UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the quarterly period ended September 26, 2004

or

☐ **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 *(State or Other Jurisdiction of Incorporation or Organization)*	**95-1778500** *(I.R.S. Employer Identification No.)*
870 WINTER STREET, WALTHAM, MASSACHUSETTS *(Address of Principal Executive Offices)*	**02451** *(Zip Code)*

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Number of shares of common stock outstanding as of September 26, 2004: 452,058,000

RAYTHEON COMPANY

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

RAYTHEON COMPANY

BALANCE SHEETS (Unaudited)

	Sept. 26, 2004	Dec. 31, 2003
	(In millions)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,049	$ 661
Short-term investments	74	—
Accounts receivable, less allowance for doubtful accounts	452	485
Contracts in process	2,871	2,660
Inventories	1,965	1,998
Deferred federal and foreign income taxes	534	466
Prepaid expenses and other current assets	262	154
Assets from discontinued operations	20	59
Total current assets	7,227	6,483
Property, plant, and equipment, net	2,671	2,711
Deferred federal and foreign income taxes	156	337
Goodwill	11,477	11,479
Other assets, net	2,467	2,556
Total assets	$ 23,998	$ 23,566
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities		
Notes payable and current portion of long-term debt	$ 835	$ 15
Advance payments, less contracts in process	1,150	936
Accounts payable	824	833
Accrued salaries and wages	932	767
Other accrued expenses	1,185	1,086
Liabilities from discontinued operations	30	43
Total current liabilities	4,956	3,680
Accrued retiree benefits and other long-term liabilities	3,256	3,281
Long-term debt	5,135	6,517
Subordinated notes payable	458	859
Minority interest	92	67
Stockholders’ equity	10,101	9,162
Total liabilities and stockholders’ equity	$ 23,998	$ 23,566

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

RAYTHEON COMPANY
STATEMENTS OF INCOME (Unaudited)

	Three Months Ended		Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
	(In millions, except per share amounts)			
Net sales	$ 4,936	$ 4,378	$ 14,541	$ 13,008
Cost of sales	4,117	3,776	12,206	10,826
Administrative and selling expenses	339	305	1,022	952
Research and development expenses	123	129	365	366
Total operating expenses	4,579	4,210	13,593	12,144
Operating income	357	168	948	864
Interest expense	100	137	326	415
Interest income	(11)	(10)	(33)	(33)
Other expense, net	5	12	368	27
Non-operating expense, net	94	139	661	409
Income from continuing operations before taxes	263	29	287	455
Federal and foreign income taxes	77	8	94	137
Income from continuing operations	186	21	193	318
Loss from discontinued operations, net of tax	(34)	(56)	(62)	(158)
Income (loss) before accounting change	152	(35)	131	160
Cumulative effect of change in accounting principle, net of tax	—	—	41	—
Net income (loss)	$ 152	$ (35)	$ 172	$ 160
Earnings per share from continuing operations				
Basic	$ 0.41	$ 0.05	$ 0.44	$ 0.77
Diluted	$ 0.41	$ 0.05	$ 0.44	$ 0.77
Earnings (loss) per share				
Basic	$ 0.34	$ (0.08)	$ 0.40	$ 0.39
Diluted	$ 0.34	$ (0.08)	$ 0.39	$ 0.39
Dividends declared per share	$ 0.20	$ 0.20	$ 0.60	$ 0.60

