RAYTHEON CO/
Form 10-Q
July 26, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 24, 2007.

¨ **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)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ¨ No x

Number of shares of common stock outstanding as of July 13, 2007: 437,335,000.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
RAYTHEON COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
(In millions)	**June 24, 2007**	**Dec. 31, 2006**
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,045	$ 2,460
Accounts receivable, less allowance for doubtful accounts	152	178
Contracts in process	3,945	3,600
Inventories	537	487
Deferred taxes	227	257
Prepaid expenses and other current assets	244	239
Assets held for sale		2,296
Total current assets	8,150	9,517
Property, plant and equipment, net	2,086	2,131
Deferred taxes	240	189
Goodwill	11,541	11,539
Other assets, net	2,273	2,115
Total assets	$ 24,290	$ 25,491
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Notes payable and current portion of long-term debt	$ 686	$ 687
Advance payments and billings in excess of costs incurred	1,895	1,962
Accounts payable	893	920
Accrued salaries and wages	754	944
Other accrued expenses	1,379	1,193
Liabilities held for sale		1,009
Total current liabilities	5,607	6,715
Accrued retiree benefits and other long-term liabilities	4,075	4,232
Long-term debt	2,233	3,278
Commitments and contingencies (note 10)		
Minority interest	195	165
Stockholders equity	12,180	11,101
Total liabilities and stockholders equity	$ 24,290	$ 25,491

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

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RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended		Six Months Ended	
(In millions except per share amounts)	**June 24, 2007**	**June 25, 2006**	**June 24, 2007**	**June 25, 2006**
Net sales	$ 5,419	$ 4,973	$ 10,347	$ 9,633
Cost of sales	4,326	4,032	8,307	7,839
Administrative and selling expenses	367	345	707	664
Research and development expenses	138	135	235	236
Total operating expenses	4,831	4,512	9,249	8,739
Operating income	588	461	1,098	894
Interest expense	54	68	114	137
Interest income	(57)	(13)	(85)	(34)
Other expense (income), net	56	(13)	59	(39)
Non-operating expense, net	53	42	88	64
Income from continuing operations before taxes	535	419	1,010	830
Federal and foreign income taxes	179	143	340	282
Income from continuing operations	356	276	670	548
(Loss) income from discontinued operations, net of tax	(7)	34	25	49
Gain on sale, net of tax	986		986	
Income from discontinued operations	979	34	1,011	49
Net income	$ 1,335	$ 310	$ 1,681	$ 597
Earnings per share from continuing operations				
Basic	$ 0.82	$ 0.62	$ 1.53	$ 1.24
Diluted	$ 0.79	$ 0.61	$ 1.49	$ 1.22
Earnings per share from discontinued operations				
Basic	$ 2.24	$ 0.08	$ 2.30	$ 0.11
Diluted	$ 2.18	$ 0.08	$ 2.24	$ 0.11
Earnings per share				
Basic	$ 3.06	$ 0.70	$ 3.83	$ 1.35
Diluted	$ 2.97	$ 0.69	$ 3.73	$ 1.33

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended	
(In millions)	**June 24, 2007**	**June 25, 2006**
Cash flows from operating activities		
Net income	$ 1,681	$ 597
Less: Income from discontinued operations, net of tax	(25)	(49)
Less: Gain on sale, net of tax	(986)	
Income from continuing operations	670	548
Adjustments to reconcile income from continuing operations to net cash (used in) provided by operating activities from continuing operations, net of the effect of acquisitions and divestitures		
Depreciation and amortization	186	184
Deferred taxes	115	167
Net gain on sales of investments		(15)
Decrease in accounts receivable	31	29
Change in contracts in process and advance payments and billings in excess of costs incurred	(403)	(379)
Increase in inventories	(63)	(14)
(Increase) decrease in prepaid expenses and other current assets	(4)	18
Decrease in accounts payable	(27)	(51)
Decrease in accrued salaries and wages	(191)	(172)
(Decrease) increase in other accrued expenses	(61)	5
Change in income taxes payable	(628)	9
Origination of financing receivables		(7)
Collection of financing receivables not sold	56	53
Sale of financing receivables		28
Pension and other adjustments, net	(106)	23
Net cash (used in) provided by operating activities from continuing operations	(425)	426
Net cash (used in) provided by operating activities from discontinued operations	(41)	14
Net cash (used in) provided by operating activities	(466)	440
Cash flows from investing activities		
Expenditures for property, plant and equipment	(96)	(88)
Proceeds from sales of property, plant and equipment	2	
Capitalized expenditures for internal use software	(34)	(25)
Change in other assets	(2)	
Payment for purchases of acquired companies, net of cash received		(47)
Proceeds from sales of operating units and investments, net	3,117	50
Net cash provided by (used in) investing activities from continuing operations	2,987	(110)
Net cash used in investing activities from discontinued operations	(27)	(18)
Net cash provided by (used in) investing activities	2,960	(128)
Cash flows from financing activities		
Dividends paid	(220)	(205)
Increase in short-term debt and other notes	1	11
Repayments of long-term debt	(1,039)	
Repayments of subordinated notes payable		(382)
Repurchase of common stock	(801)	(102)

Proceeds under common stock plans	117	72
Tax benefit from stock-based awards	33	17
Net cash used in financing activities from continuing operations	(1,909)	(589)
Net increase (decrease) in cash and cash equivalents	585	(277)
Cash and cash equivalents at beginning of year	2,460	1,202
Cash and cash equivalents at end of period	$ 3,045	$ 925

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

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RAYTHEON COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Raytheon Company have been prepared on substantially the same basis as our annual consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2006. Certain information and footnote disclosures normally included in consolidated financial statements, prepared in accordance with generally accepted accounting principles in the United States of America (GAAP), have been condensed or omitted. In the opinion of management, these condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for presentation of financial statements for the interim periods in accordance with GAAP and with the instructions to Form 10-Q in Article 10 of Regulation S-X. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. As discussed in more detail below in Note 9, Discontinued Operations, and elsewhere in this Quarterly Report on Form 10-Q in the three months ended June 24, 2007 we completed the sale of Raytheon Aircraft, which has been accounted for as a discontinued operation. Our prior period consolidated financial statements have been reclassified to reflect Raytheon Aircraft as a discontinued operation. Certain prior year amounts have also been reclassified to conform to the current year presentation. As used in this report, the terms we, us, our, Raytheon and the Company mean Raytheon Compa and its subsidiaries, unless the context indicates another meaning.

