RAYTHEON CO/
Form 10-K
February 27, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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)

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

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

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

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes x No ¨

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

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

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

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 Securities Exchange Act of 1934.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 24, 2007, was approximately $23.7 billion.

The number of shares of Common Stock outstanding as of January 18, 2008 was 426,386,000.

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

Portions of the Registrant s Definitive Proxy Statement for its 2008 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

General

Raytheon Company, together with its subsidiaries, is an industry leader in defense and government electronics, space, information technology and technical services. We design, develop, manufacture, integrate, support and provide a wide range of technologically advanced products, services and solutions for principally governmental customers in the United States and abroad. We act as a prime contractor or major subcontractor on numerous defense and related programs for the U.S. government, which accounted for 86% of our sales in 2007.

We were founded in 1922 and are incorporated in the state of Delaware. We are the surviving company of the 1997 merger of HE Holdings, Inc. and Raytheon Company. Our principal executive offices are located at 870 Winter Street, Waltham, Massachusetts 02451.

In this section, we describe our business, including our product lines, customers, operations and other considerations. We also discuss some of our notable initiatives and achievements in 2007, such as certain key contract awards, new product introductions, acquisitions and divestitures.

Business Segments

We currently operate in six business segments:

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

Revenue and other financial information regarding our business segments is set forth on pages 39-46 of this Form 10-K.

In 2007, we successfully completed the sale of Raytheon Aircraft Company (Raytheon Aircraft) and Flight Options LLC (Flight Options), two former operating commercial aviation businesses. With these changes to our portfolio of businesses, we have significantly advanced our strategic vision and sharpened our focus on our core defense markets.

Raytheon Aircraft and Flight Options are presented as discontinued operations in this Form 10-K. We reorganized the remaining businesses that we formerly disclosed in the Other category to realign our capabilities and technologies. The Raytheon Professional Services business was

transferred to Technical Services. With the sale of Raytheon Aircraft and Flight Options, we have largely exited the commercial aircraft market and all remaining assets and liabilities associated with the residual commuter aircraft portfolio of Raytheon Airline Aviation Services LLC (RAAS), which currently generates only incidental revenue, were transferred to Corporate.

Integrated Defense Systems (IDS) IDS, headquartered in Tewksbury, Massachusetts, is a leading provider of integrated joint battlespace (space, air, surface and subsurface) and homeland security solutions. IDS leverages its core domain knowledge and key capabilities in sensors, command and control, and effects to deliver mission assured solutions for air and missile defense, naval and homeland security applications, enabling situational awareness and joint integrated fires.

In 2007, IDS continued to serve as the prime mission systems equipment integrator for all electronic and combat systems of the Zumwalt Class Destroyer program (DDG 1000), providing key deliverables and successfully completing a number of major reviews and assessments. The Terminal High Altitude Area Defense (THAAD) and Upgraded Early Warning Radar (UEWR) radars built by IDS were key components in successful flight tests conducted by the U.S. Missile Defense Agency. The Patriot Air & Missile Defense System continued as a major contributor to IDS, with Patriot upgrades for the

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U.S. Army in production and major Patriot sales to international customers. IDS also continued to make innovative changes to its products and technologies for applications in additional markets, such as homeland security. For example, IDS has coupled innovations provided by small business partners with its own prime program management, process maturity, and manufacturing expertise to assist the Department of Homeland Security in bringing added security to our borders.

IDS key customers include the U.S. Navy, Army, Air Force and Marine Corps, the U.S. Missile Defense Agency and Department of Homeland Security. Key international customers include Japan, Saudi Arabia, United Arab Emirates, Taiwan, Australia, Germany and the United Kingdom.

IDS has the following principal product lines:

Seapower Capability Systems (SCS) SCS is leading the U.S. Navy s Open Architecture initiative, serving as prime contractor and developer of the Navy s newest and most capable combat system for the Zumwalt class destroyer under the DDG 1000 program. SCS is designing and producing DDG 1000 mission systems equipment, which includes radar, sonar, computing environment, software, hardware and associated electronics systems. SCS expects to leverage the joint system integration capabilities and technologies developed for DDG 1000 to forward-fit future naval surface combatants and backfit the U.S. Navy s family of ships. SCS also provides a broad array of sensors and effectors for anti-submarine and mine warfare mission areas, advanced combat systems for submarines and amphibious ships, high performance fire control systems for surface combatants and ship integration technologies for domestic and international naval and maritime customers. SCS is the integrator for the BYG-1 combat system, a system of tactical control, weapons control and tactical network subsystems, to all U.S. submarines as well as to Australia s Collins class submarines. SCS also serves as the U.S. Navy s sole industrial partner on both heavyweight and lightweight torpedoes, providing manufacturing, design engineering and support services expertise.

National and Theater Security Programs (NTSP) NTSP provides integrated whole-life air and missile defense systems which enable warfighters to sense, detect and engage threats through air and ground-based sensors and command and control systems as well as joint system solutions and intelligence support for ballistic missile defense. NTSP produces systems and solutions such as Joint Land Attack Cruise Missile Defense Elevated Netted Sensor (JLENS), a theater-based, advanced sensor system that provides long-endurance, over-the-horizon detection and tracking capabilities required to defeat the threat of cruise missiles; Early Warning Radars, including the X-band Family-of-Radars, which enable threat detection, precision tracking, discrimination and classification of ballistic missile threats; and Surface Launched Advanced Medium Range Air to Air Missile (SL-AMRAAM), a state-of-the-art air defense system designed to defeat current and emerging cruise missiles and a wide range of air breathing threats.

Patriot Programs (PP) PP designs, develops and produces the Patriot Air & Missile Defense System, a long-range, high-altitude system designed to defeat advanced threats, including aircraft, tactical ballistic missiles and cruise missiles. The Patriot system serves as the foundation of the U.S. Army s integrated air and missile defense against the escalating tactical ballistic missile threat. PP also provides the Patriot system to key international customers, including the Netherlands, Germany, Japan, Israel, Saudi Arabia, Kuwait, Taiwan and Greece.

Global Business Operations (GBO) GBO includes a number of related IDS subsidiaries and programs, including Raytheon Sarcos, Raytheon Solipsys, Raytheon Anschütz and IDS United Kingdom Operations. These entities provide a wide spectrum of capabilities, including integrated Command and Control (C2) solutions for the domestic and international defense and homeland security markets, naval system capabilities for military and commercial markets worldwide, and netted sensor solutions which efficiently provide a single integrated picture from data provided by many sensors. GBO also provides combat system design, development and procurement for major international programs such as the Hobart class Air Warfare Destroyer (AWD) program in Australia. GBO leverages tools, processes and subject matter expertise developed on major U.S. programs to provide such capabilities to IDS international locations.

Civil Security and Response Programs (CSRP) CSRP provides integrated capabilities in surveillance and multi-domain awareness, knowledge management, information fusion and interoperability through a broad range of

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existing products to detect, identify, track and disseminate actionable intelligence. CSRP produces the Relocatable Over The Horizon Radar (ROTHR) system, a long range, land-based, wide area surveillance system; the ATHENA Data Fusion system, an information infrastructure that enables the integration of a wide range of information from a variety of sensors and other sources; and Advanced Spectroscopic Portals, which provide the Department of Homeland Security with critically needed nuclear detection capability.

Intelligence and Information Systems (IIS) IIS, headquartered in Garland, Texas, is a leading provider of intelligence and information systems to government and commercial customers in the U.S. Department of Defense/civil space, Intelligence, Surveillance and Reconnaissance (ISR), Federal Information technology, and homeland security markets. IIS leverages broad capabilities and expertise in signal and image processing, geospatial intelligence, air- and space-borne command and control, ground engineering support, weather and environmental management, information technology, information assurance and homeland security.

In 2007, IIS continued to grow its business with classified customers while expanding into international markets and other new opportunities. IIS was awarded e-Borders, a contract to develop and implement an advanced border control and security program for the U.K. Home Office. IIS is also working with the U.S. Air Force Space and Missile Command to develop a new system design for the next generation Global Positioning System Control Segment (GPS-OCX). In addition, IIS completed its acquisition of Oakley Networks, Inc., a technology leading developer of cyber-security solutions for government and commercial customers, to strengthen its capabilities in information security.

IIS key customers include the U.S. Intelligence Community, the U.S. Department of Defense (DoD), the National Oceanographic and Atmospheric Association (NOAA), the U.K. Home Office and the U.S. Department of Homeland Security.

IIS has the following principal product lines:

Strategic Intelligence Systems (SIS) SIS provides system engineering, development, integration and life cycle support of complex, large-scale, commercial-off-the-shelf-based systems for commercial and proprietary imaging customers. SIS serves primarily classified customers and the U.K. Home Office with the e-Borders contract to develop an advanced border control and security program.

National Systems (NS) NS provides systems and operational support for signals intelligence (SIGINT) and multi-intelligence (multi-INT) missions. Areas of concentration include mission/resource management, real-time mission execution, signal processing and analysis, information management and knowledge discovery, and operations, maintenance and engineering (OM&E) support. NS works on large mission systems integration projects for a variety of proprietary customers.

Operational Technologies and Solutions (OTS) OTS provides information management systems, broadband broadcast systems and operations support through its diverse capabilities. These capabilities include managing state-of-the-art collection systems and products for human intelligence (HUMINT), managing large volumes of information securely and reliably, and providing operations support to intelligence community customers. OTS primarily serves clients in the intelligence community.

Raytheon Information Solutions (RIS) RIS provides information technology solutions in high performance and technical computing, enterprise systems, e-Commerce, logistics management, and scientific and engineering services. RIS is continuing to work on the U.S. VISIT program, an integrated, automated system to track the entry and exit of visitors into and out of the U.S., and the FBI National Data Exchange program. RIS is also providing systems development and integration work at the U.S. Patent and Trademark Office.

Space Systems (SS) SS provides satellite command and control software and mission and resource management, end-to-end information and network management, and modeling and simulation capabilities to its customers. SS provides services in support of the monitoring, collection and dissemination of global environmental conditions data

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related to weather, atmosphere, oceans, land and near-space environment for the National Polar-orbiting Operational Environmental Satellite System (NPOESS) program. SS programs include the development of a new system design for the next generation Global Positioning System Control Segment (GPS-OCX), a program with the U.S. Air Force Space and Missile Command.

Tactical Intelligence Systems (TIS) TIS provides products and services relating to manned and unmanned SIGINT sensors, ground control of airborne SIGINT sensors, multi-INT ground systems, Unmanned Aerial Vehicle (UAV) ground stations and Intelligence, Surveillance and Reconnaissance (ISR) battle space management. TIS programs include the Distributed Common Ground System (DCGS), a network centric backbone for the U.S. armed forces; the Global Hawk Ground Segment, which enables the Global Hawk to provide continuous, all-weather surveillance capability to the Joint Forces; and the Consolidated Field Services program in support of the U-2 reconnaissance aircraft.

In 2008, IIS established Information Security Solutions (ISS), a new product line of cyber operations and information security solutions. ISS intends to leverage and expand the Company s information assurance capabilities as well as the capabilities of Raytheon Oakley Systems.

Missile Systems (MS) MS, headquartered in Tucson, Arizona, is a premier developer and producer of missile systems for the armed forces of the U.S. and other allied nations. Leveraging its key capabilities in advanced airframes, guidance and navigation systems, high-resolution sensors, targeting and netted systems, MS has developed and supports a broad range of cutting edge weapon systems that includes missiles, smart munitions, projectiles, kinetic kill vehicles, space vehicles and directed energy effectors.

In 2007, MS continued to demonstrate its missile defense capability with several significant test successes including three successful launches of the sea-based system with Standard Missile-3 and one successful launch of the ground-based system that incorporates the Exoatmospheric Kill Vehicle. Subsequently, in 2008 the Missile Defense Agency and the U.S. Navy completed a successful mission, intercepting a non-functioning satellite with a specially modified Standard Missile-3. In 2007, MS also worked with the U.S. Air Force to demonstrate the first powered flight of the Miniature Air Launched Decoy, a small, low-cost cruise missile that serves as a decoy to confuse enemy sensors. In addition, the MS-developed Excalibur precision-guided 155 millimeter artillery round passed its final testing hurdle for fielding and has been successfully deployed in Iraq in combat operations. The Excalibur is the world s first autonomous precision-guided artillery projectile, providing unprecedented fire support accuracy from weapon systems organic to the current Brigade Combat Team force structure.