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

RAYTHEON COMPANY
STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003
	(In millions)	
Cash flows from operating activities		
Income from continuing operations	$ 193	$ 318
Adjustments to reconcile income from continuing operations to net cash provided by operating activities from continuing operations, net of the effect of acquisitions and divestitures		
Depreciation and amortization	321	279
Deferred federal and foreign income taxes	59	102
Net gain on sales of operating units and investments	(4)	(27)
Savings and investment plan activity	73	149
Decrease in accounts receivable	33	133
Increase in contracts in process	(229)	(221)
Decrease in inventories	7	36
(Increase) decrease in prepaid expenses and other current assets	(107)	96
Increase in advance payments	235	102
Decrease in accounts payable	(8)	(26)
Increase in accrued salaries and wages	165	115
Increase (decrease) in other accrued expenses	119	(229)
Other adjustments, net	168	157
Net cash provided by operating activities from continuing operations	1,025	984
Net cash used in operating activities from discontinued operations	(32)	(485)
Net cash provided by operating activities	993	499
Cash flows from investing activities		
Sale of financing receivables	39	—
Origination of financing receivables	(223)	(274)
Collection of financing receivables not sold	329	430
Increase in short-term investments	(74)	—
Expenditures for property, plant, and equipment	(209)	(243)
Synthetic lease maturity payment	—	(125)
Proceeds from sales of property, plant, and equipment	—	12
Capitalized expenditures for internal use software	(73)	(71)
Increase in other assets	—	(2)
Space Imaging debt guarantee payment	—	(130)
Payment for purchase of acquired companies, net of cash received	(70)	(60)
Proceeds from sales of operating units and investments	4	54
Net cash used in investing activities	(277)	(409)
Cash flows from financing activities		
Dividends	(258)	(247)
Increase in short-term debt and other notes	6	98
Issuance of long-term debt, net of offering costs	—	418
Repayments of long-term debt	(579)	(775)
Repayments of subordinated notes payable	(428)	—
Issuance of common stock	867	63
Proceeds under common stock plans	64	12
Net cash used in financing activities	(328)	(431)
Net increase (decrease) in cash and cash equivalents	388	(341)
Cash and cash equivalents at beginning of year	661	544
Cash and cash equivalents at end of period	$ 1,049	$ 203

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

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

The accompanying unaudited financial statements of Raytheon Company (the “Company”) have been prepared on substantially the same basis as the Company’s annual financial statements. These unaudited financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2003. The information furnished has been prepared from the accounts of the Company without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In the opinion of management, these financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the financial statements for the interim periods. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Certain prior year amounts have been reclassified to conform with the current year presentation.

2. Employee Stock Plans

In 2004, the Company established the Long-Term Performance Plan (LTPP) which provides for awards of common stock to the Company’s senior leadership when specific pre-established levels of Company performance are achieved over a three-year performance cycle. The LTPP replaces a similar program which utilized performance-based stock options. The 2004 through 2006 performance goals, which are independent of each other and equally weighted, are based on two metrics: free cash flow over the three-year period and total shareholder return relative to a peer group over the three-year period. The ultimate award, which is determined at the end of the three-year period, can range from zero to 200 percent of the aggregate target award of 592,500 shares as of September 26, 2004.

Also in 2004, the Company changed the general form of its broad-based equity compensation. Prior to 2004, the Company primarily issued stock options, the Company now primarily issues restricted stock.

The Company applies Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, in accounting for its stock-based compensation plans. Accordingly, no compensation expense has been recognized for the Company’s stock option plans, however, stock-based compensation expense has been recorded for restricted stock and the LTPP. Had compensation expense for the Company’s stock option plans been determined based on the fair value at the grant date for awards under these plans, consistent with the methodology prescribed by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, the

Company’s net income and earnings per share would have approximated the pro forma amounts indicated below:

	Three Months Ended		Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
	(In millions, except per share amounts)			
Reported net income (loss)	$ 152	$ (35)	$ 172	$ 160
Stock-based compensation expense included in reported net income, net of tax	5	2	9	4
Compensation expense determined under the fair value method for all stock-based awards, net of tax	(20)	(19)	(51)	(55)
Pro forma net income (loss)	$ 137	$ (52)	$ 130	$ 109
Reported basic earnings (loss) per share	$ 0.34	$ (0.08)	$ 0.40	$ 0.39
Reported diluted earnings (loss) per share	$ 0.34	$ (0.08)	$ 0.39	$ 0.39
Pro forma basic earnings (loss) per share	$ 0.30	$ (0.13)	$ 0.30	$ 0.26
Pro forma diluted earnings (loss) per share	$ 0.30	$ (0.12)	$ 0.30	$ 0.26

3. Inventories

Inventories consisted of the following at:

	Sept. 26, 2004	Dec. 31, 2003
	(In millions)	
Finished goods	$ 625	$ 669
Work in process	1,080	1,023
Materials and parts	260	306
Total	$ 1,965	$ 1,998

Inventories at Raytheon Aircraft, Raytheon Airline Aviation Services, and Flight Options totaled $1,607 million at September 26, 2004 (consisting of $609 million of finished goods, $803 million of work in process, and $195 million of materials and parts) and $1,603 million at December 31, 2003 (consisting of $647 million of finished goods, $717 million of work in process, and $239 million of materials and parts). General and program specific manufacturing equipment and tooling at Raytheon Aircraft are included in property, plant, and equipment.