2. Inventories

Inventories consisted of the following at:

(In millions)	June 24, 2007	Dec. 31, 2006
Finished goods	$ 188	$ 170
Work in process	253	229
Materials and purchased parts	96	88
Total	$ 537	$ 487

Inventories at Flight Options LLC and Raytheon Airline Aviation Services LLC totaled $204 million at June 24, 2007 and $175 million at December 31, 2006. Inventories at the government and defense businesses include component parts, materials and in certain instances, costs incurred in advance of contract award or funding. If we determine that the contract award or funding is probable, these precontract costs, excluding any start-up costs, are capitalized in inventory. Capitalized precontract costs of $92 million and $84 million were included in inventory at June 24, 2007 and December 31, 2006, respectively.

3. Product Warranty

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

Activity related to warranty accruals was as follows:

	Three Months Ended		Six Months Ended	
(In millions)	June 24, 2007	June 25, 2006	June 24, 2007	June 25, 2006
Balance at beginning of period	$ 36	$ 26	$ 34	$ 29
Provisions for warranties	8	6	12	7
Warranty services provided	(2)	(1)	(4)	(5)

Balance at end of period	$ 42	$ 31	$ 42	$ 31

Costs incurred under warranty provisions performed under long-term contracts using the cost-to-cost measure of progress are accounted for as contract costs and are excluded from the table above, as the estimation of these costs is an integral part of the determination of the pricing of those long-term contracts.

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4. Stockholders Equity

Stockholders equity consisted of the following at:

(In millions)	June 24, 2007	Dec. 31, 2006
Preferred stock, no outstanding shares	$	$
Common stock, outstanding shares	5	5
Additional paid-in capital	10,337	10,097
Accumulated other comprehensive loss	(2,277)	(2,514)
Treasury stock, at cost	(1,658)	(816)
Retained earnings	5,773	4,329
Total	$ 12,180	$ 11,101

In the six months ended June 24, 2007, we repurchased 14.7 million shares of our common stock for $801 million versus 2.4 million shares for $102 million in the six months ended June 25, 2006, under our stock repurchase programs. As of June 24, 2007, we had $611 million available under our remaining stock repurchase program.

We declared a dividend of $0.255 per share in the three months ended June 24, 2007 versus $0.24 per share for the three months ended June 25, 2006. All dividends are approved by our Board of Directors.

The changes in shares of common stock outstanding were as follows:

(In millions)	Shares
Balance at December 31, 2006	445.9
Stock plan activity	6.7
Treasury stock activity	(15.5)
Balance at June 24, 2007	437.1

Basic earnings per share (EPS) is computed by dividing net income by the weighted-average shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

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

	Three Months Ended		Six Months Ended	
(In thousands)	June 24, 2007	June 25, 2006	June 24, 2007	June 25, 2006
Average common shares outstanding for basic EPS	436,722	442,650	438,867	442,496
Dilutive effect of stock options, restricted stock and LTPP	8,290	7,895	8,479	7,614
Dilutive effect of warrants	3,768	344	3,658	148
Shares for diluted EPS	448,780	450,889	451,004	450,258

Stock options to purchase 5.5 million and 7.1 million shares of common stock outstanding in the three months ended June 24, 2007 and June 25, 2006, respectively, and options to purchase 5.5 million and 13.9 million shares of common stock in the six months ended June 24, 2007 and June 25, 2006, respectively, did not affect the computation of diluted EPS, as the exercise prices for these options were greater than the average market price of our common stock during the respective periods.

In the three months ended June 25, 2006, we issued 12,025,662 warrants to purchase our common stock, of which 12,015,820 were outstanding at June 24, 2007, in connection with our settlement of a securities class action lawsuit. These warrants were issued with an exercise price of $37.50 per share and have been included in the calculation of diluted shares for the three and six months ended June 24, 2007 and June 25, 2006.

In the three months ended June 24, 2007, 1,648,065 shares of common stock were issued in connection with our annual grant of restricted stock awards to employees. These annual awards vest over a four-year period.

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In the three months ended June 24, 2007, 1,104,525 shares of restricted stock vested.

In the three months ended June 24, 2007, 209,586 shares of restricted stock were forfeited in connection with the sale of Raytheon Aircraft.

In the three months ended March 25, 2007, 943,349 shares of common stock were issued in connection with the vesting of the 2004-2006 Long-Term Performance Plan (LTPP) awards. In addition, we granted the 2007-2009 LTPP awards with an aggregate target award of 435,800 units. The goals under these awards are independent of each other and based on three metrics: return on invested capital, weighted at 50%; total shareholder return relative to a peer group, weighted at 25%; and 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 percent of the target award, and also includes dividend equivalents which are not included in the number above.

