	$ 11,448	$ (4,965)	$(7,195)	$10,620	$9,912	$ 141	$10,053
Balance at December 31, 2011	$3	$ 11,676	$ (7,001)	$(8,153)	$11,656	$8,181	$ 159	$8,340
Net income					448	448	4	452
Other comprehensive income (loss)			184			184		184
Dividends declared					(166)	(166)		(166)
Common stock plans activity		98				98		98
Treasury stock activity				(409)		(409)		(409)
Balance at April 1, 2012	$3	$ 11,774	$ (6,817)	$(8,562)	$11,938	$8,336	$ 163	$8,499

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

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RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)	Three Months Ended Apr 1, 2012	Apr 3, 2011
Cash flows from operating activities		
Net income	$452	$389
(Income) loss from discontinued operations, net of tax	2	(3)
Income from continuing operations	454	386
Adjustments to reconcile to net cash provided by (used in) operating activities from continuing operations, net of the effect of acquisitions and divestitures		
Depreciation and amortization	112	104
Stock-based compensation	27	31
Deferred income taxes	11	(9)
Tax benefit from stock-based awards	(5)	—
Changes in assets and liabilities		
Contracts in process, net and advance payments and billings in excess of costs incurred	(484)	(560)
Inventories	(59)	(51)
Prepaid expenses and other current assets	67	—
Accounts payable	(307)	(223)
Income taxes receivable/payable	120	169
Accrued employee compensation	(81)	(87)
Other accrued expenses	19	29
Other long-term liabilities	2	14
Pension and other postretirement benefit plans	254	257
Other, net	(19)	—
Net cash provided by (used in) operating activities from continuing operations	111	60
Net cash provided by (used in) operating activities from discontinued operations	4	(45)
Net cash provided by (used in) operating activities	115	15
Cash flows from investing activities		
Additions to property, plant and equipment	(70)	(50)
Additions to capitalized internal use software	(20)	(26)
Payments for purchases of acquired companies, net of cash received	—	(500)
Net cash provided by (used in) investing activities	(90)	(576)
Cash flows from financing activities		
Dividends paid	(146)	(135)
Repurchases of common stock	(400)	(312)
Proceeds from warrants exercised	—	13
Activity under common stock plans	57	17
Tax benefit from stock-based awards	5	—
Net cash provided by (used in) financing activities	(484)	(417)
Net increase (decrease) in cash and cash equivalents	(459)	(978)
Cash and cash equivalents at beginning of the year	4,000	3,638
Cash and cash equivalents at end of period	$3,541	$2,660

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

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RAYTHEON COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Presentation

We prepared the accompanying unaudited consolidated financial statements of Raytheon Company and all wholly-owned and majority-owned domestic and otherwise controlled foreign subsidiaries on the same basis as our annual audited financial statements.
In the opinion of management, our financial statements reflect all adjustments, which are of a normal recurring nature, necessary for presentation of financial statements for interim periods in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and with the instructions to Form 10-Q in Article 10 of Securities and Exchange Commission (SEC) Regulation S-X. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates, and any such differences may be material to our financial statements. In addition, we reclassified certain prior year amounts to conform with our current year presentation. As discussed in more detail below in Note 6: "Discontinued Operations" and elsewhere in this Quarterly Report on Form 10-Q, during the first quarter of 2012, we completed the disposal or abandonment of the remaining individual assets of our former turbo-prop commuter aircraft portfolio, Raytheon Airline Aviation Services LLC (RAAS), and all operations have ceased. As a result, we reclassified RAAS results as a discontinued operation for all periods presented. As used in this report, the terms “we,” “us,” “our,” “Raytheon” and the “Company” mean Raytheon Company and its subsidiaries, unless the context indicates another meaning.
We condensed or omitted certain information and footnote disclosures normally included in our annual audited financial statements, which we prepared in accordance with GAAP. Our quarterly financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2011.
We have evaluated subsequent events through the time of filing our Quarterly Report on Form 10-Q with the SEC.

Note 2: Changes in Estimates under Percentage of Completion Contract Accounting

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 information including, but 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 in 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 on a cumulative catch-up basis, which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a contract's percentage of completion. 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 $140 million and $45 million for the three months ended April 1, 2012 and April 3, 2011, respectively. These adjustments increased our earnings from continuing operations attributable to Raytheon Company common stockholders by approximately $91 million ($0.27 per diluted share) and $25 million ($0.07 per diluted share) for the three months ended April 1, 2012 and April 3, 2011,

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respectively.