MS major customers include the U.S. Navy, Army, Air Force, Marine Corps, Missile Defense Agency and the armed forces of more than 40 allied nations.

MS has the following principal product lines:

Naval Weapon Systems (NWS) NWS provides layered defense capability and naval surface fire support for the navies of more than 30 countries. It leverages its capabilities to provide forward operating base defense for the U.S. Army and Air Force. NWS develops, manufactures and supports the Standard Missile family of weapons with capabilities ranging from anti-air warfare to ballistic missile defense. NWS also produces the Phalanx Close-in Weapon System, the Rolling Airframe Missile and the Evolved SeaSparrow/Sparrow family of missiles for ship self-defense against air and surface threats. It is also developing the Extended Range Guided Munition, which will provide the U.S. Marine Corps with an extended range, precision accuracy fire support weapon using an evolution of existing shipboard gun systems. NWS continues to evolve its products and technologies to encompass the full spectrum of threats, including the protection of land bases to counter terrorist threats.

Strike Strike provides products and services designed to enable U.S. Air Force and Navy customers to attack, suppress and destroy ground-based targets, including the Joint Standoff Weapon, High-speed Anti-Radiation Missile (HARM), Maverick precision strike missile, Paveway family of laser-guided smart bombs and Tomahawk Cruise Missile, an advanced surface- or sub-launched cruise missile with loitering and network communication capability. Strike is also completing the development of the Miniature Air Launched Decoy.

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Air-to-Air Air-to-Air provides air dominance capability for U.S. forces and international partners through its family of air-to-air missiles and airborne sensors. Air-to-Air works on AIM-9X, a joint U.S. Navy and Air Force program for the development and fielding of the latest member of the Sidewinder short-range missile family. It also produces the HARM Targeting System and the Advanced Medium-Range Air-to-Air Missile (AMRAAM), a state-of-the-art, highly dependable and battle proven air-to-air missile that also has a surface-to-air launch application.

Land Combat Land Combat provides missiles to the U.S. Army and Marine Corps and more than 40 U.S. allies and focuses on accelerating the deployment of precision munitions capability to land combat forces and expanding its mission support capabilities. Land Combat provides the Stinger weapon system for air defense, the Tube-launched Optically-guided Wire-controlled (TOW) family with an upgraded version entering production of anti-armor and anti-fortification weapons, the Javelin fire-and-forget anti-tank weapon and Excalibur, a new GPS-guided projectile designed to provide organic indirect precision fires for ground forces. It is also developing the Non-Line of Sight Launch System Precision Attack Missile, a networked weapon system for precise fires against moving and stationary targets.

Exoatmospheric Kill Vehicle (EKV) EKV focuses on producing the exoatmospheric kill vehicle, which is the intercept component of the Ground Based Interceptor for the Ground-based Midcourse Defense system designed to protect the U.S. against limited ballistic missile attacks and is part of the Ballistic Missile Defense System (BMDS). The EKV consists of a multi-spectral sensor in a flight package, used to detect, discriminate and destroy incoming warheads carrying weapons of mass destruction.

Other MS product lines include Kinetic Energy Interceptors (KEI), Advanced Missile Defense/Directed Energy Weapons (AMD/DEW) and Advanced Programs. KEI focuses on designing and developing kinetic energy-based missiles that can intercept and destroy enemy ballistic missiles during their boost/ascent and mid-course phases of flight. AMD/DEW pursues opportunities in the missile defense and directed energy markets, including the development of new missile defense solutions, NASA/space applications, modeling/simulation and discrimination capabilities, high power microwave and high energy laser systems. Advanced Programs focuses on the development and early introduction of next generation end-to-end system solutions, architectures and mission capabilities for the warfighter.

Network Centric Systems (NCS) NCS, headquartered in McKinney, Texas, develops and produces mission solutions for networking, command and control, battle space awareness and transportation management. Major programs include command and control systems, integrated communications systems, netted sensor systems and homeland security, as well as civil applications and components to create these systems.

In 2007, NCS continued developing and expanding its international business and presence overseas. NCS had key initiatives into adjacent markets including international and domestic border security, civil communications and first responder interoperability as well as transportation solutions, including open road tolling. In addition, NCS was awarded the U.S. Navy s Multiband Terminal (NMT) contract to develop and produce an advanced satellite communication system for seamless assured connectivity between a ship s or submarine s computer network and the Global Information Grid.

NCS major customers include the U.S. Army, Air Force, Navy and Marine Corps, and the Federal Aviation Administration (FAA), as well as numerous international customers.

NCS has the following principal product lines:

Combat Systems (CS) CS provides integrated ground-based surveillance and target engagement solutions designed to provide a significant advantage to the U.S. Army and U.S. Marine Corps warfighters. CS is developing ground sensor capabilities for the U.S. Army s Future Combat Systems (FCS) program, including the new Active Protection System, a key element in the full-spectrum suite of hit avoidance

technologies. In addition, CS provides the Long Range Advanced Scout Surveillance System (LRAS3), a long-range multi-sensor system which provides the

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ability to detect, identify and geo-locate distant targets; the Integrated Target Acquisition System (ITAS) which increases target detection, acquisition, recognition and engagement ranges; and HTI 2nd Generation FLIR (Horizontal Technology Integration Forward Looking Infrared) systems which provide the host vehicle the capability to detect, recognize, acquire, and engage targets at extended ranges.

Integrated Communications Systems (ICS) ICS offers wireless, high-bandwidth and transformational communications solutions for its customers, which include the U.S. Army and Navy. These solutions enable connectivity for Net-centric Operations (NCO) and the Global Information Grid (GIG) and provide mission assurance to customers with satellite, point-to-point and networked communications services that are effective on land, sea and air. Solutions include the Enhanced Position Location Reporting System (EPLRS), an integrated networking system that provides robust, high-speed battlefield communications for warfighters; the Secure Mobile Anti-Jam Reliable Tactical Terminal (SMART-T), a low-cost, extremely high frequency (EHF) satellite terminal that provides robust, low probability of detection, jam-resistant, multi-channel communications in support of the field commander; and the U.S. Navy Multi-band Terminal (NMT), a single terminal for the U.S. Navy s next generation satellite communications.

Command and Control Systems (C2S) C2S develops and provides integrated solutions, systems and supporting services to deliver network-centric warfare capabilities to the U.S. Army and Navy and other customers. C2S agile and responsive integrated command and control systems provide functionality for such solutions as the Persistent Surveillance and Dissemination System of Systems (PSDS2), the Ground Sensor Integrator (GSI) for the U.S. Army s FCS and the DDG-1000 program.

Air Space Management and Homeland Security (AMHS) AMHS provides integrated communications, navigation, surveillance and air traffic management system solutions for both military and civil customers, including the FAA. AMHS is developing open road tolling systems for the Florida Turnpike Toll System and the Texas Department of Transportation. AMHS also provides solutions to the homeland security market for border and perimeter security, including developing and implementing the Perimeter Intrusion Detection System (PIDS) for the Port Authority of New York and New Jersey.

Thales-Raytheon Systems, LLC (TRS) TRS is a joint venture between Thales Group and Raytheon. TRS combines the two companies capabilities in Air Command and Control Systems (ACCS), Air Operations Centers, Battlefield Weapon Locating Radar and Military Air Surveillance Radar to provide cost-effective solutions for military air operations centers and joint operations centers. TRS builds the Firefinder Weapon Locating Radar system for the U.S. Army and international customers, as well as the U.S. Battle Control System (BCS).

Precision Technologies and Components (PTC) PTC provides precision optical and electronic solutions, electronic hardware and software products that enhance the interoperability of communications systems, and a broad range of imaging capabilities, including visible to infrared focal plane arrays for thermal imaging, earth remote sensing and astronomy applications from its Raytheon Vision Systems and ELCAN products. PTC also designs and manufactures strategic mechanical products and provides related services through its Raytheon Precision Manufacturing products.

Space and Airborne Systems (SAS) SAS, headquartered in El Segundo, California, is a leader in the design and development of integrated systems and solutions for advanced missions, including traditional and non-traditional intelligence, surveillance and reconnaissance, precision engagement, unmanned aerial operations, special forces operations and space. Leveraging advanced concepts, state-of-the-art technologies, and mission systems knowledge, SAS provides electro-optic/infrared sensors, airborne radars for surveillance and fire control applications, lasers, precision guidance systems, electronic warfare systems, and space-qualified systems for civilian and military applications.

In 2007, The Boeing Company selected SAS to supply advanced electronically scanned array (AESA) radar systems for the entire fleet of 224 U.S. Air Force F-15E aircraft. SAS was also selected for the U.S. Army common sensor payload program for manned and unmanned aircraft, which covers the integration, production and mission support of airborne electro-

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optical/infrared (EO/IR) sensor payloads for several Army aviation platforms. In addition, SAS expanded its international activity with the award of contracts to deliver 79 radar warning receivers to the Royal Australian Air Force.

SAS major customers include the U.S. Navy, Air Force and Army, as well as classified and international customers.

SAS has the following principal product lines:

Tactical Airborne Systems (TAS) TAS designs and manufactures affordable, high-performance integrated avionics to offer new capabilities to next generation platforms, and the global base of tactical airborne systems. TAS provides solutions using advanced fire control radars, electronic warfare systems, processor solutions and technologies to customers including the U.S. Navy and Air Force and foreign governments. TAS produces radars using either mechanically scanned or AESA antennas for the U.S. Air Force s F-15 and B-2 aircraft and for the U.S. Navy s F/A-18 fighter jet. TAS also provides electronic warfare equipment for aircraft and shipboard self-protection systems to counter threats and enhance platform and force survivability, including ALE-50 and Advanced Towed Decoys, and ALR-67(V)3 Radar Warning Receiver. In addition, TAS advanced airborne processors form the basis of the mission computer/signal processing systems in the F-16, F-22A and F-35 aircraft.

Intelligence Surveillance and Reconnaissance Systems (ISRS) ISRS designs and manufactures sensor, surveillance and targeting solutions that enable actionable information and persistence across the battlespace. ISRS provides maritime surveillance radars, terrain following/terrain avoidance (TF/TA) radars and electro-optical and infrared sensors for surveillance, reconnaissance and targeting mission support, including the APY-10 radar for the U.S. Navy s Multi-Mission Maritime Aircraft, and the ASQ-228 ATFLIR targeting pod for the F/A-18. ISRS also provides the Enhanced Integrated Sensor Suite (EISS) for the Global Hawk unmanned aerial system, which enables Global Hawk to scan large geographic areas and produce outstanding high-resolution reconnaissance imagery.

Space Systems (SS) SS designs and manufactures space and space-qualified sensor payloads for large national programs and develops innovative solutions for emerging intelligence, defense, and civil space applications. SS customers and programs are predominantly classified. Its non-classified programs include the Space Tracking and Surveillance System (STSS), a system for midcourse tracking and dissemination of objects, and the Visible Infrared Imager Radiometer Suite (VIIRS), which will provide advanced imaging and radiometric capabilities onboard the National Polar-orbiting Operational Environmental Satellite System (NPOESS).

Mission System Integration (MSI) MSI provides integrated solutions for all tiers of airborne ISR systems. MSI provides the dual mode Synthetic Aperture Radar/Moving Target Indicator (SAR/MTI) sensor for the Airborne Stand-Off Radar (ASTOR) program for the U.K. Ministry of Defense, which enables high-resolution images and the monitoring of hostile forces. Additionally, MSI leverages its integration expertise for domestic and international airborne platform and unmanned aerial systems.

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

Technical Services (TS) TS, headquartered in Reston, Virginia, provides technical, scientific and professional services for defense, federal and commercial customers worldwide. It specializes in Mission Support, counter-proliferation and counter-terrorism, base and range operations and customized engineering services. Mission Support is Raytheon s integrated set of cost effective technologies, solutions and services that support our customers, ensuring operational readiness of the enterprise to achieve mission success.

In 2007, TS led a team that secured the Warfighter Field Operations Customer Support (FOCUS) contract to consolidate the U.S. Army live, virtual and constructive training operations and support systems worldwide. TS was also selected as

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the preferred bidder for the Defence Training Rationalisation contract for the U.K. Ministry of Defence, which is expected to enhance TS integrated training capability. In addition, TS was awarded a contract to provide support for the Widebody Airborne Sensor Platform (WASP) data collection on a Missile Defense Agency DC-10, as well as an Anti-Terrorism Force Protection (ATFP) Physical Security and Services contract for U.S. Naval facilities which extends TS capabilities into the homeland security market.