The components of other comprehensive income (loss) generally include foreign currency translation adjustments, unfunded projected benefit obligation and unrealized gains and losses on effective cash flow hedges. The computation of comprehensive income was as follows:

	Three Months Ended		Six Months Ended	
(In millions)	**June 24, 2007**	**June 25, 2006**	**June 24, 2007**	**June 25, 2006**
Net income	$ 1,335	$ 310	$ 1,681	$ 597
Other comprehensive income (loss):				
Amortization of unfunded projected benefit obligation	60		123	
Elimination of RAC unfunded benefit obligations in connection with sale	95		95	
Elimination of RAC cash flow hedges in connection with sale	(18)		(18)	
Foreign exchange translation	24	21	26	21
Other, net	12	13	11	16
Total other comprehensive income (loss)	173	34	237	37
Comprehensive income	$ 1,508	$ 344	$ 1,918	$ 634

5. Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions.

IRS examinations of our tax returns have been completed through 2002, and IRS examinations of our tax returns for 2003-2005 began in March 2007. Reports by the IRS Appeals Division (Appeals) involving various domestic and Foreign Sales Corporation issues for 1989-1997 are being reviewed by the Joint Committee on Taxation. We have protested to Appeals certain proposed adjustments primarily involving benefits under the Foreign Sales Corporation and Extraterritorial Income export regimes for 1998-2002. Our 1984-1990 federal research credit refund claim also remains under consideration at Appeals. We are under audit by a number of state tax authorities but do not expect any significant amounts to be asserted from such audits. State tax liabilities will be adjusted to account for changes in federal taxable income for 1989-2002, as well as any adjustments in subsequent years, as those years are ultimately resolved with the IRS.

We apply the principles of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), when accounting for our various tax positions. As a result of the implementation of FIN 48 on January 1, 2007, we recognized a $13 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to retained earnings. The balance of the unrecognized tax benefits at adoption, exclusive of interest, was $500 million, of which $409 million would affect earnings if recognized. During the quarter, we recorded a gross liability of $55 million offset by the associated federal tax benefit of $19 million, related to various state tax positions associated with our discontinued operations. While we believe we have adequately provided for all tax positions, amounts asserted by taxing authorities could be greater than our accrued position. Accordingly, additional provisions on federal, foreign and state tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved. We recognize interest accrued related to unrecognized tax benefits in tax expense. Penalties, if incurred, would also be recognized as a component of tax expense. As of January 1, 2007, we had approximately $60 million of interest accrued related to unrecognized tax benefits, which, net of the federal tax benefit, is approximately $39 million.

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It is reasonably possible that within the next 12 months the matters presently under consideration at Appeals or the Joint Committee on Taxation, including the federal research credit refund claim and Foreign Sales Corporation/Extraterritorial Income regime issues, will be resolved and certain tax periods in various tax jurisdictions will effectively be closed to further examination, in which case we could record a reduction in our balance of unrecognized tax benefits of up to $280 million and a reduction in our tax expense of up to $180 million.

The provision for state income taxes is generally accounted for as deferred contract costs and are included in contracts in process until allocated to our contracts, as these costs can generally be recovered through the pricing of products and services to the U.S. government.

6. Pension and Other Employee Benefits

We have pension plans covering the majority of our employees, including certain employees in foreign countries (Pension Benefits). In addition to providing Pension Benefits, we provide certain healthcare and life insurance benefits to retired employees through other postretirement benefit plans (Other Benefits).

The table below outlines the components of net periodic expense of our domestic and foreign Pension Benefits plans:

	Three Months Ended		Six Months Ended	
(In millions)	**June 24, 2007**	**June 25, 2006**	**June 24, 2007**	**June 25, 2006**
Service cost	$ 109	$ 105	$ 219	$ 203
Interest cost	234	226	468	441
Expected return on plan assets	(275)	(243)	(550)	(486)
Amortization of prior service cost	3	4	6	8
Recognized net actuarial loss	98	132	196	247
Net periodic expense	$ 169	$ 224	$ 339	$ 413

Our net periodic expense includes expense from foreign Pension Benefits plans of $6 million and $7 million in the three months ended June 24, 2007 and June 25, 2006, respectively, and $13 million and $15 million in the six months ended June 24, 2007 and June 25, 2006, respectively.

The table below outlines the components of net periodic (income) expense of our domestic and foreign Other Benefits plans:

	Three Months Ended		Six Months Ended	
(In millions)	**June 24, 2007**	**June 25, 2006**	**June 24, 2007**	**June 25, 2006**
Service cost	$ 3	$ 4	$ 6	$ 7
Interest cost	14	17	28	34
Expected return on plan assets	(11)	(10)	(22)	(20)
Amortization of transition asset	2	2	4	4
Amortization of prior service cost	(13)	(13)	(26)	(26)
Recognized net actuarial loss	2	6	4	12
Net periodic (income) expense	$ (3)	$ 6	$ (6)	$ 11

Under Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements Nos. 87, 88, 106 and 132(R), any previously unrecognized deferred amounts, such as demographic or asset gains or losses and the impact of historical plan changes, are included in accumulated other comprehensive loss. These amounts are amortized from accumulated other comprehensive income (loss) to net periodic (income) expense.

We plan to make both discretionary and required contributions to the Pension Benefits and Other Benefits plans of approximately $815 million and $45 million, respectively, in 2007. In the six months ended June 24, 2007 and June 25, 2006, we contributed an aggregate of approximately $640 million and $405 million, respectively, to these plans.

7. Business Segment Reporting

Reportable segments, which are organized based on capabilities and technologies, include: Integrated Defense Systems, Intelligence and Information Systems, Missile Systems, Network Centric Systems, Space and Airborne Systems, and Technical Services, together with our Other category, which consists of Flight Options LLC, Raytheon

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Airline Aviation Services LLC and Raytheon Professional Services LLC. Segment net sales and operating income generally include intersegment sales and profit recorded at cost plus a specified fee or other agreed terms, which may differ from what the selling entity would be able to obtain on external sales. Corporate and Eliminations includes certain Company-wide accruals and intersegment sales and profit eliminations.

