

Investing Activities

Capital expenditures – The majority of our capital expenditures relate to facilities infrastructure and equipment that are generally incurred to support new and existing programs across all of our business segments. We also incur capital expenditures for IT to support programs and general enterprise IT infrastructure. Capital expenditures for property, plant, and equipment amounted to \$814 million in 2011, \$820 million in 2010, and \$852 million in 2009. Costs associated with the development or purchase of internal-use software amounted to \$173 million in 2011, \$254 million in 2010, and \$314 million in 2009, and have trended downward with the completion of certain infrastructure systems. We expect that our operating cash flows will continue to be sufficient to fund our planned annual capital expenditures over the next few years.

Acquisitions, divestitures and other activities – Acquisition activities include both the acquisition of businesses and investments in affiliates. We paid \$649 million in 2011 for acquisition activities, primarily related to the acquisition of QTC and Sim-Industries B.V. (Note 14), compared to amounts paid in 2010 of \$148 million primarily related to investments in affiliates. In 2009, we paid \$435 million for acquisition activities. In 2010, we received proceeds of \$798 million from the sale of EIG, net of \$17 million in transaction costs (Note 14). There were no material divestiture activities in 2011 or 2009. During 2011, we decreased our short-term investments by \$510 million compared to an increase of \$171 million in 2010.

Financing Activities

Share activity and dividends – We paid cash totaling \$2.5 billion for share repurchases during 2011, which included \$63 million for shares we repurchased in December 2010 but that were not paid for until January 2011. In 2010 and 2009, we paid cash totaling \$2.4 billion and \$1.9 billion for share repurchases. Our share repurchase program provides for the repurchase of our common stock from time-to-time. Under the program, we have discretion to determine the dollar amount of shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. In 2011, our Board authorized an additional \$3.5 billion for share repurchases, bringing the total authorized amount under the program to \$6.5 billion (Note 11). As of December 31, 2011, we had repurchased a total of 43.0 million shares under the program for \$3.2 billion, and there remained \$3.3 billion available for additional share repurchases.

We paid our stockholders cash dividends of \$1.1 billion in 2011, \$969 million in 2010, and \$908 million in 2009. We have increased our quarterly dividend rate in each of the last three years, including a 33% increase in the quarterly dividend rate in the fourth quarter of 2011. We declared quarterly dividends of: \$.75 per share during each of the first three quarters of 2011 and \$1.00 per share for the last quarter; \$.63 per share during each of the first three quarters of 2010 and \$.75 per share for the last quarter; and \$.57 per share during each of the first three quarters of 2009 and \$.63 per share for the last quarter.

Cash received from the issuance of our common stock in connection with stock option exercises during 2011, 2010, and 2009 totaled \$116 million, \$59 million, and \$40 million. Those activities resulted in the issuance of 2.3 million shares, 1.4 million shares, and 1.0 million shares during the respective periods.

Issuance and repayment of long-term debt – In 2011, we issued a total of \$2.0 billion of long-term notes. We used a portion of the proceeds from the long-term notes that were issued in 2011 to redeem all of our \$500 million long-term notes due in 2013 with a fixed coupon rate of 4.12%. In 2011, we repurchased \$84 million of our long-term notes through open-market purchases. We paid premiums of \$48 million in connection with the early extinguishments of certain long-term notes. In 2009, we issued a total of \$1.5 billion of long-term notes, and we paid \$242 million in repayments of long-term debt based on scheduled maturities.

Capital Structure, Resources, and Other

At December 31, 2011, we held cash and cash equivalents of \$3.6 billion. Our long-term debt, net of unamortized discounts, amounted to \$6.5 billion. As of the end of 2011, our long-term debt bears interest at fixed rates and mainly is in the form of publicly-issued notes. As of December 31, 2011, we were in compliance with all covenants contained in our debt and credit agreements.

In 2011, we issued \$2.0 billion of long-term notes in a registered public offering consisting of \$500 million due in 2016 with a fixed coupon interest rate of 2.13%, \$900 million due in 2021 with a fixed coupon interest rate of 3.35%, and \$600 million due in 2041 with a fixed coupon interest rate of 4.85%. We used a portion of the proceeds to redeem all of our \$500 million long-term notes due in 2013 with a fixed coupon rate of 4.12%. In 2011, we repurchased \$84 million of our long-term notes through open-market purchases. We paid premiums of \$48 million in connection with the early extinguishments of certain long-term notes.