Note 3: Inventories

Inventories consisted of the following at:

(In millions)	Apr 1, 2012	Dec 31, 2011
Materials and purchased parts	$83	$60
Work in process	298	264
Finished goods	14	12
Total	$395	$336

We capitalize costs incurred in advance of contract award or funding in inventories if we determine contract award or funding is probable. To the extent these are precontract costs, start-up costs have been excluded. We included capitalized precontract costs and other deferred costs of $140 million and $121 million in inventories as work in process at April 1, 2012 and December 31, 2011, respectively.

Note 4: Accounting Standards

New pronouncements issued but not effective until after April 1, 2012 are not expected to have a material impact on our financial position, results of operations or liquidity.

Note 5: Acquisitions

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

On January 31, 2011, we acquired Applied Signal Technology, Inc., subsequently renamed Raytheon Applied Signal Technology, Inc. (RAST), for $500 million in cash, net of $25 million of cash and cash equivalents acquired, and exclusive of retention and management incentive payments. RAST provides advanced intelligence, surveillance and reconnaissance solutions to enhance global security. The acquisition is part of our strategy to extend and enhance our Space and Airborne Systems (SAS) offerings related to certain classified and Department of Defense markets. Pro forma financial information has not been provided for this acquisition since it is not material. In connection with this acquisition, in the three months ended April 3, 2011 we recorded $387 million of goodwill, all of which was allocated to the Company's SAS segment, primarily related to expected synergies from combining operations and the value of RAST's assembled workforce, and $89 million in intangible assets, primarily related to contractual relationships, license agreements and trade names with a weighted average life of 7 years.

A rollforward of our goodwill by segment is as follows:

(In millions)	Integrated Defense Systems	Intelligence and Information Systems	Missile Systems	Network Centric Systems	Space and Airborne Systems	Technical Services	Total
Balance at December 31, 2011	$765	$1,775	$3,467	$2,616	$3,050	$871	$12,544
Acquisitions	—	(1)	—	—	—	—	(1)
Effect of foreign exchange rates and other	—	—	—	—	—	1	1
Balance at April 1, 2012	$765	$1,774	$3,467	$2,616	$3,050	$872	$12,544

During the first quarter of 2012, based on the final review of the valuation results, we completed the purchase price allocations for Henggeler Computer Consultants Inc. and Pikewerks Corporation, which were acquired during the fourth quarter of 2011. The analysis resulted in immaterial adjustments to goodwill totaling approximately $1 million.

Note 6: Discontinued Operations

In pursuing our business strategies, we have divested certain non-core businesses, investments and assets when appropriate. All residual activity relating to our previously disposed businesses appears in discontinued operations. As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011, during the first quarter of

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2012 we completed the disposal or abandonment of the remaining individual assets of our former turbo-prop commuter aircraft portfolio, Raytheon Airline Aviation Services LLC (RAAS), and all operations have ceased. As a result, we have reported the results of RAAS as a discontinued operation for all periods presented. The sale of the remaining operating assets in the first quarter of 2012 resulted in a gain of less than $1 million.

Income from discontinued operations included the following results of RAAS:

	Three Months Ended			
	Pretax		After-tax	
(In millions)	Apr 1, 2012	Apr 3, 2011	Apr 1, 2012	Apr 3, 2011
Raytheon Airline Aviation Services LLC	$—	$3	$—	$2

No interest expense relating to RAAS was allocated to discontinued operations for the three months ended April 1, 2012 and April 3, 2011 because there was no debt specifically attributable to discontinued operations.

We retained certain assets and liabilities of our previously disposed businesses. At April 1, 2012 and December 31, 2011, we had $13 million and $19 million, respectively, of assets primarily related to our retained interest in general aviation finance receivables from the previously sold Raytheon Aircraft Company (Raytheon Aircraft). At April 1, 2012 and December 31, 2011, we had $43 million and $44 million, respectively, of liabilities primarily related to non-income tax obligations, certain environmental and product liabilities, various contract obligations and aircraft lease obligations. We also retained certain U.K. pension assets and obligations for a limited number of U.K. pension plan participants as part of the Raytheon Aircraft sale, which we included in our pension disclosures.

Note 7: Fair Value Measurements

The estimated fair value of certain financial instruments, including cash and cash equivalents, approximates the carrying value due to their short maturities. The estimated fair value of notes receivable approximates the carrying value based principally on their underlying interest rates and terms, maturities, collateral and credit status of the receivables. The carrying value of long-term debt of $4,606 million and $4,605 million at April 1, 2012 and December 31, 2011, respectively, was recorded at amortized cost. The estimated fair value of long-term debt of $5,136 million and $5,121 million at April 1, 2012 and December 31, 2011, respectively, was based on quoted market prices in active markets, which falls within Level 1 of the fair value measurement hierarchy.