TS customers include all branches of the U.S. Armed Forces, NASA, the FAA, the U.S. National Science Foundation, Department of Energy, the Transportation Security Administration, the Defense Threat Reduction Agency and other agencies of the Department of Homeland Security, as well as international governments.

TS has the following principal product lines:

Integrated Support Solutions (ISS) ISS supports systems and products from design to deployment, providing Mission Support, product support, integrated range and installation, and homeland security solutions. ISS provides a range of capabilities including engineering services, integrated logistics support, software development, training, maintenance, installation and integration to U.S. and international government customers and contractors. ISS also specializes in the installation, diagnostics, maintenance and upgrades of Raytheon products and systems at customer facilities and works with the FAA and Transportation Security Administration on select domestic homeland security programs. ISS provides maintenance and site integration work on major command and control systems, including telecommunication upgrades, at more than 5,000 FAA facilities and provides support of NASA s Neutral Buoyancy Lab and Space Vehicle Mockup Facility at the Johnson Space Center. Other key programs include the U.S. Army Live Training program, which is being transferred under the Warfighter FOCUS program. In addition, ISS works with the U.S. Defense Threat Reduction Agency on international counter-proliferation and counter-terrorism programs.

Customized Engineering & Depot Support (CEDS) CEDS provides a broad spectrum of engineering and limited-production services. CEDS provides Capability Maturity Model Integration (CMMI®) level 5 software engineering and level 3 systems engineering and participates with the software support activity for the V-22 platform. Additionally, CEDS provides mission systems and avionics software for the U.S. Marine Corps MV-22 assault aircraft and the U.S. Air Force s CV-22 aircraft. CEDS also designed and provides integration and field support for the Shared Reconnaissance Pod, which provides real-time, high-resolution imaging to F/A-18E/F air crews and air operation commanders in support of pre-mission intelligence, post-mission damage assessment and real-time target tasking and retasking. CEDS also provides full lifecycle support for electronics and weapons, both sea and land based. CEDS performs support on numerous platforms including the Firefinder Battlefield Radar, WSC-6 surface search radar, Seasparrow launcher MK 29 Guided Missile Launching System, Kidd Class Destroyer and the U.S. Navy s Extremely High Frequency Satellite Program, a performance-based logistics program. CEDS also supports the National Ignition Facility at Lawrence Livermore National Laboratory, which develops advanced laser and fusion technologies. CEDS, through a Canadian subsidiary, also provides mission support to Canada s military across numerous platforms including the Phalanx Weapons System, SPS-49 Air Defense Radar and the APG-73 Radar.

Other TS product lines include Raytheon Professional Services LLP (RPS) and Raytheon Polar Services (Raytheon Polar). RPS provides learning services and outsourcing services aimed at improving their clients performance by redesigning how they train their personnel, implementing new training designs, and managing their training in long-term outsourcing engagements. RPS clients include commercial customers such as General Motors, Nokia and Pfizer, and government and military organizations like NASA and the U.K. Ministry of Defence. Raytheon Polar specializes in providing science support, operations, information technology and communications systems, logistics and facilities engineering and construction services and support to the United States Antarctic Program (USAP) for the National Science Foundation.

International Subsidiaries We conduct the operations and activities of our business segments in certain countries through international subsidiaries, including Raytheon Systems Limited (RSL) for the U.K., Raytheon Australia and Raytheon Canada Limited (RCL). RSL designs, develops and manufactures advanced systems for network-enabled operations, safety critical control functions and precision systems for the

U.K. Ministry of Defence and commercial air

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traffic control organizations. Programs include e-Borders, an advanced border control and security program, awarded in 2007 (with IIS), the Airborne Standoff Radar (ASTOR), a world-class ground surveillance capability (with SAS) and the Joint Effects Tactical Targeting System (JETTS) (with NCS). Raytheon Australia is a Mission Support and mission systems integration provider to the Australian government. Programs include the recent Air Warfare Destroyer contract to design, develop and procure the combat system for the new Hobart Class destroyers (with IDS). Raytheon Australia also manages the entire operations and maintenance requirements of the Canberra Deep Space Communication Complex and provides design, integration and lifecycle operations and maintenance services for the Royal Australian Defense Force s aerospace capability (with TS). RCL provides persistent surveillance radar for air traffic management systems (primarily with NCS).

Sales to the U.S. Government

Our net sales to the U.S. government, principally the DoD, were $18.3 billion in 2007, $17.0 billion in 2006 and $15.7 billion in 2005, representing 86%, 86% and 85% of total sales in 2007, 2006 and 2005, respectively. Included in U.S. government sales were foreign military sales through the U.S. government of $1.5 billion, $1.3 billion and $1.1 billion in 2007, 2006 and 2005, respectively.

Government Contracts and Regulation

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

U.S. government contracts generally are subject to the Federal Acquisition Regulation (FAR), which sets forth policies, procedures and requirements for the acquisition of goods and services by the U.S. government, agency-specific regulations that implement or supplement FAR, such as the DoD s Defense Federal Acquisition Regulation (DFAR) and other applicable laws and regulations. These regulations impose a broad range of requirements, many of which are unique to government contracting, including various procurement, import and export, security, contract pricing and cost, contract termination and adjustment, and audit requirements. A contractor s failure to comply with these regulations and requirements could result in reductions to the value of contracts, contract modifications or termination, and the assessment of penalties and fines and lead to suspension or debarment, for cause, from government contracting or subcontracting for a period of time. In addition, government contractors are also subject to routine audits and investigations by U.S. government agencies such as the Defense Contract Audit Agency (DCAA). These agencies review a contractor s performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The DCAA also reviews the adequacy of and a contractor s compliance with its internal control systems and policies, including the contractor s purchasing, property, estimating, compensation and management information systems. For a discussion of certain risks associated with compliance with U.S. government contract regulations and requirements, see Item 1A Risk Factors of this Form 10-K.

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

Fixed-price contracts are either firm fixed-price contracts or fixed-price incentive contracts. Under firm fixed-price contracts, the contractor agrees to perform a specific scope of work for a fixed price and as a result, benefits from cost

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

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

U.S. government programs generally are implemented by the award of individual contracts and subcontracts. Congress generally appropriates funds on a fiscal year basis even though a program may extend across several fiscal years. Consequently, programs are often only partially funded initially and additional funds are committed only as Congress makes further appropriations. The contracts and subcontracts under a program generally are subject to termination for convenience or adjustment if appropriations for such programs are not available or change. The U.S. government is required to equitably adjust a contract price for additions or reductions in scope or other changes ordered by it. For a discussion of the risks associated with program funding and appropriations, see Item 1A Risk Factors and Overview within Item 7 of this Form 10-K. In addition, because we are engaged in supplying technologically-advanced, cutting edge defense-related products and services to the U.S. government, we are subject to certain business risks, some of which are specific to our industry. These risks include: the cost of obtaining and retaining trained and skilled employees; the uncertainty and instability of prices for raw materials and supplies; the problems associated with advanced designs, which may result in unforeseen technological difficulties and cost overruns; and the intense competition and the constant necessity for improvement in facilities and personnel training. Our sales to the U.S. government may be affected by changes in procurement policies, budget considerations, changing concepts of national defense, political developments abroad and other factors. See Item 1A Risk Factors and Overview within Item 7 of this Form 10-K for a more detailed discussion of these and other related risks.

We are also involved in U.S. government programs, principally through our IIS and SAS business segments, which are classified by the U.S. government and cannot be specifically described in this Form 10-K. The operating results of these classified programs are included in our consolidated financial statements. The business risks and considerations associated with these classified programs generally do not differ materially from those of our other government programs and products.

We are subject to similar government regulations and contract requirements with respect to our sales to non-U.S. customers. See International Sales on page 13 of this Form 10-K for more information regarding our sales outside of the U.S. and Item 1A Risk Factors for a discussion of the risks associated with international sales.

See Sales to the U.S. Government on page 11 of this Form 10-K for information regarding the percentage of our revenues generated from sales to the U.S. government.

Backlog

Our backlog of orders was $36.6 billion at December 31, 2007 and $33.8 billion at December 31, 2006. The 2007 amount includes backlog of approximately $30.2 billion from the U.S. government compared with $29.9 billion at the end of 2006. Approximately $5.7 billion and $0.4 billion of the 2007 backlog amount represents direct foreign government

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backlog and non-government foreign backlog, respectively. Approximately $20.0 billion of the 2007 year-end backlog is not expected to be filled during the following twelve months. These amounts include both funded backlog (unfilled firm orders for products for which funding has been both authorized and appropriated) and unfunded backlog (firm orders for which funding has not yet been appropriated). For additional information related to backlog figures, see Segment Results within Item 7 of this Form 10-K.

Research and Development

We conduct extensive research and development activities to continually enhance our existing products and services and develop new products and services to meet our customers changing needs and requirements and address new market opportunities. During 2007, we expended $502 million on research and development efforts compared with $464 million in 2006 and $430 million in 2005. These expenditures principally have been for product development for the U.S. government, including bid and proposal efforts related to U.S. government programs. We also conduct funded research and development activities under U.S. government contracts which are included in net sales. For additional information related to our research and development activities, see Note 1: Accounting Policies within Item 8 of this Form 10-K.

Raw Materials, Suppliers and Seasonality

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

In recent years, our revenues in the second half of the year have generally exceeded revenues in the first half. The timing of U.S. government awards, the availability of U.S. government funding and product deliveries are among the factors affecting the periods in which revenues are recorded. We expect this trend to continue in 2008.

Competition

We directly participate in most major areas of development in the defense and government electronics, space, information technology and technical services and support markets. Technical superiority, reputation, price, past performance, delivery schedules, financing and reliability are among the principal competitive factors considered by customers in these markets. We compete worldwide with a number of U.S. and international companies in these markets, some of which may have more extensive or more specialized engineering, manufacturing and marketing capabilities than we do in some areas. The on-going consolidation of the U.S. and global defense, space and aerospace industries continues to intensify competition and has reduced the number of principal prime contractors in the U.S. As a result of this consolidation, we frequently partner on various programs with our major suppliers, some of whom are, from time to time, competitors on other programs.

Patents and Licenses

We own an intellectual property portfolio which includes many United States and foreign patents, as well as unpatented know-how, trademarks and copyrights, all of which contribute to the preservation of our competitive position in the market. In certain instances, we have augmented our technology base by licensing the proprietary intellectual property of others. We also license our intellectual property to others. While our intellectual property rights in the aggregate are important to the operation of Raytheon, we do not believe that any existing patent, license or other intellectual property right is of such importance that its loss or termination would have a material adverse effect on our business, taken as a

whole.

Employment

As of December 31, 2007, we had approximately 72,100 employees. Approximately 8% of our employees are unionized. We consider our union-management relationships to be generally satisfactory.

International Sales

Our sales to customers outside the U.S. were $4.2 billion or 20% of total sales in 2007, $3.7 billion or 19% of total sales in 2006 and $3.4 billion or 18% of total sales in 2005. Included in sales to customers outside the U.S. were foreign military

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sales through the U.S. government of $1.5 billion, $1.3 billion and $1.1 billion, in 2007, 2006 and 2005, respectively. International sales were principally in the fields of air defense systems, missile systems, airborne radars, naval systems, air traffic control systems, missile defense systems, electronic equipment, computer software and systems, homeland security solutions, personnel training, equipment maintenance and microwave communication and other products and services permitted under the International Traffic in Arms Regulations. Generally, we finance our foreign subsidiary working capital requirements in the applicable countries. Sales and income from international operations and investments are subject to changes in currency values, domestic and foreign government policies (including requirements to expend a portion of program funds in-country) and regulations, embargoes and international hostilities. Exchange restrictions imposed by various countries could restrict the transfer of funds between countries and between Raytheon and its subsidiaries. We have acted to protect ourself against most undue risks through insurance, foreign exchange contracts, contract provisions, government guarantees or progress payments. See revenues derived from external customers and long-lived assets by geographical areas set forth in Note 15: Business Segment Reporting within Item 8 of this Form 10-K.

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

The export from the U.S. of many of our products may require the issuance of a license by either the U.S. Department of State under the Arms Export Control Act of 1976 (formerly the Foreign Military Sales Act), the U.S. Department of Commerce under the Export Administration Act and its implementing regulations as kept in force by the International Emergency Economic Powers Act of 1977 (IEEPA), and/or the U.S. Department of the Treasury under IEEPA or the Trading with the Enemy Act of 1917. Such licenses may be denied for reasons of U.S. national security or foreign policy. In the case of certain exports of defense equipment and services, the Department of State must notify Congress at least 15-60 days (depending on the identity of the country that will utilize the equipment and services) prior to authorizing such exports. During that time, the Congress may take action to block or delay a proposed export by joint resolution which is subject to Presidential veto.