Effective January 1, 2007, the composition of Technical Services internal organization was changed to exclude the Media Solutions business, which now reports to Integrated Defense Systems and Space and Airborne Systems. Media Solutions generated inter-company revenue primarily from Integrated Defense Systems and Space and Airborne Systems in prior periods. Prior period segment results were revised to reflect this reorganization for Technical Services and the corresponding amount in intersegment eliminations.

The table below outlines Technical Services revised results for the four quarters of 2006:

Three Months Ended	Net Sales	Operating Income
	(In millions)	
March 26, 2006	$ 450	$ 31
June 25, 2006	466	30
September 24, 2006	500	35
December 31, 2006	594	46
Full Year 2006	$ 2,010	$ 142

Segment financial results were as follows:

	Net Sales		Net Sales	
	Three Months Ended		Six Months Ended	
(In millions)	June 24, 2007	June 25, 2006	June 24, 2007	June 25, 2006
Integrated Defense Systems	$ 1,166	$ 1,038	$ 2,258	$ 2,001
Intelligence and Information Systems	666	633	1,254	1,244
Missile Systems	1,244	1,117	2,384	2,106
Network Centric Systems	1,052	880	1,981	1,671
Space and Airborne Systems	1,065	1,057	2,029	2,075
Technical Services	473	466	899	916
Other	217	202	398	392
Corporate and Eliminations	(464)	(420)	(856)	(772)
Total	$ 5,419	$ 4,973	$ 10,347	$ 9,633

Intersegment sales in the three months ended June 24, 2007 and June 25, 2006, respectively, were $24 million and $20 million for Integrated Defense Systems, $8 million and $5 million for Intelligence and Information Systems, $12 million and $8 million for Missile Systems, $110 million and $95 million for Network Centric Systems, $154 million and $144 million for Space and Airborne Systems, $142 million and $152 million for Technical Services and $5 million and none for Other.

Intersegment sales in the six months ended June 24, 2007 and June 25, 2006, respectively, were $47 million and $40 million for Integrated Defense Systems, $14 million and $6 million for Intelligence and Information Systems, $20 million and $14 million for Missile Systems, $202 million and $179 million for Network Centric Systems, $285 million and $260 million for Space and Airborne Systems, $268 million and $278 million for Technical Services and $9 million and none for Other.

(In millions)	Operating Income Three Months Ended June 24, 2007	June 25, 2006	Operating Income Six Months Ended June 24, 2007	June 25, 2006
Integrated Defense Systems	$ 212	$ 177	$ 411	$ 335
Intelligence and Information Systems	63	58	118	113
Missile Systems	134	122	254	232
Network Centric Systems	139	91	256	175
Space and Airborne Systems	133	152	262	297
Technical Services	29	30	50	61
Other	1	(10)	(7)	(23)
FAS/CAS Pension Adjustment	(63)	(96)	(125)	(181)
Corporate and Eliminations	(60)	(63)	(121)	(115)
Total	$ 588	$ 461	$ 1,098	$ 894

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Intersegment operating income in the three months ended June 24, 2007 and June 25, 2006, respectively was $2 million and $1 million for Integrated Defense Systems, none and none for Intelligence and Information Systems, $1 million and $1 million for Missile Systems, $12 million and $7 million for Network Centric Systems, $14 million and $14 million for Space and Airborne Systems, $12 million and $12 million for Technical Services and $1 million and none for Other.

Intersegment operating income in the six months ended June 24, 2007 and June 25, 2006, respectively was $4 million and $3 million for Integrated Defense Systems, $1 million and $1 million for Intelligence and Information Systems, $1 million and $1 million for Missile Systems, $19 million and $14 million for Network Centric Systems, $26 million and $23 million for Space and Airborne Systems, $23 million and $22 million for Technical Services and $1 million and none for Other.

The FAS/CAS Pension Adjustment represents the difference between our pension expense or income under Statement of Financial Accounting Standards No. 87, Employers Accounting for Pensions (SFAS No. 87), and our pension expense under Cost Accounting Standards (CAS) and is reported as a separate line item in our segment results. SFAS No. 87 outlines the methodology used to determine pension expense or income for financial reporting purposes, which is not necessarily indicative of the funding requirements of pension plans that are determined by other factors. CAS prescribes the allocation to and recovery of pension costs on U.S. government contracts and is a major factor in determining pension funding requirements. The results for each segment only include pension expense as determined under CAS that can generally be recovered through the pricing of products and services to the U.S. government.

	Identifiable Assets	
(In millions)	**June 24, 2007**	**Dec. 31, 2006**
Integrated Defense Systems	$ 1,768	$ 1,761
Intelligence and Information Systems	1,979	1,946
Missile Systems	4,983	4,770
Network Centric Systems	3,761	3,731
Space and Airborne Systems	4,401	4,271
Technical Services	1,305	1,361
Other	1,025	1,045
Corporate	5,068	4,310
Assets held for sale		2,296
Total	$ 24,290	$ 25,491

8. <u>Other Expense (Income), net</u>

The components of other expense (income), net were as follows:

	Three Months Ended		Six Months Ended	
(In millions)	**June 24, 2007**	**June 25, 2006**	**June 24, 2007**	**June 25, 2006**
Loss on repurchases of long-term debt and subordinated notes	$ 59	$	$ 59	$
Sale of the Space Imaging investment				(21)
Securities class action lawsuit adjustment		(34)		(34)
ERISA lawsuit settlement		7		7
Loss on sale of HRL investment		4		4
Other	(3)	10		5
Total	$ 56	$ (13)	$ 59	$ (39)

In the three months ended June 24, 2007, we repurchased long-term debt with a par value of $1,041 million at a loss of $59 million pretax, which was included as a non-operating item in other expense (income), net.

