

Raytheon Briefed Analysts Without Telling the Public (Update5)

(Updates stock history in the 10th paragraph.)

Lexington, Massachusetts, March 9 (Bloomberg) -- Raytheon Co. Chief Financial Officer Franklyn Caine privately briefed analysts last month on the defense contractor's outlook for the first quarter without making the information available to the public.

Analysts started cutting first-quarter profit estimates for the third-largest U.S. defense company soon afterward. The average estimate fell to 27 cents from 33 cents a share in early February according to First Call/Thomson Financial forecasts. Raytheon didn't issue a press release on its outlook.

These types of telephone calls to analysts were common before the U.S. Securities and Exchange Commission issued its Regulation FD, for fair disclosure, in October. The rule requires companies to release possible market-moving information to all investors to ensure fair access. Raytheon may have tested the boundaries of the new regulation, analysts said.

"It's dangerous to do that," said Donald Langevoort, a professor of law at Georgetown University in Washington. "You can't use indirect methods to disseminate information."

Raytheon Chief Executive Daniel Burnham discussed cash-flow estimates and earnings expectations for the year during two presentations last month that were open to the public. He didn't give an outlook for the first quarter, traditionally the company's weakest, in the speeches on Feb. 7 and Feb. 15. No one asked Burnham about it either, Caine said.

"We contacted (the analysts). There were probably some calls to us too," Caine said. "Quite frankly, it surprised me that (the first quarter) didn't come up in the Q&A (at the speeches)," Caine said in an interview.

Talked Down

The Lexington, Massachusetts-based company didn't have time to provide the additional information during the presentations, Caine said. He and other company officials called several analysts to see if they needed more information. At least four analysts either lowered or planned to lower their estimates after talking to Raytheon.

"They talked me down from my earlier assumptions," said Christopher Mecray, an analyst at Deutsche Banc Alex Brown, who has a "strong buy" recommendation on Raytheon's shares.

Raytheon told the analyst to check his estimates against last year's results to make sure they reflected the seasonal nature of its businesses, said Mecray, who cut his estimate.

Raytheon's widely traded Class "B" shares rose 76 cents today to \$29.77. The stock has dropped 12 percent since Feb. 7.

Among the topics that came up was the outlook for sales at Raytheon's business jet unit, said Todd Ernst, an analyst with Prudential Securities Inc. Raytheon said sales at the unit expected during the first quarter wouldn't happen until later in the year, Ernst said.

Motorola

Raytheon "is stricter than some other companies" about releasing information, said Ernst, who lowered his estimate after talking to Raytheon. He didn't consider the details material.

Motorola Inc. analysts cut profit and sales estimates after talking yesterday with officials from the cellular-telephone maker. Motorola said it didn't tell analysts to revise forecasts.

Cai Von Rumohr, an analyst at SG Cowen Securities, said talking with Raytheon helped him form an estimate, though he didn't think

the conversation was material. SG Cowen sponsored one of the conferences.

“There were lots of comments about a number of things that were happening,” Von Rumohr said. “There was nothing substantive.”

Questions Raised

Similar conversations took place with Morgan Stanley Dean Witter & Co. analyst Heidi Wood, First Union Securities' Sam Pearlstein, and H&R Block Financial Advisors' Mark Vacheresse. They all lowered their estimates following talks.

“If four or five people lower their estimates after the call, that raises questions,” said Harvey Goldschmid, a law professor at Columbia University and former SEC general counsel.

In a note to clients, Wood said the presentations and conversations with Raytheon gave her “better insight on contract timing.”

Wood wasn't available to comment. Pearlstein declined to comment further. Vacheresse plans to lower his estimate after talking to Raytheon.

Washington Group

The disclosures came as Raytheon seeks to turn around operations. Profit more than doubled in the fourth quarter. The company is selling assets to cut costs and reduce debt after earnings were hurt by project delays and higher costs. The company's shares have risen 64 percent in the past year.

Raytheon held a conference call today that was open to the public about its dispute with Washington Group International Inc., which sued it over the sale of an engineering unit. Washington Group said Raytheon hid cost overruns. Raytheon disputes the claim.

Regulation FD wasn't violated because the company didn't directly tell analysts on the earlier private calls what information they should put in their earnings models, Caine said, “we try to be careful.”

Companies are allowed to discuss earnings models with analysts as long as they don't disclose material information. The SEC considers any information that would be of interest to investors to be material.

What's Material?

“You can't piecemeal this information out if it results in a material conclusion,” said Louis Thompson, director of the National Investor Relations Institute, which represents corporate spokesman.

The SEC declined to comment on Raytheon's distribution of information. “I can't comment on specific situations,” said John Heine, an SEC spokesman.

The SEC hasn't taken enforcement action against any company for violating Regulation FD since it was adopted.

“They should have put out a press release to everybody,” said Robert Friedman, an analyst at Standard & Poor's Corp., who wasn't contacted by Raytheon.

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