We did not have any significant nonfinancial assets or nonfinancial liabilities that would be recognized or disclosed at fair value on a recurring basis as of April 1, 2012 and December 31, 2011. We did not have any transfers of assets or liabilities between levels of the fair value hierarchy during the three months ended April 1, 2012 or the year ended December 31, 2011.

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

(In millions)	Level 1	Level 2	Level 3	Balances at Apr 1, 2012
Assets				
Marketable securities held in trust	$382	$—	$—	$382
Foreign currency forward contracts	14	—	—	14
Liabilities				
Deferred compensation	235	—	—	235
Foreign currency forward contracts	13	—	—	13

(In millions)	Level 1	Level 2	Level 3	Balances at Dec 31, 2011
Assets				
Marketable securities held in trust	$363	$—	$—	$363
Foreign currency forward contracts	12	—	—	12
Liabilities				
Deferred compensation	223	—	—	223

Foreign currency forward contracts	22	—	—	22

Note 8: Derivative Financial Instruments

Our primary market exposures are to interest rates and foreign exchange rates and we use certain derivative financial instruments to help manage these exposures. We execute these instruments with financial institutions that we judge to be credit-

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worthy, and the majority of our foreign currency forward contracts are denominated in currencies of major industrial countries. We do not hold or issue derivative financial instruments for trading or speculative purposes.
The fair value amounts of asset derivatives included in other assets, net and liability derivatives included in other accrued expenses in our consolidated balance sheets related to foreign currency forward contracts were as follows:

	Asset Derivatives		Liability Derivatives	
(In millions)	Apr 1, 2012	Dec 31, 2011	Apr 1, 2012	Dec 31, 2011
Derivatives designated as hedging instruments	$11	$11	$11	$17
Derivatives not designated as hedging instruments	3	1	2	5
Total	$14	$12	$13	$22

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

	Three Months Ended	
(In millions)	Apr 1, 2012	Apr 3, 2011
Effective Portion		
Gain (loss) recognized in accumulated other comprehensive loss (AOCL)	$5	$12
Gain (loss) reclassified from AOCL to net sales	—	—
Gain (loss) reclassified from AOCL to cost of sales	(1)	3
Amount excluded from effectiveness assessment and ineffective portion		
Gain (loss) recognized in cost of sales	—	—

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

	Three Months Ended	
(In millions)	Apr 1, 2012	Apr 3, 2011
Gain (loss) recognized in net sales	$(2)	$—
Gain (loss) recognized in cost of sales	(1)	7

There were no interest rate swaps outstanding at April 1, 2012 or December 31, 2011.

We use foreign currency forward contracts to fix the functional currency value of specific commitments, payments and receipts. The aggregate notional amount of the outstanding foreign currency forward contracts was $890 million and $941 million at April 1, 2012 and December 31, 2011, respectively.
Our foreign currency forward contracts contain off-set, or netting provisions, to mitigate credit risk in the event of counterparty default, including payment default and cross default. At April 1, 2012, and December 31, 2011, these netting provisions effectively reduced our exposure to less than $1 million, which is spread across numerous highly rated counterparties.

Note 9: Commitments and Contingencies

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

(In millions, except percentages)	Apr 1, 2012	Dec 31, 2011
Total remediation costs—undiscounted	$224	$227

Weighted average risk-free rate	5.6	%	5.6	%
Total remediation costs—discounted	$156		$152	
Recoverable portion	108		105	

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

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

Financing Arrangements and Other—We issue guarantees and banks and surety companies issue, on our behalf, letters of credit and surety bonds to meet various bid, performance, warranty, retention and advance payment obligations of us or our affiliates. These instruments expire on various dates through 2022. Additional guarantees of project performance for which there is no stated value also remain outstanding. The stated values outstanding at April 1, 2012 and December 31, 2011 were as follows:

(In millions)	Apr 1, 2012	Dec 31, 2011
Guarantees	$256	$256
Letters of Credit	1,242	1,275
Surety Bonds	231	233

Included in guarantees and letters of credit were $109 million and $237 million, respectively, at April 1, 2012, and $109 million and $240 million, respectively, at December 31, 2011, related to our joint venture in Thales-Raytheon Systems Co. Ltd. (TRS). We provide these guarantees and letters of credit to TRS and other affiliates to assist these entities in obtaining financing on more favorable terms, making bids on contracts and performing their contractual obligations. While we expect these entities to satisfy their loans, and meet their project performance and other contractual obligations, their failure to do so may result in a future obligation to us. We periodically evaluate the risk of TRS and other affiliates failing to satisfy their loans, or meet project performance or other contractual obligations described above. At April 1, 2012, we believe the risk that TRS and other affiliates will not be able to perform or meet their obligations is minimal for the foreseeable future based on their current financial condition. All obligations were current at April 1, 2012. At April 1, 2012 and December 31, 2011, we had an estimated liability of $5 million and $6 million, respectively, related to guarantees and letters of credit.