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

Environmental Regulation

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

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

If we are ultimately found to have liability at those sites where we have been designated a PRP, we expect that the actual costs of remediation will be shared with other liable PRPs. Generally, PRPs that are ultimately determined to be responsible parties are strictly liable for site clean-up and usually agree among themselves to share, on an allocated basis, the costs and expenses for investigation and remediation of hazardous materials. Under existing environmental laws, however, responsible parties may be jointly and severally liable and, therefore, potentially liable

for the full cost of funding such remediation. In the unlikely event that we are required to fund the entire cost of such remediation, the statutory framework provides that we may pursue rights of contribution from the other PRPs. The amounts we record do not reflect the unlikely event that we would be required to fund the entire cost of such remediation, nor do they reflect the possibility that we may recover some of these environmental costs from insurance policies or from other PRPs, because neither manner of recovery is deemed probable.

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

Most of the laws governing environmental matters include criminal provisions. If we were convicted of a criminal violation of certain federal environmental statutes, including the Federal Clean Air Act and the Clean Water Act, the facility or facilities involved in the violation would be placed by the EPA on the Excluded Parties List maintained by the Government Services Administration. The listing would continue until the EPA concluded that the cause of the violation had been cured. Listed facilities cannot be used in performing any U.S. government contract awarded during any period of listing by the EPA.

Additional information regarding the effect of compliance with environmental protection requirements and the resolution of environmental claims against Raytheon and its operations is contained in Item 1A Risk Factors, Item 3 Legal Proceedings, Commitments and Contingencies within Item 7 and Note 12: Commitments and Contingencies within Item 8 of this Form 10-K.

Available Information and Stock Exchange Certification

Our Internet address is www.raytheon.com. The content on our website is available for informational purposes only. You should not rely upon such content for investment purposes and such content is not incorporated by reference into this Form 10-K.

We make available free of charge on or through our Internet website under the heading Investor Relations, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. We also make available on or through our website copies of our key corporate governance documents, including our Governance Principles, Certificate of Incorporation, By-laws and charters for the Audit Committee, Management Development and Compensation Committee, Governance and Nominating Committee and Public Affairs Committee of Board of Directors and code of ethics entitled Standards of Business Ethics and Conduct . Stockholders may request free copies of these documents from our Investor Relations Department by writing to Raytheon Company, Investor Relations, 870 Winter Street, Waltham, MA 02451, or by calling (781) 522-5123 or by sending an email request to invest@raytheon.com.

We filed our annual CEO certification with the New York Stock Exchange on May 24, 2007.

ITEM 1A. RISK FACTORS

This Form 10-K and the information we are incorporating by reference contain forward-looking statements within the meaning of federal securities laws, including information regarding our 2008 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, or variations of these words, or similar expressions. These forward-looking statements are not statements of historical facts and represent only our current expectations regarding such matters. These statements inherently involve a wide range of known and unknown uncertainties.

Our actual actions and results could differ materially from what is expressed or implied by these statements. Specific factors that could cause such a difference include, but are not limited to, those set forth below and other important factors disclosed previously and from time to time in our other filings with the Securities and Exchange Commission. Given these factors, as well as other variables that may affect our operating results, you should not rely on forward-looking statements, assume that past financial performance will be a reliable indicator of future performance, nor use historical trends to anticipate results or trends in future periods. We expressly disclaim any obligation or intention to provide updates to the forward-looking statements and the estimates and assumptions associated with them.

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

In 2007, U.S. government sales accounted for approximately 86% of our total net sales. U.S. government sales included foreign military sales through the U.S. government of $1.5 billion, $1.3 billion and $1.1 billion in 2007, 2006 and 2005, respectively. Our revenues from the U.S. government largely result from contracts awarded to us under various U.S. government programs, primarily defense-related programs. The funding of our programs is subject to the overall U.S. government budget and appropriation decisions and processes which are driven by numerous factors, including geo-political events and macroeconomic conditions, and are beyond our control. While the overall level of U.S. defense spending has increased in recent years for numerous reasons, including increases in funding of operations in Iraq and Afghanistan and the U.S. Department of Defense s military transformation initiatives, we can give no assurance that such spending will continue to grow, or not be reduced. Significant changes in defense spending could have long-term consequences for our size and structure. In addition, changes in government priorities and requirements could impact the funding, or the timing of funding, of our programs which could negatively impact our results of operations and financial condition.

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

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

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

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

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

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Our international sales are a growing portion of our business; accordingly, we may increasingly become subject to the risks of doing business in foreign countries.

Our international business exposes us to certain unique and potentially greater risks than our domestic business and our exposure to such risks may increase if our international business continues to grow as we anticipate. Our international business is sensitive to changes in the priorities and budgets of international customers, which may be driven by potentially volatile regional and local economic and political factors, as well as U.S. foreign policy. Our international sales are also subject to local government regulations and procurement policies and practices which may differ from U.S. government regulation, including regulations relating to import-export control, investments, exchange controls and repatriation of earnings, as well as to varying currency, geo-political and economic risks. We also are exposed to risks associated with using foreign representatives and consultants for international sales and operations and teaming with international subcontractors and suppliers in connection with international programs. As a result of these factors, we could experience award and funding delays on international programs and could incur losses on such programs which could negatively impact our results of operations and financial condition.

We may not be successful in obtaining the necessary licenses to conduct operations abroad, and Congress may prevent proposed sales to foreign governments.

Due to the nature of our products, we must first obtain licenses and authorizations from various U.S. government agencies before we are permitted to sell our products outside of the U.S. For example, the U.S. Department of State must notify Congress at least 15-60 days, depending on the size and location of the sale, prior to authorizing certain sales of defense equipment and services to foreign governments. During that time, Congress may take action to block the proposed sale. We can give no assurance that we will continue to be successful in obtaining the necessary licenses or authorizations or that Congress will not prevent or delay certain sales. Any significant impairment of our ability to sell products outside of the U.S. could negatively impact our results of operations and financial condition.

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

We operate in highly competitive markets and our competitors may have more extensive or more specialized engineering, manufacturing and marketing capabilities than we do in some areas. We anticipate increasing competition in our core markets as a result of defense industry consolidation, which has enabled companies to enhance their competitive position and ability to compete against us, and the anticipated moderation of U.S. defense spending growth, which will limit market opportunities for us and our competitors. These markets also are becoming increasingly more concentrated due to the trend of certain customers awarding a smaller number of large multi-service contracts. We are also facing increasing competition in our domestic and international markets from foreign and multinational firms. Additionally, some customers, including the DoD, are increasingly turning to commercial contractors, rather than traditional defense contractors, for information technology and other support work. If we are unable to continue to compete successfully against our current or future competitors, we may experience declines in revenues and market share which could negatively impact our results of operations and financial condition.

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

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

Identify emerging technological trends in our current and future markets;

Identify additional uses for our existing technology to address customer needs in our current or future markets;

Develop and maintain competitive products and services for our current and future markets;

Enhance our offerings by adding innovative features that differentiate our offerings from those of our competitors;

Develop and manufacture and bring solutions to market quickly at cost-effective prices; and

Effectively structure our businesses, through the use of joint ventures, teaming agreements and other forms of alliances, to reflect the competitive environment.

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

We enter into fixed-price contracts which could subject us to losses in the event that we have cost overruns.

A significant portion of our contracts are entered into on a fixed-price basis. This allows us to benefit from cost savings, but we carry the burden of cost overruns. Because many of our contracts involve advanced designs and innovative technologies, we may experience unforeseen technological difficulties and cost overruns. If our initial estimates are incorrect, we can lose money on these contracts. In addition, some of our contracts have provisions relating to cost controls and audit rights, and if we fail to meet the terms specified in those contracts then we may not realize their full benefits. Lower earnings caused by cost overruns and cost controls would have a negative impact on our results of operations.

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

As a government contractor, we are subject to routine audits and investigations by U.S. government agencies such as the Defense Contract Audit Agency (DCAA). These agencies review a contractor s performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The DCAA also reviews the adequacy of and a contractor s compliance with its internal control systems and policies, including the contractor s purchasing, property, estimating, compensation and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed or must be refunded if already reimbursed. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us.

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

Government contractors must also comply with specific procurement regulations and other requirements. These requirements, although customary in government contracts, increase our performance and compliance costs. If these requirements change, our costs of complying with them could increase and reduce our margins. In addition, failure to comply with these regulations and requirements could result in reductions of the value of contracts, contract modifications or termination, and the assessment of penalties and fines, which could negatively impact our results of operations and financial condition. Our failure to comply with these regulations and requirements could also lead to suspension or debarment, for cause, from government contracting or subcontracting for a period of time. Among the causes for debarment are violations of various statutes, including those related to procurement integrity, export control, government security regulations, employment practices, protection of the environment, accuracy of records and the recording of costs, and foreign corruption. The termination of a government contract

or relationship as a result of any of these acts could have a negative impact on our results of operations and financial condition and could have a negative impact on our reputation and ability to procure other government contracts in the future.

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

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

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

Contract accounting requires judgment relative to assessing risks, including risks associated with customer directed delays and reductions in scheduled deliveries, unfavorable resolutions of claims and contractual matters, judgments associated with estimating contract revenues and costs, and assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. For example, we must make assumptions regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials; consider whether the intent of entering into multiple contracts was effectively to enter into a single project in order to determine whether such contracts should be combined or segregated; consider incentives or penalties related to performance on contracts in estimating sales and profit rates, and record them when there is sufficient information for us to assess anticipated performance; and use estimates of award fees in estimating sales and profit rates based on actual and anticipated awards. Because of the significance of the judgments and estimation processes described above, it is likely that materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect our future results of operations and financial condition.

We use estimates in accounting for our pension plan and changes in our estimates could adversely affect our results of operations.

We must determine our pension plan expense or income which involves significant judgment, particularly with respect to our long-term return on pension assets and discount rate assumptions. If our discount rate assumption or long-term return on assets (ROA) (which is used to determine the funded status of our pension plans) is decreased due to changes in our assumptions or other reasons, our pension plan funded status and expense could increase which would negatively impact our results of operations. In addition, if our actual return on assets differs from our long-term ROA assumption, our pension plan funded status and pension expense would change.

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

In pursuing our business strategies, we continually review, evaluate and consider potential investments and acquisitions. In evaluating such transactions, we are required to make difficult judgments regarding the value of business opportunities, technologies and other assets, and the

risks and cost of potential liabilities. Furthermore, acquisitions and investments involve certain other risks and uncertainties, including the difficulty in integrating newly-acquired businesses, the challenges in achieving strategic objectives and other benefits expected from acquisitions or investments,

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the diversion of our attention and resources from our operations and other initiatives, the potential impairment of acquired assets and the potential loss of key employees of the acquired businesses.

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

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

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

At December 31, 2007, we had goodwill and other intangible assets of approximately $12.1 billion, net of accumulated amortization, which represented approximately 52% of our total assets. Our goodwill is subject to an impairment test on an annual basis and is also tested whenever events and circumstances indicate that goodwill may be impaired. Any excess goodwill resulting from the impairment test must be written off in the period of determination. Intangible assets (other than goodwill) are generally amortized over the useful life of such assets. In addition, from time to time, we may acquire or make an investment in a business which will require us to record goodwill based on the purchase price and the value of the acquired assets. We may subsequently experience unforeseen issues with such business which adversely affect the anticipated returns of the business or value of the intangible assets and trigger an evaluation of the recoverability of the recorded goodwill and intangible assets for such business. Future determinations of significant write-offs of goodwill or intangible assets as a result of an impairment test or any accelerated amortization of other intangible assets could have a negative impact on our results of operations and financial condition.

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

We are defendants in a number of litigation matters and are subject to various other claims, demands and investigations. These matters may divert financial and management resources that would otherwise be used to benefit our operations. Although we believe that we have meritorious defenses to the claims made in the litigation matters to which we have been named a party and intend to contest each lawsuit vigorously, no assurances can be given that the results of these matters will be favorable to us. An adverse resolution or outcome of any of these lawsuits, claims, demands or investigations could have a negative impact on our financial condition, results of operations and liquidity.

