Other unallocated corporate costs

Other unallocated corporate costs principally includes the non-cash FAS/CAS pension adjustment, stock compensation, and other corporate costs. These costs are not allocated to the business segments and, therefore, are excluded from the costs of product and services sales (see Note 4 to the accompanying consolidated financial statements for a description of these items). The $435 million increase between 2011 and 2010 primarily was attributable to an increase in the non-cash FAS/CAS pension adjustment of $468 million, which included increased FAS pension expense in 2011 compared to 2010 due to the decrease in the discount rate in 2011, together with the effect of the recognition of the 2008 investment losses, partially offset by the effects of investment gains in 2009 and 2010 (each as compared to our 8.50% long-term rate of return assumption). For more information, see the related discussion in Critical Accounting Policies under the caption "Postretirement Benefit Plans." Other unallocated corporate costs increased $71 million between 2010 and 2009 primarily due to fluctuations in expense associated with a number of corporate activities.

Changes in our cost of sales between periods were not material, except as described above. The period-over-period change in our cost of sales was due to the volume of costs resulting from production, deliveries of products, and/or services provided on our portfolio of contracts. We have not identified any developing trends in cost of sales that would have a material impact on our future operations.

Operating Profit

Our operating profit for 2011 was $4.0 billion, essentially unchanged from 2010. The increase in the non-cash FAS/CAS pension adjustment was offset by increases in operating profit in every business segment, a decrease in severance and other charges, and a decrease in other unallocated corporate costs attributable to various corporate activities.

Our operating profit for 2010 was $4.0 billion, a decrease of 7% compared to operating profit of $4.4 billion in 2009. The decline in operating profit of $318 million primarily was attributable to the effects of severance and other charges, net of state tax benefits, of $220 million (Note 2).

Interest Expense

Interest expense for 2011 was $354 million, about the same as in 2010. Increased interest expense from the $2.0 billion issuance of long-term debt late in the third quarter of 2011 partially was offset by the redemption of certain notes in the fourth quarter of 2011. Interest expense for 2010 was $345 million, or $37 million higher than 2009. The increase mainly was driven by interest expense on the $1.5 billion of long-term notes issued in the fourth quarter of 2009.

Other Non-Operating Income, Net

Other non-operating income, net was $5 million in 2011, compared to $74 million in 2010. The decrease primarily was due to premiums of $48 million on early extinguishments of debt (Note 9) and lower net unrealized gains on marketable securities held to fund certain non-qualified employee benefit obligations in 2011. Other non-operating income, net was $74 million in 2010, compared to $123 million in 2009. The change between periods primarily reflects lower net unrealized gains on marketable securities held to fund certain non-qualified employee benefit obligations.

Income Tax Expense

Our effective income tax rate from continuing operations was 26.5% for 2011, 30.8% for 2010, and 29.1% for 2009. These rates were lower than the statutory rate of 35% for all periods due to tax benefits for U.S. manufacturing activities, the deduction of dividends related to certain of our defined contribution plans with an employee stock ownership plan feature, and the research and development (R&D) tax credit.

The 2011 effective tax rate was affected by the completion by the U.S. Congressional Joint Committee on Taxation of its review of IRS Appeals' resolution of certain adjustments related to tax years 2003-2008. As a result of completion of the review in April 2011, we recorded a reduction in income tax expense of $89 million in 2011.

The effective tax rates for 2011 and 2010 also included additional tax benefits related to U.S. manufacturing activities primarily due to an increase in 2011 and 2010 qualified production activity income and an increase in the U.S. manufacturing activity deduction rate from 6% to 9%.