In 1997, we provided a first loss guarantee of $133 million on $1.3 billion of U.S. Export-Import Bank loans (maturing in 2015) to the Brazilian Government related to Network Centric Systems' System for the Vigilance of the Amazon program. Loan repayments by the Brazilian Government were current at April 1, 2012.

We have entered into industrial cooperation agreements, sometimes referred to as offset agreements, as a condition to obtaining orders for our products and services from certain customers in foreign countries. At April 1, 2012, the aggregate amount of our offset agreements had an outstanding notional value of approximately $5 billion. These agreements are designed to return economic value to the foreign country by requiring the contractor to engage in activities supporting local defense or commercial industries, promoting a balance of trade, developing in-country technology capabilities, or addressing other local development priorities. Offset agreements may be satisfied through activities that do not require a direct cash payment, including transferring technology, providing manufacturing, training and other consulting support to in-country projects, and the purchase by third parties (e.g., our vendors) of supplies from in-country vendors. These agreements may also be satisfied through our use of cash for activities such as subcontracting with local partners, purchasing supplies from in-country vendors, providing financial support for in-country projects, and making investments in local ventures. Such activities may also vary country-by-country depending upon requirements as dictated by their governments. We typically do not commit to offset agreements until orders for our products or services are definitive. The amounts ultimately applied against our offset agreements are based on negotiations with the customers and typically require cash outlays that represent only a fraction of the notional value in the offset agreements. Offset programs usually extend over several or more years and may provide for penalties in the event we fail to perform in accordance with offset requirements. We have historically not been required to pay any such penalties.

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

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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 July 22, 2010, Raytheon Systems Limited (RSL) was notified by the UK Border Agency (UKBA) that it had been terminated for cause on a program. The termination notice included allegations that RSL had failed to perform on certain key milestones and other matters in addition to claiming entitlement to recovery of certain losses incurred and previous payments made to RSL. We believe that RSL performed well and delivered substantial capabilities to the UKBA under the program, which began live operations in May 2009 and had been operating successfully and providing actionable information through at least April 2011 when RSL's exit obligations ended. On July 29, 2010, RSL filed a dispute notice on the grounds that the termination by the UKBA was not valid. On August 18, 2010, the UKBA initiated arbitration proceedings on this issue. On March 22, 2011, the UKBA gave notice that it had presented a demand to draw on the approximately $80 million of letters of credit provided by RSL upon the signing of the contract with the UKBA in 2007. On March 23, 2011, the UKBA submitted a detailed claim in the arbitration of approximately £350 million (approximately $560 million based on foreign exchange rates as of April 1, 2012) for damages and clawback of previous payments, plus interest and arbitration costs, excluding any credit for capability delivered or draw on the letters of credit. The UKBA also asserted that additional amounts may be detailed in the claim in the future if estimates of its damages change, and for continuing post-termination losses and any re-procurement costs, which have not been quantified. At RSL's request, on March 29, 2011, the Arbitration Tribunal issued an interim order restraining the UKBA from drawing down on the letters of credit pending a hearing on the issue. Following the hearing, the Tribunal lifted the restraint on the basis that, at this early stage of the proceedings, the Tribunal had not heard the evidence needed to decide the merits of whether the contractual conditions for a drawdown had been established. The Tribunal also concluded that any decision on the UKBA's right to call on the letters of credit is inextricably intertwined with the ultimate decision on the merits in the arbitration. The Tribunal also preserved RSL's right to claim damages should RSL later establish that the drawdown was not valid. As a result, on April 6, 2011, the UKBA drew the $80 million on the letters of credit.

As a result of the Tribunal’s decision that the letters of credit are inextricably intertwined with the ultimate decision on the merits in the arbitration, we were no longer able to evaluate, independently from the overall claim, the probability of recovery of any amounts drawn on the letters of credit. We therefore recorded $80 million of costs related to the UKBA drawdown (UKBA LOC Adjustment), which was included in IIS’ operating expenses in the first quarter of 2011.