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

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

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

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

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

Approximately 5,700 of our employees are unionized, which represents approximately 8% of our employee-base at December 31, 2007. As a result, we may experience work stoppages, which could adversely affect our business. We cannot predict how stable our union relationships, currently with 23 different U.S. labor organizations and 2 different non-U.S. labor organizations, will be or whether we will be able to successfully negotiate successor agreements without impacting our financial condition. In addition, the presence of unions may limit our flexibility in dealing with our workforce. Work stoppages could negatively impact our ability to manufacture our products on a timely basis, which could negatively impact our results of operations and financial condition.

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

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

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

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

We are also subject to increasingly stringent laws and regulations that impose strict requirements for the proper management, treatment, storage and disposal of hazardous substances and wastes, restrict air and water emissions from our manufacturing operations, including

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

As of December 31, 2007, we owned, leased or utilized through operating agreements approximately 31.2 million square feet of floor space for manufacturing, engineering, research, administration, sales and warehousing, approximately 93% of which was located in the United States. Approximately 42% of this amount was owned (or held under a long term ground lease with ownership of the improvements), approximately 53% was leased and approximately 5% was made available under facilities contracts for use in the performance of U.S. government contracts. Of the 31.2 million square feet of floor space owned, leased or utilized through operating agreements by us, approximately 1.7 million square feet was subleased to unrelated third parties. In addition to the 31.2 million square feet, we had approximately 0.1 million square feet of floor space that was vacant.

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

As of December 31, 2007, our business segments had major operations at the following locations:

Integrated Defense Systems Huntsville, AL; San Diego, CA; Andover, MA; Billerica, MA; Sudbury, MA; Tewksbury, MA; Woburn, MA; Portsmouth, RI; Keyport, WA; and Kiel, Germany.

Intelligence and Information Systems Aurora, CO; Landover, MD; Linthicum, MD; Omaha, NE; State College, PA; Garland, TX; Falls Church, VA; Reston, VA; Springfield, VA; and Uxbridge, England.

Missile Systems East Camden, AR; Tucson, AZ; Rancho Cucamonga, CA; Louisville, KY; and Farmington, NM.

Network Centric Systems Fullerton, CA; Goleta, CA; Largo, FL; St. Petersburg, FL; Ft. Wayne, IN; Marlboro, MA; Towson, MD; Dallas, TX; McKinney, TX; Plano, TX; Richardson, TX; Midland, Ontario, Canada; Waterloo, Ontario, Canada; Harlow, England and Malaga, Spain.

Space and Airborne Systems El Segundo, CA; Goleta, CA; Long Beach, CA; Forest, MS; Dallas, TX; McKinney, TX; and Glenrothes, Scotland.

Technical Services Chula Vista, CA; Long Beach, CA; Pomona, CA; Van Nuys, CA; Indianapolis, IN; Burlington, MA; Troy, MI; Norfolk, VA; Reston, VA; Canberra, Australia; and Christchurch, New Zealand.

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

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A summary of the space owned, leased and utilized by us as of December 31, 2007, by business segment is as follows:

	Leased	Owned[1]	Gov t Owned[2]	Total[3]
Integrated Defense Systems	2,259,000	2,952,000	69,000	5,280,000
Intelligence and Information Systems	2,520,000	941,000		3,461,000
Missile Systems	2,724,000	1,136,000	1,202,000	5,062,000
Network Centric Systems	2,044,000	3,749,000		5,793,000
Space and Airborne Systems	3,272,000	3,898,000		7,170,000
Technical Services	3,152,000	184,000	161,000	3,497,000
Corporate	564,000	406,000		970,000
Totals	16,535,000	13,266,000	1,432,000	31,233,000

(1) Ownership may include either fee ownership of land and improvements or a long term land lease with ownership of improvements.
(2) Space utilized by us pursuant to an operating agreement (e.g. government-owned, contractor-operated).
(3) Excludes approximately 145,000 square feet of vacant space.

ITEM 3. LEGAL PROCEEDINGS

We are primarily engaged in providing products and services under contracts with the U.S. government and, to a lesser degree, under direct foreign sales contracts, some of which are funded by the U.S. government. These contracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the U.S. government investigate whether our operations are being conducted in accordance with these requirements. U.S. government investigations of us, whether relating to these contracts or conducted for other reasons, could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, the suspension of government export licenses or the suspension or debarment from future U.S. government contracting. U.S. government investigations often take years to complete and many result in no adverse action against us. Government contractors are also subject to many levels of audit and investigation. Agencies that oversee contract performance include: the Defense Contract Audit Agency, the 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, from time to time, has convened grand juries to investigate possible irregularities by us.

We are involved in various stages of investigation and cleanup related to remediation of various environmental sites. All appropriate costs expected to be incurred in connection therewith have been accrued. 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, we do not expect any additional liability to have a material effect on our financial position, results of operations or liquidity. We have disclosed additional information regarding the effect of compliance with environmental protection requirements and the resolution of environmental claims against us and our operations in Environmental Regulation within Item 1, Item 1A. Risk Factors, Commitments and Contingencies within Item 7 and Note 12: Commitments and Contingencies within Item 8 of this Form 10-K.

Various other claims and legal proceedings generally incidental to the normal course of business are pending or threatened against us. While we cannot predict the outcome of these matters, we do not expect any liability arising from them will have a material adverse effect on our financial position, results of operations or liquidity.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the fourth quarter of 2007.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Louise L. Francesconi

Ms. Francesconi has served as Vice President of Raytheon Company and President of the Missile Systems business unit since September 2002. From November 1999 to September 2002, Ms. Francesconi was a vice president of Raytheon Company and General Manager of the Missile Systems division within the Electronic Systems business unit. From February 1998 to November 1999, she was Senior Vice President of the former Raytheon Systems Company and Deputy General Manager of the company s Defense Systems segment. Ms. Francesconi joined Raytheon in 1997 with the merger of the Hughes Electronics defense business, where she had served as the President of the Hughes Missile Company since 1996. Since 2006, Ms. Francesconi has served on the Board of Directors of Stryker Corporation, a leading medical technology company. Age 54.

Richard A. Goglia

Mr. Goglia has served as Vice President-Treasurer and Corporate Development since August 2006. From January 1999 to August 2006, Mr. Goglia was Vice President and Treasurer. Mr. Goglia joined Raytheon Company in March 1997 and until January 1999, Mr. Goglia was Director, International Finance. Prior to joining Raytheon Company, Mr. Goglia spent 16 years in various financial and management positions at General Electric Company, a diversified technology, media and financial services company, and General Electric Capital Corporation where his last position was Senior Vice President Corporate Finance. Age 56.

Jon C. Jones

Mr. Jones has served as Vice President of Raytheon Company and President of the Space and Airborne Systems (SAS) business unit since November 2005. From May 2005 to November 2005, Mr. Jones served as Vice President and Deputy General Manager of SAS. From February 2004 to May 2005, Mr. Jones was Vice President and Deputy General Manager of the Missile Systems business unit. From May 2001 to February 2004, Mr. Jones was Vice President of Missile Systems Strike product line. Mr. Jones joined Raytheon in 1997 with the merger of Hughes, where he had served in positions of increasing responsibility since 1977. Age 53.

Michael D. Keebaugh

Mr. Keebaugh has served as Vice President of Raytheon Company and President of the Intelligence and Information Systems (IIS) business unit since September 2002. From February 1998 to September 2002, Mr. Keebaugh was Vice President and General Manager of the Imagery and

Geospatial Systems division within the Command, Control, Communication and Information Systems business unit. Mr. Keebaugh joined the Electronics Systems business unit of Raytheon in 1990 as a result of an acquisition and held other senior positions within Raytheon including Vice President and General Manager of the Imagery and Geospatial Systems division within Raytheon Systems Company. Age 62.

Keith J. Peden

Mr. Peden has served as Senior Vice President Human Resources since March 2001. From November 1997 to March 2001, Mr. Peden was Vice President and Deputy Director Human Resources. From April 1993 to November 1997, Mr. Peden was Corporate Director of Benefits and Compensation. Age 57.

Colin Schottlaender

Mr. Schottlaender has served as Vice President of Raytheon Company and President of the Network Centric Systems (NCS) business unit since September 2002. From November 1999 to September 2002, Mr. Schottlaender was Vice President and General Manager of the Tactical Systems division within the Electronic Systems business unit. From December 1997 to November 1999, Mr. Schottlaender was Vice President of Tactical Systems within the Sensors and

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Electronic Systems division of Raytheon Systems Company. He joined Raytheon in 1977 and held positions of increasing responsibility in domestic and international business development, program management, quality assurance, test engineering and product design/manufacture. Age 52.

Daniel L. Smith

Mr. Smith has served as Vice President of Raytheon Company and President of the Integrated Defense Systems (IDS) business unit since September 2003. From August 2002 to September 2003, Mr. Smith was Vice President and Deputy General Manager of the IDS business unit. From October 1996 to August 2002, he served as Vice President and General Manager of Raytheon s Naval & Maritime Integrated Systems division. Mr. Smith joined Raytheon in 1996 as the manager of programs for U.S. Navy LPD-17 class ships. Age 55.

Jay B. Stephens

Mr. Stephens has served as Senior Vice President and General Counsel since October 2002. In December 2006, he was also elected as Secretary of the Company. From January 2002 to October 2002, Mr. Stephens served as Associate Attorney General of the United States. From 1997 to 2002, Mr. Stephens was Corporate Vice President and Deputy General Counsel for Honeywell International, Inc. (formerly AlliedSignal, Inc.). From 1993 to 1997, he was a partner in the Washington office of the law firm of Pillsbury, Madison & Sutro (now Pillsbury Winthrop Shaw Pittman LLP). Mr. Stephens served as United States Attorney for the District of Columbia from 1988 to 1993. From 1986 to 1988, he served in the White House as Deputy Counsel to the President. Mr. Stephens currently serves as the Chairman of the Board of the New England Legal Foundation. Age 61.

William H. Swanson

Mr. Swanson has served as Chairman since January 2004 and as Chief Executive Officer since July 2003. Mr. Swanson joined Raytheon in 1972 and has held increasingly responsible management positions, including: President from July 2002 to May 2004; Executive Vice President of Raytheon Company and President of Raytheon s Electronic Systems business unit from January 2000 to July 2002; Executive Vice President of Raytheon Company and Chairman and CEO of Raytheon Systems Company from January 1998 to January 2000; Executive Vice President of Raytheon Company and General Manager of Raytheon s Electronic Systems business unit from March 1995 to January 1998; and Senior Vice President and General Manager of the Missile Systems division from August 1990 to March 1995. Since 2004, Mr. Swanson has served on the Board of Directors of Sprint Nextel Corporation, a wireless communications services provider. Age 59.

David C. Wajsgras

Mr. Wajsgras has served as Senior Vice President and Chief Financial Officer since March 2006. From August 2005 to March 2006, Mr. Wajsgras served as Executive Vice President and Chief Financial Officer of Lear Corporation, an automotive interior systems and components supplier. From January 2002 to August 2005, he served as Senior Vice President and Chief Financial Officer of Lear. Mr. Wajsgras joined Lear in September 1999 as Vice President and Controller. Age 48.

Michael J. Wood

Mr. Wood has served as Vice President and Chief Accounting Officer since October 2006. Prior to joining Raytheon, Mr. Wood held positions of increasing responsibility over a 16-year career at KPMG LLP, an accounting firm, including most recently as an Audit Partner serving various aerospace and defense clients. Age 39.

Richard R. Yuse

Mr. Yuse has served as Vice President of Raytheon Company and President of the Technical Services (TS) business unit since May 2007. From March 2007 to May 2007, Mr. Yuse was Vice President and Deputy General Manager of the TS business unit. From January 2006 to March 2007, he served as Vice President of the Integrated Air Defense product line of the IDS business unit. Mr. Yuse joined Raytheon in 1976 and has held positions of increasing responsibility on a variety of programs ranging from system architecture and design to flight test director and program manager. Age 56.

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PART II

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

At February 11, 2008, there were 39,962 record holders of our common stock. Our common stock is traded on the New York Stock Exchange under the symbol RTN . For information concerning stock prices and dividends paid during the past two years, see Note 16 Quarterly Operating Results (Unaudited) within Item 8 of this Form 10-K. Although we do not have a formal dividend policy, management believes that a reasonable dividend payout ratio based on the current industry environment and market conditions is approximately one third of our economic earnings (income excluding the FAS/CAS Pension Adjustment). Dividends are subject to quarterly approval by our Board of Directors.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information about our equity compensation plans that authorize the issuance of shares of our common stock. This information is provided as of December 31, 2007.