The Company uses lot accounting for new aircraft introductions. The size of the initial lot for the Beechcraft Premier I, the only aircraft for which the Company is currently utilizing lot accounting, is 200 units. Costs incurred on in-process and delivered aircraft in excess of the estimated average cost were included in inventories and totaled $92 million and $91 million at September 26, 2004 and December 31, 2003, respectively.

The Company anticipates provisional type certification and first customer delivery of the Horizon aircraft by year end 2004. Revenue will not be recognized on this delivery until 2005 as the Company expects to lease this aircraft back from the customer for demonstration and operational evaluation purposes. The Company had inventories of $145 million and $103 million at September 26, 2004 and December 31, 2003, respectively, related to the Horizon aircraft.

4. Product Warranty

Costs incurred under warranty provisions performed under long-term contracts are accounted for as contract costs as the work is performed. The estimation of these costs is an integral part of the determination of the pricing of the Company's products and services.

Warranty provisions related to commercial aircraft sales are determined based upon an estimate of costs that may be incurred under warranty and other post-sales support programs.

Activity related to aircraft warranty provisions was as follows:

	Three Months Ended		Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
	(In millions)			
Balance at beginning of period	$ 39	$ 28	$ 39	$ 27
Accruals for aircraft deliveries	6	6	20	19
Warranty services provided	(6)	(6)	(20)	(18)
Balance at end of period	$ 39	$ 28	$ 39	$ 28

5. Notes Payable and Long-term Debt

In the three months ended September 26, 2004, the Company repurchased long-term debt with a par value of $115 million at a loss of $9 million pretax, which was included in other expense.

In the nine months ended September 26, 2004, the Company repurchased long-term debt with a par value of $583 million at a loss of $19 million pretax, which was included in other expense.

Subsequent to the end of the third quarter, the Company initiated tender offers for the retirement of additional debt with a par value of $1.0 billion.

The following table sets forth the maximum principal amount of each series of notes that will be accepted for repurchase by the Company pursuant to the tender offers:

	Maximum Principal Amount to be Accepted
6.50% Notes due July 15, 2005	$ 300,000,000
6.75% Notes due August 15, 2007	$ 300,000,000
4.50% Notes due November 15, 2007	$ 100,000,000
6.15% Notes due November 1, 2008	$ 175,000,000
6.00% Notes due December 15, 2010	$ 125,000,000

Additionally, in October 2004, the Company initiated the redemption of $190 million par value of the outstanding 8.20% Notes due on March 1, 2006.

In the nine months ended September 26, 2004, the Company entered into various interest rate swaps that correspond to a portion of the Company's fixed rate debt in order to effectively hedge interest rate risk. The $600 million notional value of the interest rate swaps that remain outstanding at September 26, 2004 effectively converted that portion of the Company's total debt to variable rate debt.

In the first quarter of 2003, the Company issued $425 million ($418 million net of offering costs) of long-term debt and used the proceeds to reduce the amounts outstanding under the Company's lines of credit.

At September 26, 2004, the aggregate amounts of installments due on long-term debt and subordinated notes payable for the next five years are (in millions):

2005	$ 809
2006	657
2007	1,074
2008	486
2009	1

6. Equity Security Units

In the second quarter of 2004, in accordance with the terms of the Company's equity security units, the Company received proceeds of $863 million and issued 27.0 million shares of common stock.

The equity security units include a mandatorily redeemable equity security that represents preferred stock of RC Trust I (RCTI), an unconsolidated subsidiary of the Company that initially issued this preferred stock to the Company in exchange for a subordinated note.

The subordinated notes payable have the same terms as the mandatorily redeemable equity security which represent an undivided interest in the assets of RCTI, a Delaware business trust formed for the purpose of issuing these securities and whose assets consist solely of subordinated notes receivable issued by the Company.