In June 2011, RSL submitted in the arbitration its defenses to the UKBA claim as well as substantial counterclaims in the amount of approximately £500 million (approximately $800 million based on foreign exchange rates as of April 1, 2012) against the UKBA for the collection of receivables and damages. On October 3, 2011, the UKBA filed its reply to RSL's counterclaims, and increased its claim amount by approximately £32 million, to include additional civil service and post termination costs, and approximately £33 million for interest, raising the total gross amount of the UKBA claim for damages and clawback of previous payments to approximately £415 million (approximately $664 million based on foreign exchange rates as of April 1, 2012). On January 6, 2012, RSL filed its response to the UKBA's reply. RSL is pursuing vigorously the collection of all receivables for the program and damages in connection with the wrongful termination and is mounting a strong defense to the UKBA's alleged claims for losses and previous payments. RSL has also settled all subcontractor claims, novated all key subcontracts to the UKBA and agreed with the UKBA that RSL's exit obligations to operate the previously delivered capability ended in April 2011. Effective April 15, 2011, the UKBA took over responsibility for operating the previously delivered capability.

The receivables and other assets remaining under the program for technology and services delivered were approximately $40 million at April 1, 2012 and December 31, 2011. We believe the remaining receivables and other assets are probable of recovery in litigation or arbitration. We currently do not believe it is probable that RSL is liable for losses, previous payments (which includes the $80 million related to the drawdown on the letters of credit), clawback or other claims asserted by the UKBA either in its March 2011 arbitration filing or its October 2011 reply. Due to the inherent uncertainties in litigation and arbitration and the complexity and technical nature of actual and potential claims and counterclaims, it is reasonably possible that the ultimate amount of any resolution of the termination could be less or greater than the amounts we have recorded. For the same reasons, at this time, we are unable to estimate a range of the possible loss or recovery, if any, beyond the claim and counterclaim amounts. If we are required to make payments against claims or other losses asserted by the UKBA in excess of the amounts we have recorded, it could have a material adverse effect on our financial position, results of operations or liquidity. Arbitration hearings are scheduled to commence in late 2012 and we expect to have a decision in 2013.

In addition, various other claims and legal proceedings generally incidental to the normal course of business are pending or

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threatened against us. We do not expect any additional liability from these proceedings to have a material adverse effect on our financial position, results of operations or liquidity.

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

Activity related to our product warranty accruals was as follows:

	Three Months Ended	
(In millions)	Apr 1, 2012	Apr 3, 2011
Balance at beginning of period	$38	$43
Provisions for warranties	1	2
Warranty services provided	(3)	(3)
Balance at end of period	$36	$42

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

Note 10: Stockholders' Equity

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

	Three Months Ended	
(In millions)	Apr 1, 2012	Apr 3, 2011
Amount of stock repurchased	$400	$312
Shares of stock repurchased	7.9	6.1

In September 2011, our Board of Directors authorized the repurchase of up to $2.0 billion of our outstanding common stock. At April 1, 2012, we had approximately $1.8 billion available under this repurchase program. All previous programs have been completed as of April 1, 2012. Share repurchases will take place from time to time at management's discretion depending on market conditions.

In March 2012, our Board of Directors authorized a 16% increase to our annual dividend payout rate from $1.72 to $2.00 per share. Our Board of Directors also declared a dividend of $0.50 per share during the three months ended April 1, 2012, compared to dividends of $0.43 per share during the three months ended April 3, 2011. Dividends are subject to quarterly approval by our Board of Directors.

The changes in shares of our common stock outstanding for the three months ended April 1, 2012 were as follows:

(In millions)	Shares
Balance at December 31, 2011	338.9
Stock plan activity	1.8
Treasury stock repurchases	(7.9)
Balance at April 1, 2012	332.8

Earnings Per Share (EPS)

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

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

	Three Months Ended	
	Apr 1, 2012	Apr 3, 2011
Basic EPS attributable to Raytheon Company common stockholders:		
Distributed earnings	$0.49	$0.43
Undistributed earnings	0.84	0.64
Total	$1.33	$1.07
Diluted EPS attributable to Raytheon Company common stockholders:		
Distributed earnings	$0.49	$0.43
Undistributed earnings	0.84	0.63
Total	$1.33	$1.06

Basic EPS from discontinued operations attributable to Raytheon Company common stockholders and unvested share-based payment awards was a loss of less than $0.01 and income of $0.01 for the three months ended April 1, 2012 and April 3, 2011, respectively. Diluted EPS from discontinued operations attributable to Raytheon Company common stockholders and unvested share-based payment awards was a loss of less than $0.01 and income of $0.01 for the three months ended April 1, 2012 and April 3, 2011, respectively.

The amount of income from continuing operations attributable to participating securities was $8 million and $6 million for the three months ended April 1, 2012 and April 3, 2011, respectively. The amount of income (loss) from discontinued operations attributable to participating securities was a loss of less than $1 million for three months ended April 1, 2012 and income of less than $1 million for the three months ended April 3, 2011. The amount of net income attributable to participating securities was $8 million and $6 million for the three months ended April 1, 2012 and April 3, 2011, respectively.