Plan Category	(A) Number of securities to be issued upon exercise of outstanding options, warrants and rights[1]	(B) Weighted average exercise price of outstanding options, warrants and rights[2]	(C) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A)[3]
Equity compensation plans approved by stockholders	19,420,017	$ 42.45	11,141,698
Equity compensation plans not approved by stockholders			
Total	19,420,017	$ 42.45	11,141,698

(1) This amount includes 2,135,576 shares, which is the maximum number of shares that may be issued upon settlement of restricted stock units granted pursuant to the 2005, 2006 and 2007 Long-Term Performance Plans (LTPP), including dividend equivalent amounts. The shares to be issued pursuant to the 2005, 2006 and 2007 LTPPs will be issued under the 2001 Stock Plan. The material terms of the 2005, 2006 and 2007 LTPPs are described in more detail in Note 13: Stock-Based Compensation Plans within Item 8 of this Form 10-K. These awards may be settled in cash or in stock at the discretion of the Management Development and Compensation Committee.

This amount also includes 166,192 shares that may be issued upon settlement of restricted stock units generally issued to non-U.S. employees. The restricted stock units are granted pursuant to the 2001 Stock Plan and shares to be issued in settlement of the units will be issued under the 2001 Stock Plan. The awards of restricted stock units generally vest one-third per year on the second, third and fourth anniversaries of the date of grant.

This amount also includes 10,023,336 shares issuable upon exercise of stock options granted under the 1995 Stock Option Plan. The 1995 Stock Option Plan expired in March 2005 and no additional options may be granted pursuant to that plan.

(2) Since restricted stock unit awards do not have an exercise price, the weighted average exercise price does not take into account the restricted stock unit awards granted under the 2005, 2006 and 2007 LTPPs and restricted stock units granted to non-U.S. employees.

(3) As of December 31, 2007, there were (i) 12,139,425 shares available for grant as stock options, stock appreciation rights, restricted stock units and restricted stock under the 2001 Stock Plan and (ii) 149,636 shares available for grant as restricted stock under the 1997 Nonemployee Directors Restricted Stock Plan.

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Stock Performance Graph

The following chart compares the total return on a cumulative basis of $100 invested in our common stock on December 31, 2002 to the Standard & Poor s 500 Stock Index and the Standard & Poor s Aerospace & Defense Index.

Total Return To Shareholders

(Includes reinvestment of dividends)

Annual Return Percentage

	Years Ending				
Company/Index	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2007
Raytheon Common Stock	0.40	32.20	5.75	34.17	17.02
S&P 500 Index	28.68	10.88	4.91	15.79	5.49
S&P Aerospace & Defense Index	23.10	16.00	15.92	25.16	19.32

Indexed Returns

	Base Period	Years Ending				
Company/Index	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2007
Raytheon Common Stock	100	100.40	132.73	140.36	188.33	220.38
S&P 500 Index	100	128.68	142.69	149.70	173.34	182.86
S&P Aerospace & Defense Index	100	123.10	142.79	165.53	207.18	247.20

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Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan[2]
October (September 24, 2007-October 21, 2007)	1,750,397	$ 63.78	1,748,338	$ 2.0 billion
November (October 22, 2007-November 18, 2007)	2,165,198	62.96	2,160,000	$ 1.9 billion
December (November 19, 2007-December 31, 2007)	1,530,163	61.88	1,524,000	$ 1.8 billion
Total	5,445,758	$ 62.92	5,432,338	

(1) Includes shares purchased related to treasury activity under our stock plans. Such activity during the fiscal fourth quarter of 2007 includes: (i) the surrender by employees of 1,142 shares of already owned common stock to pay the exercise price in connection with the exercise of employee stock options, and (ii) the surrender by employees of 12,278 shares to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

(2) On December 20, 2006, our Board of Directors approved an increase to our repurchase program of up to an additional $750 million of our outstanding common stock. On October 24, 2007, our Board of Directors authorized the repurchase of up to an additional $2.0 billion of our outstanding common stock. Purchases may take place from time to time at management s discretion depending upon market conditions.

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ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR STATISTICAL SUMMARY[1]

(In millions except share amounts and total employees)	2007	2006	2005	2004	2003
Results of Operations					
Net sales	**$ 21,301**	$ 19,707	$ 18,491	$ 17,360	$ 15,648
Operating income	**2,328**	1,944	1,619	1,344	1,288
Interest expense, net	**33**	197	266	377	506
Income from continuing operations	**1,693**	1,187	898	408	512
Income (loss) from discontinued operations, net of tax	**885**	96	(27)	(32)	(147)
Cumulative effect of change in accounting principle, net of tax				41	
Net income	**2,578**	1,283	871	417	365
Net cash provided by operating activities from continuing operations	**1,249**	2,477	2,352	1,746	2,330
Net cash provided by operating activities	**1,198**	2,743	2,515	2,071	2,034
Diluted earnings per share from continuing operations	**$ 3.80**	$ 2.63	$ 1.98	$ 0.92	$ 1.23
Diluted earnings per share	**5.79**	2.85	1.92	0.94	0.88
Dividends declared per share	**1.02**	0.96	0.88	0.80	0.80
Average diluted shares outstanding (in thousands)	**445,659**	450,875	453,302	442,201	415,429
Financial Position at Year-End					
Cash and cash equivalents	**$ 2,655**	$ 2,460	$ 1,202	$ 556	$ 661
Current assets	**7,616**	9,517	8,770	8,249	8,209
Property, plant and equipment, net	**2,058**	2,025	1,997	2,049	2,063
Total assets	**23,281**	25,491	24,381	24,153	24,208
Current liabilities	**4,788**	6,715	6,335	5,995	4,617
Long-term liabilities (excluding debt)	**3,467**	4,232	3,249	2,923	3,067
Long-term debt	**2,268**	3,278	3,969	4,179	6,436
Subordinated notes payable			408	408	859
Total debt	**2,268**	3,965	4,431	5,067	7,295
Stockholders equity	**12,542**	11,101	10,709	10,551	9,162
General Statistics					
Total backlog	**$ 36,614**	$ 33,838	$ 31,528	$ 29,905	$ 25,263
Capital expenditures	**313**	294	296	298	332
Depreciation and amortization	**372**	361	348	339	295
Total employees from continuing operations	**72,100**	69,900	71,600	71,500	69,200

(1) All periods presented have been reclassified to reflect Raytheon Aircraft and Flight Options as discontinued operations as a result of the sales of these businesses in 2007.

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

OVERVIEW

Introduction

Raytheon Company develops technologically advanced, integrated products, services and solutions in four core defense markets: Sensing; Effects; Command, Control, Communications and Intelligence (C3I) and Mission Support. We serve all branches of the U.S. military and numerous other U.S. government agencies, and the North Atlantic Treaty Organization (NATO) and many allied governments.

We operate in six business segments: Integrated Defense Systems (IDS), Intelligence and Information Systems (IIS), Missile Systems (MS), Network Centric Systems (NCS), Space and Airborne Systems (SAS) and Technical Services (TS). For a more detailed description of our segments, see Business Segments within Item 1 of this Form 10-K. As discussed in more detail below and elsewhere in this Form 10-K, in 2007, we sold Raytheon Aircraft and Flight Options. Accordingly, Raytheon Aircraft and Flight Options are presented as discontinued operations in this Form 10-K. For further information regarding Raytheon Aircraft, Flight Options and our Other Discontinued Operations, see Discontinued Operations below and Note 2: Discontinued Operations within Item 8 of this Form 10-K.

In this section, we discuss our industry and how certain factors may affect our business, key elements of our strategy, how our financial performance is assessed and measured by management, and other business considerations, including certain risks and challenges to our business. Next, we discuss our critical accounting estimates, which are those estimates that are most important to both the reporting of our financial condition and results of operations and require management s most difficult or subjective judgment. We then review our 2007 results of operations beginning with an overview of our total company results, followed by a more detailed review of those results by business segment and discontinued operations. We also review our financial condition and liquidity including our capital structure and resources, off-balance sheet arrangements, commitments and contingencies, and conclude with a discussion of our exposure to various market risks.

Industry Considerations

Domestic Considerations

U.S. Department of Defense (DoD) funding has grown substantially since 2001. The DoD base budget, which excludes emergency funding for operations in Iraq, Afghanistan, and other activities related to the Global War on Terrorism, has grown from $300 billion in fiscal year (FY) 2001 to $479 billion in FY 2008, or 7% compounded annually. The FY 2008 budget is $48 billion, or 11% more than the FY 2007 level.

DoD modernization funding, which consists of procurement and research and development (R&D), is of particular importance to defense contractors. Modernization funding in the base budget has grown at an annual rate of 8% since FY 2001. The FY 2008 modernization level of $176 billion is $16 billion, or 10% more than the FY 2007 level. A major reason for this consistent growth is the need to replace aging inventory of planes, ships, ground combat vehicles and other necessary warfighting equipment, often referred to as recapitalization by DoD officials.

The DoD Operations and Maintenance Account (O&M), which includes funding for training, services and other logistical support functions, is the other major account of importance to the defense industry. O&M in the DoD base budget has grown at an annual rate of 6% since FY 2001. The FY 2008 level of $164 billion is $18 billion, or 12% more than the FY 2007 level. The recent decision to increase active duty ground forces by 92,000 will likely increase O&M funding requirements in the near future.

Funding for the major operations of the Global War on Terrorism, notably the operations in Afghanistan and Iraq, have largely occurred through emergency supplemental appropriations rather than in the base budget appropriations. These emergency supplemental appropriations have risen from $63 billion in FY 2003 to the President s request of $189 billion for FY 2008, or 25% compounded annually.

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The share of funding devoted to the modernization accounts, primarily procurement, within these emergency supplemental appropriations has steadily grown. Of the President s $189 billion request for FY 2008 emergency funding, 40% is for modernization, which is $26 billion, or 52% more than the FY 2007 level. This growth is fueled by a greater need for force protection of the warfighter as well as the growing need to replace or extensively refurbish equipment which is wearing down due to operations in Afghanistan and Iraq.

Looking forward, the DoD budget will be affected by several factors, including the following:

- External threats to our national security, including potential security threats posed by extremist Islamic terrorism and countries such as Iran, North Korea, or a politically unstable Pakistan.
- Funding for on-going operations in Iraq and, to a lesser extent, Afghanistan, which will require funding above and beyond the DoD base budget for their duration.
- Future priorities of the next Administration which could result in significant changes in the DoD budget overall and how much within that budget is devoted to recapitalization, modernization and other DoD funding priorities beginning with the FY 2010 budget.
- The overall health of the U.S. and world economies and the U.S. government s finances.

Based on the enacted and proposed levels of funding for DoD for FY 2008 and FY 2009, we expect continued defense spending growth in the near-term. However, projected defense spending becomes increasingly uncertain beyond that period due to numerous factors, including those noted above. For more information on the risks and uncertainties that could impact the U.S. government s demand for our products and services, see Item 1A Risk Factors of this Form 10-K.

International Considerations

Internationally, the growing threat of additional terrorist activity, emerging nuclear states and conventional military threats have led to an increase in demand for defense products and services and homeland security solutions. We currently anticipate that international defense budgets will grow slightly faster than domestic budgets. International customers are expected to also continue to adopt similar defense transformation initiatives as the DoD s initiatives. We believe that this trend will continue because many international customers are facing the same threat environment changes as the United States and they wish to assure that their forces and systems will be interoperable with U.S. and NATO forces. Certain countries have increased their defense budgets due to strong regional or local economic growth which may allow them to simultaneously undertake domestic infrastructure, defense and homeland security projects. However, international demand is sensitive to changes in the priorities and budgets of international customers, which may be driven by potentially volatile regional and local economic and political factors, as well as U.S. foreign policy. For more information on the risks and uncertainties that could impact international demand for our products and services, see Item 1A Risk Factors of this Form 10-K.

Our Strategy and Opportunities

The following are the key elements of our strategy:

- Focus on key strategic pursuits, technology and mission assurance to protect and grow our position in our four core defense markets, Sensing, Effects, C3I and Mission Support.
- Leverage our domain knowledge in these core defense markets, as well as in Mission Systems Integration, Homeland Security, and Information Assurance/Information Operations.
- Expand our international business by increasing defense sales and seeking adjacent opportunities.
- Be a Customer-focused company based on performance, relationships, and solutions.