In the three months ended September 26, 2004, mandatorily redeemable equity securities with a par value of $22 million were repurchased at a loss of $1 million pretax, which was included in other expense. In the nine months ended September 26, 2004, mandatorily redeemable equity securities with a par value of $431 million were repurchased at a loss of $28 million, which was included in other expense. As a result of these repurchases, the Company's subordinated notes payable declined by the same amount.

In October 2004, the Company repurchased mandatorily redeemable equity securities with a par value of $50 million at a loss of approximately $3 million.

7. Stockholders' Equity

Stockholders' equity consisted of the following at:

	Sept. 26, 2004	Dec. 31, 2003
	(In millions)	
Preferred stock, no outstanding shares	$ —	$ —
Common stock, outstanding shares	5	4
Additional paid-in capital	9,442	8,421
Accumulated other comprehensive income	(2,177)	(2,194)
Treasury stock	(13)	(6)
Retained earnings	2,844	2,937
Total	$ 10,101	$ 9,162
Outstanding shares of common stock	452.1	418.1

Outstanding shares of common stock increased by 27.0 million due to the conversion of the Company's equity security units into common stock described above.

Included in additional paid-in capital was unearned compensation related to restricted stock of $67 million and $13 million at September 26, 2004 and December 31, 2003, respectively.

Savings and investment plan activity includes certain items related to the Company's 401(k) plan that were funded through the issuance of the Company's common stock and are non-cash operating activities included on the statement of cash flows. In the second quarter of 2004, the Company began funding its 401(k) plan match with cash. During the nine months ended September 26, 2004, the Company issued 2.5 million shares of common stock related to its savings and investment plans and 4.4 million shares in connection with stock plan activity.

The weighted-average shares outstanding for basic and diluted earnings per share (EPS) were as follows:

	Three Months Ended		Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
	(In thousands)			
Average common shares outstanding for basic EPS	449,181	414,275	434,119	411,466
Dilutive effect of stock options, restricted stock, LTPP, and equity security units	4,363	3,541	3,203	2,997
Shares for diluted EPS	453,544	417,816	437,322	414,463

Stock options to purchase 18.9 million and 24.9 million shares of common stock in the three months ended September 26, 2004 and September 28, 2003, respectively, and options to purchase 19.3 million and 30.8 million shares in the nine months ended September 26, 2004 and September 28, 2003, respectively, did not affect the computation of diluted EPS. The exercise prices for these stock options were greater than the average market price of the Company's common stock during the respective periods.

Stock options to purchase 20.6 million and 21.4 million shares of common stock in the three months ended September 26, 2004 and September 28, 2003, respectively, and options to purchase 20.1 million and 15.4 million shares of common stock in the nine months ended September 26, 2004 and September 28, 2003, respectively, had exercise prices that were less than the average market price of the Company's common stock during the respective periods and are included in the dilutive effect of stock options, restricted stock, LTPP, and equity security units in the table above.

The components of other comprehensive income for the Company generally include foreign currency translation adjustments, minimum pension liability adjustments, unrealized gains and losses on marketable securities classified as available-for-sale, and unrealized gains and losses on effective cash flow hedges. The computation of comprehensive income was as follows:

	Three Months Ended		Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
	(In millions)			
Net income (loss)	$ 152	$ (35)	$ 172	$ 160
Other comprehensive income (loss)	9	(19)	17	42
Comprehensive income (loss)	$ 161	$ (54)	$ 189	$ 202

8. Pension and Other Employee Benefits

Effective January 1, 2004, the Company changed the measurement date for its pension and other postretirement benefit plans from October 31 to December 31. This change in measurement date was accounted for as a change in accounting principle. The cumulative effect of this change in accounting principle was a gain of $53 million pretax for pension benefits and a gain of $10 million pretax for other postretirement benefits. Using the Company's year end as the measurement date for pension and other postretirement benefit plans more appropriately reflects the plans' financial status for the years then ended. In the nine months ended September 26, 2004, the total cumulative effect of the change in accounting principle was a gain of $63 million pretax, $41 million after-tax, or $0.09 per basic and diluted share.