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9. Discontinued Operations

Income from discontinued operations consisted of the following results from Raytheon Aircraft and Raytheon Engineers & Constructors businesses (RE&C):

	Three Months Ended			
	Pretax		After-tax	
(In millions)	June 24, 2007	June 25, 2006	June 24, 2007	June 25, 2006
Gain on sale of Raytheon Aircraft	$ 1,598	$	$ 986	$
Raytheon Aircraft	(7)	53	(5)	35
RE&C	(1)	(2)	(2)	(1)
Total	$ 1,590	$ 51	$ 979	$ 34

	Six Months Ended			
	Pretax		After-tax	
(In millions)	June 24, 2007	June 25, 2006	June 24, 2007	June 25, 2006
Gain on sale of Raytheon Aircraft	$ 1,598	$	$ 986	$
Raytheon Aircraft	37	79	24	52
RE&C	3	(5)	1	(3)
Total	$ 1,638	$ 74	$ 1,011	$ 49

No interest expense was allocated to discontinued operations for the three and six months ended June 24, 2007 and June 25, 2006 since there was no debt specifically attributable to discontinued operations or required to be repaid with proceeds from the sale.

Raytheon Aircraft In the three months ended June 24, 2007, we completed the sale of Raytheon Aircraft to Hawker Beechcraft Inc., a new company formed by GS Capital Partners, an affiliate of Goldman Sachs, and Onex Partners, for $3,318 million in gross proceeds, which resulted in net proceeds of $3,117 million. The primary difference between the gross and net proceeds is a $131 million final purchase price adjustment for cash retained by us through the closing of the transaction. We recorded a gain on sale of $986 million, net of $612 million of federal, foreign and state taxes, in the three and six months ended June 24, 2007. We retained certain assets and liabilities of Raytheon Aircraft after the sale. At June 24, 2007, $65 million was included in non-current assets related to a residual interest in certain receivables sold by Raytheon Aircraft in 2006 and $35 million was included in non-current liabilities related to certain environmental and product liabilities. Any future income statement activity related to these retained assets and liabilities will be included in discontinued operations. We also retained certain U.K. pension assets and obligations for a limited number of U.K. pension plan participants. The related pension assets and obligations are included in our pension disclosures.

The key components of (loss) income from discontinued operations related to Raytheon Aircraft were as follows:

	Three Months Ended		Six Months Ended	
(In millions)	June 24, 2007	June 25, 2006	June 24, 2007	June 25, 2006
Net sales	$	$ 738	$ 642	$ 1,230
Operating expenses	7	687	595	1,158
(Loss) income before taxes	(7)	53	37	79
Income taxes	(2)	18	13	27
(Loss) income from discontinued operations	$ (5)	$ 35	$ 24	$ 52
Gain on sale, net of tax	$ 986	$	$ 986	$

The key components of assets and liabilities held for sale related to Raytheon Aircraft consisted of the following at:

(In millions)		Dec. 31, 2006
Current assets	$	1,771
Non-current assets		525
Total assets	$	2,296
Current liabilities	$	872
Non-current liabilities		137
Total liabilities	$	1,009

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At December 31, 2006 total assets held for sale consisted primarily of accounts receivable, net of $165 million, inventories of $1,426 million and property, plant and equipment, net of $521 million. At December 31, 2006 total liabilities held for sale consisted primarily of advance payments and billings in excess of costs of $420 million, accounts payable of $228 million, accrued expenses of $186 million and accrued retiree benefits and other long-term liabilities of $137 million.

Raytheon Engineers & Constructors In 2000 we sold RE&C to Washington Group International, Inc. (WGI). As a result of WGI s bankruptcy, we were required to perform various contract and lease obligations under letters of credit, surety bonds and guarantees (Support Agreements) that it had provided to project owners and other parties. We have since resolved most of the Support Agreement obligations. The resolution of the remaining Support Agreement obligations is not expected to have a material adverse effect on our financial position, results of operations or liquidity.

Other accrued expenses included net current liabilities for RE&C of $23 million at June 24, 2007 and December 31, 2006.

10. Commitments and Contingencies

We are involved in various stages of investigation and cleanup related to remediation of various environmental sites. Our estimate of total environmental remediation costs expected to be incurred is $117 million. Discounted at a weighted-average risk-free rate of 5.8%, we estimate the liability to be $85 million before U.S. government recovery and had this amount accrued at June 24, 2007. A portion of these costs is eligible for future recovery through the pricing of products and services to the U.S. government. The recovery of environmental cleanup costs from the U.S. government is considered probable based on government contracting regulations and our long history of receiving reimbursement for such costs. Accordingly, we have recorded $50 million at June 24, 2007 for the estimated future recovery of these costs from the U.S. government, which is included in contracts in process. We lease certain government-owned properties and are generally not liable for environmental remediation at these sites, therefore, no provision has been made in the condensed consolidated financial statements for these costs. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative cleanup methods and technologies, the uncertainty of insurance coverage and the unresolved extent of our responsibility, it is difficult to determine the ultimate outcome of these matters; however, any additional liability is not expected to have a material adverse effect on our financial position, results of operations or liquidity.

We issue guarantees and have banks and surety companies issue, on our behalf, letters of credit and surety bonds to meet various bid, performance, warranty, retention and advance payment obligations of us or our affiliates. Approximately $303 million, $700 million and $123 million of these guarantees, letters of credit and surety bonds, for which there were stated values, were outstanding at June 24, 2007, respectively, and $311 million, $702 million and $120 million were outstanding at December 31, 2006, respectively. These instruments expire on various dates through 2015.

Included in guarantees, letters of credit and surety bonds above was $108 million, $28 million and $10 million at June 24, 2007, respectively, and $83 million, $86 million and $11 million at December 31, 2006, respectively, related to discontinued operations. Also included in guarantees and letters of credit above was $58 million and $169 million at June 24, 2007, respectively, and $92 million and $157 million at December 31, 2006, respectively, related to our joint venture in Thales-Raytheon Systems (TRS). Additional guarantees of project performance for which there is no stated value also remain outstanding.