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

	Three Months Ended	
(In millions)	Apr 1, 2012	Apr 3, 2011
Shares for basic EPS (including 5.7 and 5.5 participating securities for the three months ended April 1, 2012 and April 3, 2011, respectively.)	337.5	357.4
Dilutive effect of stock options and Long-Term Performance Plan	1.2	2.0
Dilutive effect of warrants	—	1.4
Shares for diluted EPS	338.7	360.8

There were no stock options with exercise prices greater than the average market price that were excluded from our calculation of EPS at April 1, 2012 and April 3, 2011. The following stock options with exercise prices less than the average market price, included in our calculations of EPS were as follows:

	Three Months Ended	
(In millions)	Apr 1, 2012	Apr 3, 2011
Stock options included in calculations of EPS	2.8	5.7

Warrants to purchase shares of our common stock with an exercise price of $37.50 per share were included in our calculation of diluted EPS at April 3, 2011. These warrants expired in June 2011.

Stock-based compensation plans

Restricted stock activity for the three months ended April 1, 2012 was as follows:

(In millions)	Shares
Outstanding unvested at December 31, 2011	5.5
Granted	—
Vested	—
Forfeited	(0.1)
Outstanding unvested at April 1, 2012	5.4

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During each of the three months ended April 1, 2012 and April 3, 2011, we issued 0.5 million shares of our common stock in connection with the vesting of our 2009–2011 and 2008–2010 Long-Term Performance Plan (LTPP) awards. During the same periods, we also granted our 2012–2014 and 2011–2013 LTPP awards with an aggregate target award of 0.5 million shares for each period.

The performance goals for the 2012–2014 LTPP award are independent of each other and based on three metrics, as defined in the award agreements: return on invested capital, weighted at 50%; total shareholder return relative to a peer group, weighted at 25%; and cumulative free cash flow, weighted at 25%. The ultimate award, which is determined at the end of the three-year cycle, can range from zero to 200% of the target award and includes dividend equivalents, which are not included in the aggregate target award numbers.

Other Comprehensive Income

Other comprehensive income (loss) includes foreign currency translation adjustments, gains and losses on derivative instruments qualified as cash flow hedges, unrealized gains (losses) on investments, and gains and losses associated with pension and other postretirement benefits. The computation of other comprehensive income (loss) and its components are presented in the consolidated statements of comprehensive income. The related gross, tax and net amounts for each component were as follows:

Three Months Ending April 1, 2012 (In millions)	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Foreign exchange translation	$ 23	$—	$ 23
Cash flow hedges and interest rate locks	6	(2)	4
Pension and other employee benefit plans:			
Amortization of prior service cost included in net periodic expense	1	—	1
Amortization of net actuarial loss included in net income	240	(84)	156
Defined benefit pension and other employee benefit plans, net	241	(84)	157
Other comprehensive income (loss)	$ 270	$ (86)	$ 184

Three Months Ending April 3, 2011 (In millions)	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Foreign exchange translation	$ 41	$—	$ 41
Cash flow hedges and interest rate locks	8	(3)	5
Unrealized gains on investments and other	—	4	4
Pension and other employee benefit plans:			
Net change in initial net obligation	1	—	1
Amortization of prior service cost included in net periodic expense	2	(1)	1
Amortization of net actuarial loss included in net income	200	(70)	130
Effect of exchange rates	(1)	—	(1)
Defined benefit pension and other employee benefit plans, net	202	(71)	131
Other comprehensive income (loss)	$ 251	$ (70)	$ 181

Note 11: Pension and Other Employee Benefits

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

The components of net periodic pension expense were as follows:

	Three Months Ended	
(In millions)	Apr 1, 2012	Apr 3, 2011
Service cost	$135	$123
Interest cost	262	266
Expected return on plan assets	(357)	(319)
Amortization of prior service cost included in net periodic pension expense	2	4
Amortization of net actuarial loss included in net income	239	199
Net periodic pension expense	$281	$273

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Our net periodic pension expense included expense from foreign benefit plans of $1 million and $4 million in the three months ended April 1, 2012 and April 3, 2011, respectively.

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

	Three Months Ended	
(In millions)	Apr 1, 2012	Apr 3, 2011
Service cost	$2	$2
Interest cost	10	10
Expected return on plan assets	(8)	(8)
Net change in initial net obligation	—	1
Amortization of prior service cost included in net periodic pension expense	(1)	(2)
Amortization of net actuarial loss included in net income	1	1
Net periodic postretirement expense (income)	$4	$4

Long-term pension and other postretirement benefit plan liabilities were $6,021 million and $401 million, respectively, at April 1, 2012, and $6,012 million and $400 million, respectively, at December 31, 2011.