The following adjusts reported income from continuing operations and basic and diluted earnings per share (EPS) from continuing operations as if the change in accounting principle had been applied prior to the periods presented:

	Three Months Ended		Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
	(In millions, except per share amounts)			
Reported income from continuing operations	$ 186	$ 21	$ 193	$ 318
Change in accounting principle, net of tax	—	(17)	—	(51)
Adjusted income from continuing operations	$ 186	$ 4	$ 193	$ 267
Reported basic EPS from continuing operations	$ 0.41	$ 0.05	$ 0.44	$ 0.77
Change in accounting principle, net of tax	—	(0.04)	—	(0.12)
Adjusted basic EPS from continuing operations	$ 0.41	$ 0.01	$ 0.44	$ 0.65
Reported diluted EPS from continuing operations	$ 0.41	$ 0.05	$ 0.44	$ 0.77
Change in accounting principle, net of tax	—	(0.04)	—	(0.13)
Adjusted diluted EPS from continuing operations	$ 0.41	$ 0.01	$ 0.44	$ 0.64

The following adjusts reported net income (loss) and basic and diluted earnings (loss) per share (EPS) as if the change in accounting principle had been applied prior to the periods presented:

	Three Months Ended		Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
	(In millions, except per share amounts)			
Reported net income (loss)	$ 152	$ (35)	$ 172	$ 160
Change in accounting principle, net of tax	—	(17)	(41)	(51)
Adjusted net income (loss)	$ 152	$ (52)	$ 131	$ 109
Reported basic EPS	$ 0.34	$ (0.08)	$ 0.40	$ 0.39
Change in accounting principle, net of tax	—	(0.05)	(0.10)	(0.13)
Adjusted basic EPS	$ 0.34	$ (0.13)	$ 0.30	$ 0.26
Reported diluted EPS	$ 0.34	$ (0.08)	$ 0.39	$ 0.39
Change in accounting principle, net of tax	—	(0.04)	(0.09)	(0.13)
Adjusted diluted EPS	$ 0.34	$ (0.12)	$ 0.30	$ 0.26

The Company has pension plans covering the majority of its employees, including certain employees in foreign countries (Pension Benefits). In addition to providing pension benefits, the Company provides certain health care and life insurance benefits to retired employees through other postretirement benefit plans (Other Benefits).

The following outlines the components of net periodic benefit cost of the Company's domestic and foreign Pension Benefits plans:

	Three Months Ended		Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
	(In millions)			
Service cost	$ 85	$ 68	$ 255	$ 204
Interest cost	204	199	612	598
Expected return on plan assets	(215)	(242)	(646)	(727)
Amortization of prior service cost	4	5	13	15
Recognized net actuarial loss	106	49	318	147
Net periodic benefit cost	$ 184	$ 79	$ 552	$ 237

Net periodic benefit cost also includes expense from foreign pension plans of $8 million and $5 million in the three months ended September 26, 2004 and September 28, 2003, respectively, and $23 million and $15 million in the nine months ended September 26, 2004 and September 28, 2003, respectively.

The Company expects total contributions (required and discretionary) to the Pension Benefits plans to be approximately $420 million in 2004.

The following outlines the components of net periodic benefit cost of the Company's domestic and foreign Other Benefits plans:

	Three Months Ended		Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
	(In millions)			
Service cost	$ 4	$ 4	$ 12	$ 12
Interest cost	22	27	71	81
Expected return on plan assets	(7)	(7)	(22)	(21)
Amortization of transition asset	2	6	14	18
Amortization of prior service cost	(13)	(11)	(38)	(33)
Recognized net actuarial loss	12	10	36	30
Net periodic benefit cost	$ 20	$ 29	$ 73	$ 87

On December 8, 2003, Medicare reform legislation (the "Legislation") was enacted, providing a Medicare prescription drug benefit beginning in 2006 and federal subsidies to employers who provide drug coverage to retirees. The Company's net periodic benefit cost was reduced by $3 million in the second quarter of 2004 to reflect the impact of the Legislation in accordance with FASB Staff Position No. FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The reduction in the accumulated postretirement benefit obligation as a result of the Legislation was $45 million.