We provide these guarantees and letters of credit to TRS and other affiliates to assist these entities in connection with obtaining financing on more favorable terms, making bids on contracts and performing their contractual obligations. While we expect these entities to satisfy their loans, project performance and other contractual obligations, their failure to do so may result in a future obligation for us.

In the three months ended March 25, 2007, the IRS began a federal excise tax audit at Flight Options LLC (FO), which covers our treatment of certain FO customer fees and charges. We believe that an unfavorable outcome is not probable because, among other reasons, there is a reasonable basis for our position and it is consistent with industry practice. Nevertheless, the ultimate resolution of this matter is uncertain and difficult to predict and an unfavorable outcome could have a material effect on our results of operations.

In March 2006, pilots at FO voted to be represented by the International Brotherhood of Teamsters. FO is engaged in good faith negotiations to reach a mutually acceptable labor agreement for its pilots. While the terms of any future labor agreement, if any, are presently indeterminable, such an agreement could result in changes in pilots wages, benefits and working conditions that may increase FO s operating costs and impact our competitive position in the fractional aircraft market.

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The customers of FO have the contractual ability to require FO to buy back their fractional share based on its current fair market value. The estimated value of this potential obligation was $469 million and $497 million at June 24, 2007 and December 31, 2006, respectively.

Raytheon Airline Aviation Services (RAAS) has exposure to outstanding financing arrangements for commuter aircraft, with the aircraft serving as collateral for these arrangements. Commuter aircraft customers of RAAS are generally thinly capitalized companies whose financial condition could be significantly affected by sustained higher fuel costs, industry consolidation and declining commercial aviation market conditions. At June 24, 2007 and December 31, 2006, our exposure on commuter aircraft assets was approximately $286 million relating to 167 aircraft and approximately $325 million relating to 192 aircraft, respectively. The carrying value of commuter aircraft assets assumes an orderly disposition of these assets. If we were to dispose of these assets in an other than orderly disposition, or sell the business in its entirety, the value realized would likely be reduced.

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 the System for the Vigilance of the Amazon (SIVAM) program being performed by Network Centric Systems. Loan repayments by the Brazilian government were current at June 24, 2007.

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

Defense contractors are subject to many levels of audit and investigation. Agencies that oversee contract performance include: the Defense Contract Audit Agency, the Department of Defense Inspector General, the Government Accountability Office, the Department of Justice and Congressional Committees. The Department of Justice, from time to time, has convened grand juries to investigate possible irregularities by us. Individually and in the aggregate, these audits and investigations are not expected to have a material adverse effect on our financial position, results of operations or liquidity. In the three months ended June 25, 2006, Technical Services recorded a negative profit adjustment related to certain program costs which may be deemed unrecoverable. Although not expected to be material, we may incur additional charges as we continue to assess and engage in discussions regarding the matter.

In addition, various claims and legal proceedings generally incidental to the normal course of business are pending or threatened against us. While the ultimate liability or potential range of loss, if any, from these proceedings is presently indeterminable, any additional liability is not expected to have a material adverse effect on our financial position, results of operations or liquidity.

11. Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. The effect, if any, of adopting SFAS No. 157 on our financial position and results of operations has not been finalized.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the fair value option). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. This accounting standard is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The effect, if any, of adopting SFAS No. 159 on our financial position and results of operations has not been finalized.

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With respect to the unaudited condensed consolidated financial information of Raytheon Company for the three and six months ended June 24, 2007 and June 25, 2006, PricewaterhouseCoopers LLP (PricewaterhouseCoopers) reported that it has applied limited procedures in accordance with professional standards for a review of such information. Its report dated July 26, 2007, appearing below, states that the firm did not audit and does not express an opinion on that unaudited condensed consolidated financial information. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers is not subject to the liability provisions of Section 11 of the Securities Act of 1933 (the Act) for its report on the unaudited condensed consolidated financial information because that report is not a report or a part of a registration statement prepared or certified by PricewaterhouseCoopers within the meaning of Sections 7 and 11 of the Act.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Raytheon Company:

We have reviewed the accompanying condensed consolidated balance sheet of Raytheon Company and its subsidiaries (the Company) as of June 24, 2007, and the related consolidated statements of operations for each of the three and six month periods ended June 24, 2007 and June 25, 2006 and the consolidated statements of cash flows for the six month periods ended June 24, 2007 and June 25, 2006. This interim financial information is the responsibility of the Company s management.

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

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

As discussed in Note 5 to the condensed consolidated financial statements and in accordance with Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109*, in 2007, the Company changed the manner in which it accounts for, and discloses, uncertain income tax positions.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of operations, stockholders equity and cash flows for the year then ended, management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2006 and the effectiveness of the Company s internal control over financial reporting as of December 31, 2006; and in our report dated February 22, 2007, we expressed unqualified opinions thereon. The consolidated financial statements and management s assessment of the effectiveness of internal control over financial reporting referred to above are not presented herein. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2006, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP

Boston, Massachusetts

July 26, 2007

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

Cautionary Note Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements including information regarding our 2007 financial outlook, future plans, objectives, business prospects and anticipated financial performance including, without limitation, statements regarding the outcome of tax audits and other matters and our provision for tax positions; contributions to our pension plans; potential value of contracts; the impact of environmental contingencies, government investigations and other claims and legal proceedings; other entities satisfying their obligations which we have guaranteed; use of capital, including the proceeds from the sale of Raytheon Aircraft Company; expected capital and internal use software expenditures; compliance with debt covenants; funding for our operating, capital expenditure, and debt service requirements; and our exposure to changes in foreign exchange rates. You can identify these statements by the fact that they include words such as will, believe, anticipate, expect, estimate, intend, plan, outlook or variations of these words, or similar expressions. These forward-looking statements are not stateme of historical facts and represent only our current expectations regarding such matters. These statements inherently involve a wide range of known and unknown uncertainties. Our actual actions and results could differ materially from what is expressed or implied by these statements. Factors that could cause such a difference include, but are not limited to, those set forth under Item 1A. Risk Factors in our 2006 Annual Report on Form 10-K 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.