We may make both required and discretionary contributions to our pension plans. Required contributions are primarily determined under Employee Retirement Income Security Act of 1974 (ERISA) rules and are affected by the actual return on plan assets and plan funded status. Effective January 1, 2011, we are subject to the funding requirements under the Pension Protection Act of 2006 (PPA), which amended ERISA. Under the PPA, we are required to fully fund our pension plans over a rolling seven-year period as determined annually based upon the funded status at the beginning of the year. We made required contributions of $31 million and $20 million during the three months ended April 1, 2012 and April 3, 2011, respectively, to our pension and other postretirement benefit plans. We did not make any discretionary contributions to our pension plans during the three months ended April 1, 2012 and April 3, 2011, however, we periodically evaluate whether to make discretionary contributions.

Note 12: Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. The Internal Revenue Service (IRS) has completed their examination of our tax returns through 2008 and we have protested to the IRS Appeals Division certain proposed adjustments related to the federal research tax credit and transfer pricing matters. In addition we are currently under IRS examination for the 2009 through 2012 tax years, with tax years 2011 and 2012 being examined under the Compliance Assurance Process (CAP) program. CAP is a method of identifying and resolving tax issues through open, cooperative, and transparent interaction with the IRS prior to the filing of a return. Through the CAP program, we expect to achieve tax certainty sooner and with less administrative burden than conventional post-filing examinations. This program will most likely shorten and narrow the scope of the post-filing examinations. We are also under audit by multiple state and foreign tax authorities.

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

There were no significant changes in the balance of our unrecognized tax benefits during the three months ended April 1, 2012 and April 3, 2011. The balance of our unrecognized tax benefits, exclusive of interest, was $167 million at April 1, 2012 and December 31, 2011 and $195 million at April 3, 2011 and $188 million at December 31, 2010. If recognized, the majority of our unrecognized tax benefits would affect our earnings.

We accrue interest and penalties related to unrecognized tax benefits in tax expense. At April 1, 2012 and December 31, 2011, we had $19 million and $17 million, respectively of interest and penalties accrued related to unrecognized tax benefits, which, net of the federal tax benefit, was approximately $12 million and $11 million, respectively.

In the ordinary course of business, we may take new positions that could increase or decrease our unrecognized tax benefits in future periods. It is reasonably possible that within the next 12 months our unrecognized tax benefits, exclusive of interest, may decrease by up to $60 million, as a result of resolving issues protested to the IRS Appeals Division for the 2006–2008 tax years. We expect that the majority of the decrease would not impact earnings because the resolution of the issues is anticipated to be consistent with the benefit previously recognized.

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Note 13: Business Segment Reporting

Our reportable segments, organized based on capabilities and technologies, are: Integrated Defense Systems, Intelligence and Information Systems, Missile Systems, Network Centric Systems, Space and Airborne Systems and Technical Services. Segment net sales and operating income generally include intersegment sales and profit recorded at cost plus a specified fee, which may differ from what the selling entity would be able to obtain on sales to external customers. Corporate and Eliminations includes corporate expenses and intersegment sales and profit eliminations. Corporate expenses represent unallocated costs and certain other corporate costs not considered part of management's evaluation of reportable segment operating performance.

As previously disclosed in the Company's 2011 Annual Report on Form 10-K, during the first quarter of 2012 we completed the disposal or abandonment of the remaining individual assets of our former turbo-prop commuter aircraft portfolio, Raytheon Airline Aviation Services LLC (RAAS), and all operations have ceased. As a result, we have reported the results of RAAS, which were formerly included in Corporate and Eliminations, as a discontinued operation for all periods presented. The sale of the remaining operating assets in the first quarter of 2012 resulted in a gain of less than $1 million.

Revised segment sales for the fiscal quarters and year ended 2011 were as follows:

	Three Months Ended				Year Ended
(In millions)	Apr 3, 2011	Jul 3, 2011	Oct 2, 2011	Dec 31, 2011	Dec 31, 2011
Integrated Defense Systems	$1,219	$1,272	$1,176	$1,291	$4,958
Intelligence and Information Systems	750	752	760	753	3,015
Missile Systems	1,329	1,366	1,413	1,482	5,590
Network Centric Systems	1,121	1,135	1,104	1,137	4,497
Space and Airborne Systems	1,265	1,344	1,305	1,341	5,255
Technical Services	799	851	817	886	3,353
Corporate and Eliminations	(431)	(519)	(459)	(468)	(1,877)
Total	$6,052	$6,201	$6,116	$6,422	$24,791