Effective July 1, 2004, the Company amended its Other Benefits plans to coordinate the Company's retiree prescription drug coverage with the Legislation beginning in 2006. The amendment eliminated the plans' eligibility for the federal subsidies provided under the Legislation, as described above. The effect of the amendment on the Company's net periodic benefit cost is expected to be a $15 million decrease in 2004, of which the Company recognized $8 million in the three months ended September 26, 2004. The reduction in the accumulated postretirement benefit obligation as a result of the plan amendment was $125 million.

9. Business Segment Reporting

Reportable segments have been determined based upon product lines and are as follows: Integrated Defense Systems, Intelligence and Information Systems, Missile Systems, Network Centric Systems, Space and Airborne Systems, Technical Services, Aircraft, and Other. Segment net sales and operating income generally include intersegment sales and profit recorded at cost plus a specified fee, which may differ from what the selling entity would be able to obtain on external sales. Corporate and Eliminations includes certain Company-wide accruals and intersegment sales and profit eliminations.

Segment financial results were as follows:

	Net Sales Three Months Ended		Net Sales Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
	(In millions)			
Integrated Defense Systems	$ 833	$ 718	$ 2,542	$ 2,073
Intelligence and Information Systems	567	533	1,614	1,520
Missile Systems	928	905	2,832	2,595
Network Centric Systems	777	556	2,277	2,043
Space and Airborne Systems	929	930	2,927	2,710
Technical Services	512	447	1,482	1,403
Aircraft	624	470	1,568	1,371
Other	164	191	492	343
Corporate and Eliminations	(398)	(372)	(1,193)	(1,050)
Total	$ 4,936	$ 4,378	$ 14,541	$ 13,008
Defense businesses after eliminations	$ 4,149	$ 3,718	$ 12,482	$ 11,295

Intersegment sales in the three months ended September 26, 2004 and September 28, 2003, respectively, included $27 million and $35 million for Integrated Defense Systems, $6 million and $14 million for Intelligence and Information Systems, $3 million and $2 million for Missile Systems, $113 million and $85 million for Network Centric Systems, $113 million and $108 million for Space and Airborne Systems, and $135 million and $127 million for Technical Services. Aircraft net sales did not include intersegment aircraft, parts, and service sales to Flight Options of $21 million in the three months ended September 26, 2004.

Intersegment sales in the nine months ended September 26, 2004 and September 28, 2003, respectively, included $97 million and $106 million for Integrated Defense Systems, $28 million and $31 million for Intelligence and Information Systems, $10 million and $4 million for Missile Systems, $332 million and $220 million for Network Centric Systems, $311 million and $301 million for Space and Airborne Systems, and $414 million and $387 million for Technical Services. Aircraft net sales did not include intersegment aircraft, parts, and service sales to Flight Options of $100 million in the nine months ended September 26, 2004. Flight Options recognizes revenue on sales of fractional shares over the expected life of the customer relationship.

	Operating Income Three Months Ended		Operating Income Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
	(In millions)			
Integrated Defense Systems	$ 100	$ 82	$ 298	$ 236
Intelligence and Information Systems	51	54	147	141
Missile Systems	109	111	322	316
Network Centric Systems	65	(138)	186	(56)
Space and Airborne Systems	138	131	409	362
Technical Services	38	(2)	105	68
Aircraft	21	(4)	16	(27)
Other	(7)	(5)	(29)	(13)
FAS/CAS Pension Adjustment	(117)	(27)	(356)	(82)
Corporate and Eliminations	(41)	(34)	(150)	(81)
Total	$ 357	$ 168	$ 948	$ 864
Defense businesses after eliminations	$ 468	$ 202	$ 1,366	$ 972

Aircraft operating income does not include profit on intersegment aircraft sales to Flight Options (FO) until the underlying aircraft has been sold by FO.