Overview

Raytheon Company, and its subsidiaries, is one of the world s largest defense contractors serving all branches of the U.S. military and other U.S. government agencies, the North Atlantic Treaty Organization (NATO) and many allied governments on every continent. We develop and provide technologically advanced, integrated products, services and solutions in our core defense markets: Sensing, including radars and radio-frequency systems, and infrared and electro-optical sensors and systems; Command, Control, Communication and Intelligence (C3I), including tactical communication, command & control and intelligence systems; Effects, including missiles, precision weapons and information operations; and Mission Support, including full life-cycle services and training.

As discussed in more detail below, in the second quarter of 2007 we completed the sale of Raytheon Aircraft.

We operate in six principal business segments: Integrated Defense Systems (IDS), Intelligence and Information Systems (IIS), Missile Systems (MS), Network Centric Systems (NCS), Space and Airborne Systems (SAS) and Technical Services (TS). For a more detailed description of our segments, see Business Segments within Item 1 of our 2006 Annual Report on Form 10-K.

The following discussion should be read along with our 2006 Annual Report on Form 10-K and with the unaudited condensed consolidated financial statements included in this Form 10-Q.

Consolidated Results of Operations

As noted above in our Cautionary Note Regarding Forward-Looking Statements, our results of operations of an interim period, and period-to-period comparisons of such results, particularly at a segment level, may not be indicative of our future operating results. The following discussions of comparative results among periods should be viewed in this context. In addition, in our discussions of comparative results, changes in sales are typically expressed in terms of volume. Volume generally refers to increases (or decreases) in revenues incurred due to varying production activity levels, delivery rates or service levels on individual contracts. Volume changes will typically carry a corresponding margin change based on the margin rate for a particular contract. Segment operating margin reflects the performance of segment contracts and programs. In addition, in our discussions of comparative results, changes in segment operating margin are typically expressed in terms of volume, as discussed above, or performance. Performance refers to changes in contract margin rates. These changes typically relate to profit recognition associated with revisions to total estimated costs at completion of the contract that reflect improved (or deteriorated) operating or award fee performance on a particular contract. Changes in estimates of contract sales, costs and profits are recognized using a cumulative catch-up which recognizes in the current period the cumulative effect of the changes on current and prior periods.

Net sales were $5.4 billion in the second quarter of 2007 versus $5.0 billion in the second quarter of 2006. The increase in sales was primarily due to higher sales at NCS, IDS and MS. Sales to the U.S. Department of Defense (DoD) were 77% of sales in the second quarter of 2007 and 2006. Total sales to the U.S. government were 83% of

sales in the second quarter of 2007 versus 85% of sales in the second quarter of 2006. Included in U.S. government sales were foreign military sales of $362 million and $295 million in the second quarter of 2007 and 2006, respectively. Total international sales, including foreign military sales, were $1,072 million or 20% of sales in the second quarter of 2007 versus $878 million or 18% of sales in the second quarter of 2006. Net sales in the first six months of 2007 were $10.3 billion versus $9.6 billion in the first six months of 2006. The increase in sales was primarily due to higher sales at NCS, MS and IDS. Sales to the DoD were 79% of sales in the first six months of 2007 versus 77% of sales in the first six months of 2006. Total sales to the U.S. government were 84% of sales in the first six months of 2007 and 2006. Included in U.S. government sales were foreign military sales of $702 million and $603 million in the first six months of 2007 and 2006, respectively. Total international sales, including foreign military sales, were $1,988 million or 19% of sales in the first six months of 2007 versus $1,723 million or 18% of sales in the first six months of 2006.

Gross margin, net sales less cost of sales, in the second quarter of 2007 was $1,093 million or 20.2% of sales versus $941 million or 18.9% of sales in the second quarter of 2006. Included in gross margin was the FAS/CAS Pension Adjustment, described below, of $63 million and $96 million of expense in the second quarter of 2007 and 2006, respectively. Gross margin in the first six months of 2007 was $2.0 billion or 19.7% of sales versus $1.8 billion or 18.6% of sales in the first six months of 2006. Included in gross margin was the FAS/CAS Pension Adjustment of $125 million and $181 million of expense in the first six months of 2007 and 2006, respectively.

The FAS/CAS Pension Adjustment represents the difference between our pension expense or income under Statement of Financial Accounting Standards No. 87, Employers Accounting for Pensions (SFAS No. 87), and our pension expense under Cost Accounting Standards (CAS) and is reported as a separate line item in our segment results. SFAS No. 87 outlines the methodology used to determine pension expense or income for financial reporting purposes, which is not necessarily indicative of the funding requirements of pension plans that are determined by other factors. CAS prescribes the allocation to and recovery of pension costs on U.S. government contracts and is a major factor in determining pension funding requirements. The results for each segment only include pension expense as determined under CAS that can generally be recovered through the pricing of products and services to the U.S. government.

Administrative and selling expenses were $367 million or 6.8% of sales in the second quarter of 2007 versus $345 million or 6.9% of sales in the second quarter of 2006. Administrative and selling expenses were $707 million or 6.8% of sales in the first six months of 2007 versus $664 million or 6.9% of sales in the first six months of 2006.

