

RAYTHEON CO/
Form 10-Q
October 23, 2008
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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 September 28, 2008.

.. 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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

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

Number of shares of common stock outstanding as of October 17, 2008 was 414,067,000.

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Cautionary Note Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements including information regarding our 2008 and 2009 financial outlook, future plans, objectives, business prospects and anticipated financial performance. You can identify these statements by the fact that they include words such as will, believe, anticipate, expect, estimate, intend, plan, outlook or variations of these words or similar expressions. These forward-looking statements are not statements of historical facts and represent only our current expectations regarding such matters. These statements inherently involve a wide range of known and unknown uncertainties. Our actual actions and results could differ materially from what is expressed or implied by these statements. Factors that could cause such a difference include, but are not limited to, those set forth under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007 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) Sept. 28, 2008	Dec. 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,761	\$ 2,655
Accounts receivable, net	120	126
Contracts in process	4,366	3,821
Inventories	356	386
Deferred taxes	452	432
Prepaid expenses and other current assets	113	196
Total current assets	8,168	7,616
Property, plant and equipment, net of accumulated depreciation of \$3,545 and \$3,420 at September 28, 2008 and December 31, 2007, respectively	1,990	2,058
Prepaid retiree benefits	668	617
Goodwill	11,667	11,627
Other assets, net	1,273	1,363
Total assets	\$ 23,766	\$ 23,281
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Advance payments and billings in excess of costs incurred	\$ 1,850	\$ 1,845
Accounts payable	1,196	1,141
Accrued employee compensation	838	902
Other accrued expenses	1,175	900
Total current liabilities	5,059	4,788
Accrued retiree benefits and other long-term liabilities	2,959	3,016
Deferred taxes	515	451
Long-term debt	2,273	2,268
Commitments and contingencies (Note 9)		
Minority interest	253	216
Stockholders' equity		
Common stock, par value \$0.01 per share, 1,450 shares authorized, 414 and 426 shares outstanding at September 28, 2008 and December 31, 2007, respectively, after deducting 67 and 49 treasury shares at September 28, 2008 and December 31, 2007, respectively	4	4
Additional paid-in capital	10,838	10,544
Accumulated other comprehensive loss	(1,900)	(1,956)
Treasury stock, at cost	(3,571)	(2,502)
Retained earnings	7,336	6,452
Total stockholders' equity	12,707	12,542
Total liabilities and stockholders' equity	\$ 23,766	\$ 23,281

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

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RAYTHEON COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	Sept. 28, 2008	Sept. 23, 2007	Sept. 28, 2008	Sept. 23, 2007
Net sales	\$ 5,864	\$ 5,219	\$ 17,088	\$ 15,301
Operating expenses				
Cost of sales	4,674	4,150	13,603	12,200
Administrative and selling expenses	380	355	1,156	1,042
Research and development expenses	130	142	379	377
Total operating expenses	5,184	4,647	15,138	13,619
Operating income	680	572	1,950	1,682
Interest expense	29	41	97	155
Interest income	(16)	(42)	(56)	(127)
Other expense, net	18	9	21	68
Non-operating expense, net	31	8	62	96
Income from continuing operations before taxes	649	564	1,888	1,586
Federal and foreign income taxes	222	184	635	527
Income from continuing operations	427	380	1,253	1,059
Operating income (loss) from discontinued operations, net of tax		(81)	(2)	(65)
Gain on sale of discontinued operation, net of tax				986
Income (loss) from discontinued operations, net of tax		(81)	(2)	921
Net income	\$ 427	\$ 299	\$ 1,251	\$ 1,980
Earnings per share from continuing operations				
Basic	\$ 1.04	\$ 0.88	\$ 3.03	\$ 2.43
Diluted	\$ 1.01	\$ 0.86	\$ 2.93	\$ 2.36
Earnings (loss) per share from discontinued operations				
Basic	\$	\$ (0.19)	\$ (0.01)	\$ 2.11
Diluted	\$	\$ (0.18)	\$ (0.01)	\$ 2.06
Earnings per share				
Basic	\$ 1.04	\$ 0.69	\$ 3.02	\$ 4.54
Diluted	\$ 1.01	\$ 0.68	\$ 2.93	\$ 4.42

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)	Nine Months Ended	
	Sept. 28, 2008	Sept. 23, 2007
Cash flows from operating activities		
Net income	\$ 1,251	\$ 1,980
Loss (income) from discontinued operations, net of tax	2	(921)
Income from continuing operations	1,253	1,059
Adjustments to reconcile to net cash provided by operating activities from continuing operations, net of the effect of acquisitions and divestitures		
Depreciation and amortization	288	275
Deferred income taxes	52	212
Collection of financing receivables	46	71
Tax benefit from stock-based awards	(50)	(47)
Changes in assets and liabilities		
Accounts receivable, net	(3)	27
Contracts in process and advance payments and billings in excess of costs incurred	(487)	(468)
Inventories	34	(70)
Prepaid expenses and other current assets	76	(8)
Accounts payable	53	64
Income taxes payable	264	(695)
Accrued employee compensation	(67)	2
Other accrued expenses	12	(76)
Pension and other, net	121	(38)
Net cash provided by operating activities from continuing operations	1,592	308
Net cash used in operating activities from discontinued operations	(21)	(43)
Net cash provided by operating activities	1,571	265
Cash flows from investing activities		
Expenditures for property, plant and equipment	(167)	(160)
Proceeds from sales of property, plant and equipment	7	5
Capitalized expenditures for internal use software	(58)	(51)
Payment for purchases of acquired companies, net of cash received	(54)	
Proceeds from sale of discontinued operations, net	9	3,117
Other, net		(5)
Net cash (used in) provided by investing activities from continuing operations	(263)	2,906
Net cash provided by (used in) investing activities from discontinued operations		(29)
Net cash (used in) provided by investing activities	(263)	2,877
Cash flows from financing activities		
Dividends paid	(344)	(331)
Decrease in short-term debt and other notes		(1)
Repayments of long-term debt		(1,605)
Repurchase of common stock	(1,020)	