Our Core Defense Markets

We believe that our technologies, domain knowledge and key capabilities and their alignment with customer needs in our core defense markets position us favorably to continue to grow and increase our market share. Our core markets also serve as a solid base from which to expand into adjacent and emerging markets, such as in Mission Systems Integration, Homeland Security, and Information Assurance/Information Operations. We continually explore opportunities to use our existing capabilities or develop or acquire additional ones to expand into closely adjacent markets.

Sensing We are focused on expanding beyond traditional RF (radio frequency)/EO (electro-optical) systems and into adjacent markets such as hyperspectral, acoustic and ultraviolet systems and sensors to detect Weapons of Mass

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Destruction. Our SAS business segment was recently selected to supply Active Electronically Scanned Array (AESA) radars for the Air Force s next generation F-15E Strike Eagle aircraft. In addition, during 2007, our NCS business segment began supplying Thermal Weapon Sights (TWS) that allow individual soldiers to perform surveillance and targeting during day or night, in zero illumination, or in fog, smoke, dust and sand. Using acoustic sensor technologies, our IDS business segment developed the Undersea Coastal Surveillance System (UCSS) and Airborne Low Frequency Sonar (ALFS). IDS is also developing a new Advanced Spectroscopic Portal (ASP) designed to help border authorities scan for nuclear materials.

Effects We are also focused on moving beyond kinetic energy weapons to provide a broader range of systems that generate desired effects on an enemy, including using the missile as a node in the network, urban warfare applications, directed energy, lethal and non-lethal applications and information operations. Our Effects capabilities include advanced airframes, guidance and navigation systems, high-resolution sensors, targeting and netted systems. In 2007, in addition to a number of successful intercepts with Standard Missile-3s, our MS business segment delivered its non-lethal Active Denial System 2 to the U.S. Air Force. The Active Denial System is designed to use millimeter wave technology to repel individuals without causing injury and can be used for military or homeland security applications.

C3I We are seeking to continue to grow our market presence and expand our knowledge management and discovery capabilities. Our C3I capabilities include situational awareness, persistent surveillance, communications, mission planning, battle management command and control, intelligence and analysis, and integrated ground solutions. In 2007, our NCS business segment was awarded the U.S. Navy s Multiband Terminal (NMT) contract to develop and produce an advanced satellite communication system for seamless assured connectivity between a ship s or submarine s computer network and the Global Information Grid.

Mission Support We are focused on enabling customer success through total life-cycle support that predicts customer needs, senses potential problems and proactively responds with the most appropriate solutions. Our Mission Support capabilities include technical services, system engineering, logistics, training, operations and maintenance. In 2007, our TS business segment was awarded the Warfighter FOCUS contract to oversee the landmark consolidation of the U.S. Army s live, virtual and constructive training operations and support systems worldwide.

Mission Systems Integration We believe that our expanding Mission Systems Integration (MSI) role will be a key differentiator for us. MSI is the integration of multiple systems (e.g., sensors, C3I, effects) to deliver a solution designed to accomplish a specific mission for a customer. MSI requires a thorough understanding of the customer s mission, the systems being integrated and the concept of operations. Our customer focus, program execution and the ability of our businesses to effectively work together on broad and complex initiatives are important factors in our ability to continue to expand our MSI role. Examples of our MSI initiatives in 2007 include our continued successful performance on the DDG 1000 program and our successes with intelligence community classified Horizontal Integration opportunities whose aim is to integrate and link mission elements, multiple sources of intelligence, and ultimately all elements of the intelligence community.

Homeland Security We also intend to continue to grow our presence in the domestic and international homeland security markets, focusing on transportation security, critical infrastructure protection, energy security, intelligence program support, law enforcement solutions, and emergency preparedness and response. In 2007, our IIS business segment was awarded e-Borders, a contract to develop and implement an advanced border control and security program for the U.K. Home Office.

Information Assurance/Information Operations In 2008, we established a new product line of cyber operations and information security solutions to address the emerging information assurance and information operations market. We intend to leverage and expand our information assurance capabilities as well as the capabilities of Raytheon Oakley Systems (which we acquired in 2007).

International Growth

Because of the breadth of our offerings, our systems integration capability and our strong legacy in the international marketplace, we believe that we are well-positioned to continue to grow our international business. As discussed under International Considerations, we believe that demand is growing for solutions in air and missile defense, homeland

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security including border surveillance, air traffic management, precision engagement, naval systems integration and intelligence and surveillance and reconnaissance. In addition, as coalition forces increasingly integrate military operations worldwide, we believe that our leadership in network centric operations will continue to be a key discriminator.

In 2007, our international bookings grew from $3.4 billion in 2006 to $6.7 billion in 2007. Notable awards include e-Borders, a contract with the U.K. Home Office, and Air Warfare Destroyer, a contract with Australia to design, develop and procure the combat system for the new Hobart Class destroyers.

Focus on the Customer and Execution

Our customer focus continues to be a critical part of our strategy underpinned by a focus on performance, relationships and solutions. Performance means being able to meet customer commitments and is ensured through strong processes, metrics and oversight. We maintain a process architecture that spans our broad programs and pursuits. It consists of processes such as Integrated Product Development System (IPDS) which assures consistency of evaluation and execution at each step in a program s life-cycle. These processes are linked to an array of front-end and back-end metrics. With this structure, we are able to track results and be alerted to potential issues through numerous oversight mechanisms, including operating reviews and annual operating plan reviews.

We are also continuing to build strong customer relationships by listening to customers, working with them as partners and including them on Raytheon Six Sigma™ teams to jointly improve their programs and processes. We are increasingly focused on responding to our customers changing requirements with rapid and effective solutions to real problems.

Other Business Considerations

We currently are involved in approximately 15,000 contracts. Our largest contract in 2007 was DDG 1000, which accounted for less than 5% of total sales in 2007. We believe that our diverse portfolio of programs and capabilities is well suited to a changing defense environment. However, we face numerous challenges and risks, as discussed below and under Item 1A Risk Factors of this Form 10-K.

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

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

We also focus on significant changes in our estimates of contract sales, costs and profits, to assess program performance and the potential impact of such changes on our results of operations. As discussed in greater detail in Critical Accounting Estimates , our method of accounting for our contracts requires that we estimate contract revenues and costs. Due to the size, length of time and nature of the work required to be performed on many of our contracts, our estimates are complicated and subject to many variables. We review our contract estimates periodically to assess whether revisions are warranted and make revisions and adjustments to our estimates in the ordinary course. Changes in estimates of contract sales, costs and profits are recognized using a cumulative catch-up, which recognizes in the current period the cumulative effect of the changes on current and prior periods. A significant change in one or more of these estimates could affect the profitability of one or more of our contracts. In addition, given our number of contracts and our accounting methods, we may recognize changes in multiple contracts in a fiscal quarter that, individually, may be

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significant, but that result, on a net basis, in no impact on our results of operations. Alternatively, we may recognize changes in numerous contracts in a fiscal quarter that, individually, may be immaterial, but that result, collectively, in a significant change to our results of operations.

FINANCIAL SUMMARY

Management is focused on the following financial indicators:

- Bookings a forward-looking metric that measures the value of new contracts awarded to us during the year.
- Net Sales a growth metric that measures our revenue for the current year.
- Operating Profit from Continuing Operations which measures our profit from continuing operations for the year, before interest and taxes.
- Free Cash Flow a measure of the cash that is generated in a given year that we can use to make strategic investments to grow our business or return to our shareholders.
- Return on Invested Capital (ROIC) a measure of the efficiency and effectiveness of our use of capital.

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

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

Gross bookings were $25.5 billion in 2007, $22.4 billion in 2006 and $20.8 billion in 2005, resulting in backlog of $36.6 billion, $33.8 billion and $31.5 billion at December 31, 2007, 2006 and 2005, respectively. Backlog represents future sales expected to be recognized over the contract period, which is generally the next several years. Depending upon the customer and their funding sources, our orders might be structured as annual follow-on contracts, or as one large multi-year order or long-term award. As a result, period-to-period comparisons of backlog are not necessarily indicative of future workloads.

Net sales were $21.3 billion in 2007, $19.7 billion in 2006 and $18.5 billion in 2005.

Operating income was $2.3 billion in 2007, $1.9 billion in 2006 and $1.6 billion in 2005. Operating income as a percentage of net sales was 10.9%, 9.9% and 8.8% in 2007, 2006 and 2005, respectively. Included in operating income was a FAS/CAS Pension Adjustment, described below in Consolidated Results of Operations, of $259 million in 2007, $362 million in 2006 and $448 million of expense in 2005.

Operating cash flow from continuing operations was $1.2 billion in 2007, $2.5 billion in 2006 and $2.4 billion in 2005. Total debt was $2.3 billion at December 31, 2007 compared to $4.0 billion at December 31, 2006.

CRITICAL ACCOUNTING ESTIMATES

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

Revenue Recognition The method by which we recognize revenue is determined by the type of contract or arrangement entered into with the customer. Each contract or arrangement we enter into is analyzed to determine which revenue recognition method is appropriate based on the terms and conditions and nature of the contract. The significant estimates considered in recognizing revenue for the types of revenue-generating activities we are involved in are described below. We define service revenue as those activities not associated with the design, development or production of tangible

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assets and the delivery of software code or a specific capability. We also classify contract revenues as product or service depending on the predominant attributes of the relevant underlying contracts. Service revenue represented less than 10% of our total revenues in 2007, 2006 and 2005.

Percentage of Completion Accounting

We account for our contracts associated with the design, development, manufacture, or modification of complex aerospace or electronic equipment and related services, or those otherwise within the scope of Chapter 11 of Accounting Research Bulletin No. 43, Government Contracts (ARB No. 43) or Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1), such as certain cost-plus service contracts, using the percentage-of-completion accounting method. Under this method, revenue is recognized based on the extent of progress towards completion of the long-term contract. The selection of the method by which to measure such progress towards completion requires judgment and is based on the nature of the products or services to be provided. Our analysis of these contracts also contemplates whether contracts should be combined or segmented. The combination of two or more contracts requires significant judgment in determining whether the intent of entering into the contracts was effectively to enter into a single project, which should be combined to reflect an overall profit rate. Additionally, judgment is involved in determining whether a single contract or group of contracts may be segregated based on how the contract was negotiated and the performance criteria. The decision to combine a group of contracts or segment a contract could change the amount of revenue and gross profit recorded in a given period had consideration not been given to these factors. We combine closely related contracts when all the applicable criteria under SOP 81-1 are met. Similarly, we may segment a project, which may consist of a single contract or a group of contracts, with varying rates of profitability, only if all the applicable criteria under SOP 81-1 are met.

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

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

Other Revenue Methods

To a much lesser extent, we also enter into contracts that are not associated with the design, development, manufacture, or modification of complex aerospace or electronic equipment and related services, or not otherwise within the scope of ARB No. 43 or SOP 81-1. We account for those contracts in accordance with the Securities and Exchange Commission s Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104), or other relevant revenue recognition accounting literature. Revenue under such contracts is generally recognized upon delivery or as the service is performed. Revenue on

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contracts to sell software is recognized in accordance with the requirements of Statement of Position 97-2, Software Revenue Recognition. Revenue from non-software license fees is recognized over the expected life of the continued involvement with the customer. Royalty revenue is recognized when earned. Revenue generated from fixed price service contracts not associated with the design, development, manufacture or modification of complex aerospace or electronic equipment is recognized as services are rendered once persuasive evidence of an arrangement exists, our price is fixed or determinable, and we have determined that collectibility is reasonably assured.

We apply the separation guidance in Emerging Issues Task Force 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21) for contracts with multiple deliverables. Revenue arrangements with multiple deliverables are evaluated to determine if the deliverables should be divided into more than one unit of accounting. For contracts with more than one unit of accounting, we recognize revenue for each deliverable based on the revenue recognition policies discussed above.

Other Considerations

The majority of our sales are driven by pricing based on costs incurred to produce products or perform services under contracts with the U.S. government. Cost-based pricing is determined under the Federal Acquisition Regulations (FAR). The FAR provides guidance on the types of costs that are allowable in establishing prices for goods and services under U.S. government contracts. For example, costs such as those related to charitable contributions, advertising, interest expense and public relations are unallowable. In addition, we may enter into agreements with the U.S. government that address the allowability and allocability of costs to contracts for specific matters. Certain costs incurred in the performance of our U.S. government contracts are required to be recorded under GAAP but are not currently allocable to contracts. Such costs are deferred and primarily include a portion of our environmental expenses, asset retirement obligations, certain restructuring costs, deferred state income tax and workers compensation. These costs are allocated to contracts when they are paid or otherwise agreed. We regularly assess the probability of recovery of these costs. This assessment requires us to make assumptions about the extent of cost recovery under our contracts and the amount of future contract activity. If the level of backlog in the future does not support the continued deferral of these costs, the profitability of our remaining contracts could be adversely affected.