Research and development expenses were $138 million or 2.5% of sales in the second quarter of 2007 versus $135 million or 2.7% of sales in the second quarter of 2006. Research and development expenses were $235 million or 2.3% of sales in the first six months of 2007 versus $236 million or 2.4% of sales in the first six months of 2006.

Operating income was $588 million or 10.9% of sales in the second quarter of 2007 versus $461 million or 9.3% of sales in the second quarter of 2006. Operating income was $1,098 million or 10.6% of sales in the first six months of 2007 versus $894 million or 9.3% of sales in the first six months of 2006. The changes in operating income by segment are discussed below in Segment Results.

Interest expense in the second quarter of 2007 was $54 million versus $68 million in the second quarter of 2006. Interest expense in the first six months of 2007 was $114 million versus $137 million in the first six months of 2006. The decrease in interest expense in the second quarter of 2007 and the first six months of 2007 was primarily due to lower average debt and a lower weighted-average cost of borrowing.

Interest income in the second quarter of 2007 was $57 million versus $13 million in the second quarter of 2006. Interest income in the first six months of 2007 was $85 million versus $34 million in the first six months of 2006. The increase in interest income in the second quarter of 2007 and the first six months of 2007 was due to a higher average cash balance as a result of the proceeds from the sale of Raytheon Aircraft.

Other expense (income), net in the second quarter of 2007 was $56 million of expense versus $13 million of income in the second quarter of 2006. Other expense (income), net in the first six months of 2007 was $59 million of expense versus $39 million of income in the first six months of 2006. Other expense, net in the second quarter of 2007 and the first six months of 2007 included a $59 million loss on the repurchase of long-term debt. Other income, net in the second quarter of 2006 and the first six months of 2006 included a $34 million favorable adjustment resulting from the settlement of a class action lawsuit filed in 2003. Other income, net in the first six months of 2006 also included a $21 million gain on the sale of Space Imaging (in which we had an investment).

The effective tax rate from continuing operations was 33.5% and 34.1% in the second quarter of 2007 and 2006, respectively, reflecting the U.S. statutory rate adjusted for various permanent differences between book and tax reporting. The effective tax rate from continuing operations was 33.7% and 34.0% in the first six months of 2007 and 2006, respectively, reflecting the U.S. statutory rate adjusted for various permanent differences between book and tax reporting.

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The effective tax rate in the second quarter of 2007 and the first six months of 2007 was reduced by manufacturing tax benefits, ESOP dividend deductions and the research tax credit, and was increased by various non-deductible expenses. The effective tax rate in the second quarter of 2006 and the first six months of 2006 was reduced by manufacturing tax benefits, ESOP dividend deductions, and export-related tax benefits, and was increased by various non-deductible expenses. The effective tax rate excludes state taxes. The provision for state income taxes is generally accounted for as deferred contract costs and included in contracts in process until allocated to our contracts, as these costs can generally be recovered through the pricing of products and services to the U.S. government.

Income from continuing operations was $356 million in the second quarter of 2007, or $0.79 per diluted share on 448.8 million average shares outstanding versus income from continuing operations of $276 million in the second quarter of 2006, or $0.61 per diluted share on 450.9 million average shares outstanding. Income from continuing operations was $670 million in the first six months of 2007, or $1.49 per diluted share on 451.0 million average shares outstanding versus $548 million in the first six months of 2006, or $1.22 per diluted share on 450.3 million average shares outstanding.

Income from discontinued operations, net of tax, as discussed below in Discontinued Operations, was $979 million or $2.18 per diluted share in the second quarter of 2007 versus $34 million or $0.08 per diluted share in the second quarter of 2006. Income from discontinued operations, net of tax, was $1,011 million or $2.24 per diluted share in the first six months of 2007 versus $49 million or $0.11 per diluted share in the first six months of 2006. Included in income from discontinued operations, net of tax, in the second quarter of 2007 and first six months of 2007 was $986 million related to the gain on sale of Raytheon Aircraft. (Loss) income from discontinued operations, net of tax, in the second quarter of 2007 and 2006 was $7 million of expense and $34 million of income, respectively. Income from discontinued operations, net of tax, in the first six months of 2007 and 2006 was $25 million and $49 million, respectively. The sale of Raytheon Aircraft was completed on March 26, 2007, the first day of the second quarter.

Net income in the second quarter of 2007 was $1,335 million, or $2.97 per diluted share versus net income of $310 million, or $0.69 per diluted share in the second quarter of 2006. Net income in the first six months of 2007 was $1,681 million, or $3.73 per diluted share versus $597 million, or $1.33 per diluted share in the first six months of 2006.

Segment Results

	Net Sales		**Net Sales**	
	Three Months Ended		**Six Months Ended**	
(In millions)	**June 24, 2007**	**June 25, 2006**	**June 24, 2007**	**June 25, 2006**
Integrated Defense Systems	$ 1,166	$ 1,038	$ 2,258	$ 2,001
Intelligence and Information Systems	666	633	1,254	1,244
Missile Systems	1,244	1,117	2,384	2,106
Network Centric Systems	1,052	880	1,981	1,671
Space and Airborne Systems	1,065	1,057	2,029	2,075
Technical Services	473	466	899	916
Other	217	202	398	392
Corporate and Eliminations	(464)	(420)	(856)	(772)
Total	$ 5,419	$ 4,973	$ 10,347	$ 9,633

	Operating Income Three Months Ended		**Operating Income Six Months Ended**	
(In millions)	**June 24, 2007**	**June 25, 2006**	**June 24, 2007**	**June 25, 2006**
Integrated Defense Systems	$ 212	$ 177	$ 411	$ 335
Intelligence and Information Systems	63	58	118	113
Missile Systems	134	122	254	232
Network Centric Systems	139	91	256	175
Space and Airborne Systems	133	152	262	297
Technical Services	29	30	50	61
Other	1	(10)	(7	