	Operating Margin Three Months Ended		Operating Margin Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
Integrated Defense Systems	12.0%	11.4%	11.7%	11.4%
Intelligence and Information Systems	9.0	10.1	9.1	9.3
Missile Systems	11.7	12.3	11.4	12.2
Network Centric Systems	8.4	(24.8)	8.2	(2.7)
Space and Airborne Systems	14.9	14.1	14.0	13.4
Technical Services	7.4	(0.4)	7.1	4.8
Aircraft	3.4	(0.9)	1.0	(2.0)
Other	(4.3)	(2.6)	(5.9)	(3.8)
FAS/CAS Pension Adjustment				
Corporate and Eliminations				
Total	7.2%	3.8%	6.5%	6.6%
Defense businesses after eliminations	11.3%	5.4%	10.9%	8.6%

	Free Cash Flow Three Months Ended		Free Cash Flow Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
	(In millions)			
Integrated Defense Systems	$ 80	$ 36	$ 273	$ 219
Intelligence and Information Systems	71	43	95	17
Missile Systems	28	196	220	(83)
Network Centric Systems	140	111	67	(16)
Space and Airborne Systems	50	153	157	234
Technical Services	22	36	35	76
Aircraft	58	(95)	50	(69)
Other	(7)	(4)	(98)	(18)
Corporate	(222)	59	(56)	310
Total	$ 220	$ 535	$ 743	$ 670
Government and defense businesses	$ 391	$ 575	$ 847	$ 447

Free cash flow is defined as cash flow from continuing operations less capital expenditures and capitalized expenditures for internal use software. The Company uses free cash flow to evaluate the operating performance of its business and as a component for determining incentive-based compensation. Corporate free cash flow includes the difference between amounts charged to the segments for interest and taxes on an intercompany basis and the amounts actually paid by the Company.

	Identifiable Assets	
	Sept. 26, 2004	Dec. 31, 2003
	(In millions)	
Integrated Defense Systems	$ 1,669	$ 1,657
Intelligence and Information Systems	1,888	1,910
Missile Systems	4,318	4,339
Network Centric Systems	3,673	3,653
Space and Airborne Systems	3,979	3,910
Technical Services	1,422	1,399
Aircraft	2,497	2,559
Other	1,157	1,063
Corporate	3,375	3,017
Discontinued Operations	20	59
Total	$ 23,998	$ 23,566

10. <u>Other Expense, net</u>

The components of other expense, net were as follows:

	Three Months Ended		Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
	(In millions)			
Loss on debt and subordinated notes payable repurchases	$ 10	$ —	$ 47	$ —
Settlement of class action lawsuit	—	—	325	—
Write-down of investments and assets held for sale	—	—	—	12
Gain on sale of aviation support business	—	—	(4)	(27)
Equity (income) losses, net in unconsolidated affiliates	(2)	—	(6)	19
Other	(3)	12	6	23
Total	$ 5	$ 12	$ 368	$ 27

11. Discontinued Operations

In 2002, the Company sold its Aircraft Integration Systems business (AIS) for $1,123 million, net, subject to purchase price adjustments. The Company is currently involved in a purchase price dispute related to the sale of AIS in which the purchaser has claimed a purchase price adjustment of $85 million. The Company disputes this claim and expects the matter to be resolved in arbitration. As part of the transaction, the Company retained the responsibility for performance of the Boeing Business Jet (BBJ) program and retained certain assets related to the BBJ program. In the three months ended September 26, 2004, the Company sold the last BBJ aircraft for $29 million.

The Company recorded charges related to AIS of $9 million and $8 million in the three months ended September 26, 2004 and September 28, 2003, respectively, and $20 million and $27 million in the nine months ended September 26, 2004 and September 28, 2003, respectively.

Assets from discontinued operations consisted of current assets for AIS of $20 million and $59 million at September 26, 2004 and December 31, 2003, respectively. Liabilities from discontinued operations included current liabilities for AIS of $7 million and $6 million at September 26, 2004 and December 31, 2003, respectively.

In 2000, the Company sold its Raytheon Engineers & Constructors businesses (RE&C) to Washington Group International, Inc. (WGI). In May 2001, WGI filed for bankruptcy protection. As a result, the Company was required to perform under various contract and lease obligations in connection with a number of different projects under letters of credit, surety bonds, and guarantees (Support Agreements) that it had provided to project owners and other parties.

For several of these projects, the Company has entered into settlement agreements that resolve the Company’s obligations under the related Support Agreements. On a number of these projects, the Company is continuing close-out efforts which includes warranty obligations, commercial closeout, and claims resolution. There are also Support Agreements on projects where WGI is continuing to perform work which could present risk to the Company if WGI fails to meet its obligations in connection with those projects.