Pension and other postretirement costs are allocated to our contracts as allowed costs based upon the U.S. Government Cost Accounting Standards (CAS). The CAS requirements for pension and other postretirement costs differ from the financial accounting standards (FAS) requirements under U.S. GAAP. Given the inherent difficulty in matching individual expense and income items between the CAS and FAS requirements to determine specific recoverability, we have not estimated the incremental FAS expense to be recoverable under our expected future contract activity, and therefore have not deferred any FAS expense for pension and other postretirement plans in 2005-2007. This resulted in $259 million, $362 million and $448 million of incremental expense reflected in our results of operations for 2007, 2006 and 2005, respectively, for the difference between CAS and FAS requirements for our pension plans in those years.

Pension Costs We have pension plans covering the majority of our employees, including certain employees in foreign countries. The selection of the assumptions used to determine pension expense involves significant judgment. Our long-term return on assets (ROA) and discount rate assumptions are the key variables in determining pension expense and the funded status of our pension plans.

To develop the long-term ROA assumption, we perform periodic studies which consider our asset allocation strategies, recent and anticipated future long-term performance of individual asset classes, and the associated risk. The investment policy asset allocation ranges for our domestic plans are as follows:

U.S. Equities	35% - 65%

International Equities	5% - 30%
Debt Securities	20% - 40%
Real Estate	2% - 7%
Other (including private equity and cash)	2% - 17%

The long-term ROA assumption for our domestic pension plans in 2007 was 8.75%, unchanged from 2006. If we significantly changed our investment allocation or strategy, it could change our assumed long-term rate of return.

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An increase or decrease of 25 basis points in the expected ROA assumption would increase or decrease our estimated pension expense in 2007 by approximately $30 million. For every 2.5% that the actual domestic pension plan asset return exceeds or is less than the long-term ROA assumption for 2007, our estimated pension expense would change by approximately $20 million.

The discount rate assumption is determined by using a model consisting of a theoretical bond portfolio for which the timing and amount of cash flows approximates the estimated benefit payments of our pension plans. The discount rate assumption for our domestic pension plans at December 31, 2007, is 6.5%, an increase from 6.0% at December 31, 2006. An increase or decrease of 25 basis points in the discount rate assumption for 2007 would decrease or increase our estimated pension expense for 2007 by approximately $45 million.

Other variables that can impact the pension funded status and expense include demographic experience such as the rates of salary increase, retirement, turnover and mortality. In addition, certain pension plans provide a lump sum form of benefit which varies based upon externally determined interest rates. Assumptions for these variables are set based on actual and projected plan experience. Effective December 31, 2005, we updated our mortality assumption for our pension and postretirement benefit programs to a blend of our own historical experience and a table representing broad expectations of U.S. mortality rates to reflect changes in the lifespan of the pension population. This assumption change resulted in an increase in 2006 pension expense of $130 million.

In general, we value our pension assets based upon quoted or observable market prices or other standard valuation techniques which generally assume a liquid market. In addition, we estimate the value of certain non-readily marketable investments, which are less than 5% of our pension assets at December 31, 2007, based on the most recently available asset data which can be up to three months in arrears.

In addition, we have $3.2 billion of deferred losses in our pension and other postretirement benefit plans resulting primarily from differences between actual and assumed asset returns, changes in discount rates, changes in plan provisions and differences between actual and assumed demographic experience. To the extent we continue to have fluctuations in these items we will experience increases or decreases in our funded status and related accrued retiree benefit obligation. For every 25 basis point change in discount rate, our projected benefit obligation for the pension plans as of December 31, 2007, would change by approximately $430 million. In addition, a 1% change in the actual domestic pension plan asset return compared to the long-term ROA assumption would change the market value of pension plan assets as of December 31, 2007, by approximately $130 million. The deferred losses are amortized and included in future pension expense over the average employee service period of approximately 11 years. As described in Note 1 to the Financial Statements, we adopted Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of Financial Accounting Standards Board (FASB) Statements No. 87, 88, 106 and 132(R) (SFAS No. 158) for the year ended December 31, 2006, which resulted in a $1.9 billion increase in accrued retiree benefits and other long-term liabilities and a corresponding $1.3 billion decrease, net of taxes, in accumulated other comprehensive (loss) income in stockholders equity.

Impairment of Goodwill We evaluate goodwill for impairment annually during the fourth quarter and in any interim period in which circumstances arise that indicate our goodwill may be impaired. Indicators of impairment include, but are not limited to, the loss of significant business; significant decreases in federal government appropriations or funding for our contracts; or other significant adverse changes in industry or market conditions. No events occurred during the periods presented that indicated the existence of an impairment with respect to our goodwill related to continuing operations. We estimate the fair value of our reporting units using a discounted cash flow model based on our most recent long-range plan and compare the estimated fair value of each reporting unit to its net book value, including goodwill. We discount the related cash flow forecasts using the weighted average cost of capital method at the date of evaluation. Preparation of forecasts for use in the long-range plan and the selection of the discount rate involve significant judgments that we base primarily on existing firm orders, expected future orders, contracts with suppliers, labor agreements and general market conditions. Significant changes in these forecasts or the discount rate selected could affect the estimated fair value of one or more of our reporting units and could result in a goodwill impairment charge in a future period. There was no indication of goodwill impairment for continuing operations as a result of our impairment analysis. If we are required to record an impairment charge in the future, it could materially affect our results of operations.

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CONSOLIDATED RESULTS OF OPERATIONS

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 profit rate for a particular contract. Segment operating margin reflects the performance on programs and changes in contract mix. In addition, in our discussions of comparative results, changes in segment operating profit rates are typically expressed in terms of volume, as discussed above, or performance. Performance refers to changes in contract profit 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.

Selected consolidated results were as follows:

				% of Net Sales		
(In millions except percentages)	**2007**	2006	2005	**2007**	2006	2005
Net sales	**$ 21,301**	$ 19,707	$ 18,491			
Gross margin	**4,264**	3,730	3,277	**20.0%**	18.9%	17.7%
Administrative and selling expenses	**1,434**	1,322	1,228	**6.7%**	6.7%	6.6%
Research and development expenses	**502**	464	430	**2.4%**	2.4%	2.3%
Operating income	**2,328**	1,944	1,619	**10.9%**	9.9%	8.8%
Interest expense, net	**33**	197	266	**0.2%**	1.0%	1.4%
Other expense (income), net	**70**	(44)	(13)	**0.3%**	-0.2%	-0.1%
Income from continuing operations	**1,693**	1,187	898	**7.9%**	6.0%	4.9%
Income (loss) from discontinued operations, net of tax	**885**	96	(27)	**4.2%**	0.5%	-0.1%
Net income	**2,578**	1,283	871	**12.1%**	6.5%	4.7%

The increase in sales in 2007 was primarily due to higher sales at Network Centric Systems, Missile Systems and Integrated Defense Systems. The increase in sales in 2006 was primarily due to higher sales at Integrated Defense Systems, Missile Systems and Network Centric Systems. Sales to the U.S. Department of Defense were 81% of sales in 2007, 79% in 2006 and 77% in 2005. Total sales to the U.S. government were 86% of sales in 2007, 86% in 2006 and 85% in 2005. Included in U.S. government sales were foreign military sales through the U.S. government of $1.5 billion, $1.3 billion and $1.1 billion in 2007, 2006 and 2005, respectively. We currently expect defense market trends to continue to positively impact our sales in 2008. However, as discussed above in Industry Considerations, our expectation is based on certain assumptions and estimates regarding factors, such as U.S. government budget and appropriation decisions and geo-political events and macroeconomic conditions, which are beyond our control. Total international sales, including foreign military sales, were $4.2 billion or 20% of sales in 2007, $3.7 billion or 19% in 2006 and $3.4 billion or 18% in 2005.

Included in gross margin was a FAS/CAS Pension Adjustment of $259 million, $362 million and $448 million of expense in 2007, 2006 and 2005 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 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 prescribe 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.

The changes in operating income by segment are described below.

The decreases in interest expense, net in 2007 and 2006 were primarily due to a higher average cash balances and lower average outstanding debt.

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The expense for income taxes differs from the U.S. statutory rate due to the following:

	2007	2006	2005
Statutory tax rate	**35%**	35%	35%
Tax settlements and export tax benefit refund claims	**(9.9)**		
Other items, net	**(1.2)**	(1.3)	(0.7)
Effective tax rate	**23.9%**	33.7%	34.3%

The effective tax rate was 23.9% in 2007, 33.7% in 2006 and 34.3% in 2005, reflecting the U.S. statutory rate adjusted for various permanent differences between book and tax reporting. Included in the effective tax rate in 2007 was a $219 million favorable impact primarily related to the resolution of a federal research credit refund claim for the 1984-1990 years and certain export tax benefit refund claims, which reduced the effective tax rate by 9.9%. The effective tax rate in 2007 was also reduced by manufacturing benefits, research credits and Employee Stock Ownership Plan (ESOP) dividend deductions, and was increased by various non-deductible expenses. The effective tax rate in 2006 was reduced by export-related tax benefits, ESOP dividend deductions, manufacturing benefits and research credits, and was increased by various non-deductible expenses. The effective tax rate in 2005 was reduced by export-related tax benefits, research credits and ESOP dividend deductions, and was increased by various non-deductible expenses. Included in the effective tax rate in 2005 was the impact of the $12 million nondeductible settlement with the SEC, an $18 million accrual related to adjustments resulting from examinations by taxing authorities and other tax issues and a $5 million accrual related to the repatriation of earnings from foreign subsidiaries. The provision for state income taxes has been included in administrative and selling expenses as these costs can generally be recovered through the pricing of products and services to the U.S. government.

Income from continuing operations was $1,693 million or $3.80 per diluted share on 445.7 million average shares outstanding in 2007, $1,187 million or $2.63 per diluted share on 450.9 million average shares outstanding in 2006 and $898 million or $1.98 per diluted share on 453.3 million average shares outstanding in 2005. The increase in continuing operations of $506 million in 2007 compared to 2006 was principally due to the following: operational improvements of $281 million from growth and performance improvements discussed below in Segment Results, $219 million of tax-related benefits discussed above, lower net interest expense of $164 million and lower FAS/CAS expense of $103 million offset by higher taxes of $147 million related primarily to our higher income and an increase in other expense of $114 million driven primarily by the loss on our early repurchase of debt. The increase in income from continuing operations of $289 million in 2006 compared to 2005 was primarily due to improved operating results described below in Segment Results.

Income (loss) from discontinued operations, net of tax, described below in Discontinued Operations, was $885 million of income or $1.99 per diluted share in 2007, $96 million of income or $0.21 per diluted share in 2006 and $27 million of loss or $0.06 per diluted share in 2005.

Net income was $2,578 million or $5.79 per diluted share in 2007, $1,283 million or $2.85 per diluted share in 2006 and $871 million or $1.92 per diluted share in 2005.

SEGMENT RESULTS

We report our results in the following segments: Integrated Defense Systems, Intelligence and Information Systems, Missile Systems, Network Centric Systems, Space and Airborne Systems and Technical Services.

Effective on the date of the sale of Flight Options LLC (FO) in 2007, we reorganized the remaining businesses which we formerly disclosed in the Other category to realign our capabilities and technologies. As discussed below, FO is accounted for as a discontinued operation. Also, our Raytheon Professional Services business was transferred to Technical Services. With the sale of Raytheon Aircraft and FO, we have largely exited the commercial aircraft market and all remaining assets and liabilities associated with the residual commuter aircraft portfolio of Raytheon Airline Aviation Services LLC (RAAS), which currently generates only indidental revenues, were transferred to Corporate.

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Also, 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 these changes.

Net Sales (In millions)	**2007**	2006	2005
Integrated Defense Systems	**$ 4,695**	$ 4,220	$ 3,807
Intelligence and Information Systems	**2,742**	2,560	2,509
Missile Systems	**4,993**	4,503	4,124
Network Centric Systems	**4,164**	3,561	3,205
Space and Airborne Systems	**4,288**	4,319	4,175
Technical Services	**2,174**		