Revised segment operating income for the fiscal quarters and year ended 2011 were as follows:

	Three Months Ended				Year Ended
(In millions)	Apr 3, 2011	Jul 3, 2011	Oct 2, 2011	Dec 31, 2011	Dec 31, 2011
Integrated Defense Systems	$193	$203	$204	$236	$836
Intelligence and Information Systems	(28)	55	58	74	159
Missile Systems	155	151	178	209	693
Network Centric Systems	160	170	162	175	667
Space and Airborne Systems	156	176	171	214	717
Technical Services	81	72	75	84	312
FAS/CAS Adjustment	(89)	(90)	(75)	(83)	(337)
Corporate and Eliminations	(39)	(67)	(51)	(60)	(217)
Total	$589	$670	$722	$849	$2,830

Revised components of operating income related to Corporate and Eliminations for the fiscal quarters and year ended 2011 were as follows:

	Three Months Ended				Year Ended
(In millions)	Apr 3, 2011	Jul 3, 2011	Oct 2, 2011	Dec 31, 2011	Dec 31, 2011
Intersegment profit eliminations	$(38)	$(53)	$(45)	$(41)	$(177)
Corporate	(1)	(14)	(6)	(19)	(40)

Total	$(39)	$(67)	$(51)	$(60)	$(217)

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Segment financial results were as follows:

	Three Months Ended	
Total Net Sales (In millions)	Apr 1, 2012	Apr 3, 2011
Integrated Defense Systems	$1,220	$1,219
Intelligence and Information Systems	764	750
Missile Systems	1,351	1,329
Network Centric Systems	1,000	1,121
Space and Airborne Systems	1,257	1,265
Technical Services	802	799
Corporate and Eliminations	(456)	(431)
Total	$5,938	$6,052

	Three Months Ended	
Intersegment Sales (In millions)	Apr 1, 2012	Apr 3, 2011
Integrated Defense Systems	$23	$17
Intelligence and Information Systems	3	3
Missile Systems	7	15
Network Centric Systems	103	124
Space and Airborne Systems	132	121
Technical Services	188	151
Total	$456	$431

	Three Months Ended	
Operating Income (In millions)	Apr 1, 2012	Apr 3, 2011
Integrated Defense Systems	$216	$193
Intelligence and Information Systems	62	(28)
Missile Systems	180	155
Network Centric Systems	116	160
Space and Airborne Systems	173	156
Technical Services	71	81
FAS/CAS Adjustment	(70)	(89)
Corporate and Eliminations	(42)	(39)
Total	$706	$589

We must calculate our pension and postretirement benefit costs under both Financial Accounting Standards (FAS) requirements under GAAP and U.S. Government cost accounting standards (CAS). GAAP outlines the methodology used to determine pension expense or income for financial reporting purposes, which is not indicative of the funding requirements for pension and postretirement plans that we determine by other factors. CAS prescribes the allocation to and recovery of pension and other postretirement costs on U.S. Government contracts. The results of each segment only include pension and postretirement expense as determined under CAS. The CAS requirements for pension costs and its calculation methodology differ from the FAS requirements and calculation methodology. As a result, while both FAS and CAS use long-term assumptions in their calculation methodologies, each method results in different calculated amounts of pension and postretirement cost. The FAS/CAS Adjustment, which is reported as a separate line in our segment results above, represents the difference between our pension and postretirement benefit (PRB) expense or income under FAS in accordance with GAAP and our pension and PRB expense under CAS.

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The components of our FAS/CAS Adjustment were as follows:

(In millions)	Three Months Ended Apr 1, 2012	Apr 3, 2011
FAS/CAS Pension Adjustment	$(70)	$(90)
FAS/CAS PRB Adjustment	—	1
FAS/CAS Adjustment	$(70)	$(89)

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

(In millions)	Three Months Ended Apr 1, 2012	Apr 3, 2011
Intersegment profit eliminations	$(42)	$(38)
Corporate	—	(1)
Total	$(42)	$(39)

Intersegment Operating Income (In millions)	Three Months Ended Apr 1, 2012	Apr 3, 2011
Integrated Defense Systems	$2	$1
Intelligence and Information Systems	—	—
Missile Systems	2	2
Network Centric Systems	9	12
Space and Airborne Systems	12	12
Technical Services	17	11
Total	$42	$38

Identifiable Assets (In millions)	Apr 1, 2012	Dec 31, 2011
Integrated Defense Systems	$1,907	$1,909
Intelligence and Information Systems	2,487	2,442
Missile Systems	5,318	5,214
Network Centric Systems	4,279	4,242
Space and Airborne Systems	4,811	4