In performing its obligations under the remaining Support Agreements, the Company has various risks and exposures, including delays, equipment and subcontractor performance, warranty closeout, various liquidated damages issues, collection of amounts due under contracts, and potential adverse claims resolution under various contracts and leases.

In August 2004, AES Red Oak LLC drew $30 million on a letter of credit provided by the Company. AES Red Oak LLC is the owner of the Red Oak power project in Sayreville, NJ, and there is a dispute between the Company and AES Red Oak LLC regarding the closeout of this project. The letter of credit was provided to AES Red Oak LLC in 2002 in lieu of the owner withholding retainage from periodic construction milestone payments.

The Company recorded net charges related to RE&C of $7 million pretax, $28 million after-tax and $78 million pretax, $51 million after-tax in the three months ended September 26, 2004 and September 28, 2003, respectively, and $39 million pretax, $49 million after-tax and $217 million pretax, $141 million after-tax in the nine months ended September 26, 2004 and September 28, 2003, respectively, which included an after-tax charge of $24 million in the three months ended September 26, 2004 for an estimated liability for foreign tax related matters. Although not expected to be material, additional losses on foreign tax related matters could be recorded in the future as estimates are revised or the underlying matters are settled.

Liabilities from discontinued operations included net current liabilities for RE&C of $23 million and $37 million at September 26, 2004 and December 31, 2003, respectively.

In the three months ended September 26, 2004, the total loss from discontinued operations was $16 million pretax, $34 million after-tax, or $0.08 per basic and $0.07 per diluted share versus $86 million pretax, $56 million after-tax, or $0.13 per basic and diluted share in the three months ended September 28, 2003.

In the nine months ended September 26, 2004, the total loss from discontinued operations was $59 million pretax, $62 million after-tax, or $0.14 per basic and diluted share versus $244 million pretax, $158 million after-tax, or $0.38 per basic and diluted share in the nine months ended September 28, 2003.

12. Commitments and Contingencies

The Company is involved in various stages of investigation and cleanup related to remediation of various environmental sites. The Company's estimate of total environmental remediation costs expected to be incurred is $134 million. Discounted at 8.5 percent, the Company estimated the liability to be $92 million before U.S. government recovery and had this amount accrued at September 26, 2004. A portion of these costs are eligible for future recovery through the pricing of products and services to the U.S. government. The recovery of environmental cleanup costs from the U.S. government is considered probable based on the Company's long history of receiving reimbursement for such costs. Accordingly, the Company has recorded $52 million at September 26, 2004 for the estimated future recovery of these costs from the U.S. government, which is included in contracts in process. The Company leases certain government-owned properties and is generally not liable for environmental remediation at these sites, therefore, no provision has been made in the financial statements for these costs. 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 the Company's responsibility, it is difficult to determine the ultimate outcome of these matters, however, any additional liability is not expected to have a material adverse effect on the Company's financial position or results of operations.

The Company issues guarantees and has banks and surety companies issue, on its behalf, letters of credit and surety bonds to meet various bid, performance, warranty, retention, and advance payment obligations. Approximately $1,044 million, $782 million, and $350 million of these guarantees, letters of credit, and surety bonds, for which there were stated values, were outstanding at September 26, 2004, respectively and $1,326 million, $890 million, and $389 million were outstanding at December 31, 2003, respectively. These instruments expire on various dates through 2015. At September 26, 2004, the amount of guarantees, letters of credit, and surety bonds, for which there were stated values, that remained outstanding was $100 million, $9 million, and $245 million, respectively, related to discontinued operations and are included in the numbers above compared to $100 million, $146 million, and $283 million, respectively, at December 31, 2003. Additional guarantees of project performance for which there is no stated value also remain outstanding.

In 1997, the Company provided a first loss guarantee of $133 million on $1.3 billion of U.S. Export-Import Bank debt through 2015 related to the Brazilian government's System for the Vigilance of the Amazon (SIVAM) program.

Defense contractors are subject to many levels of audit and investigation. Agencies that oversee contract performance include: the Defense Contract Audit Agency, the Department of Defense Inspector General, 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 the Company. Individually and in the aggregate, these investigations are not expected to have a material adverse effect on the Company's financial position or results of operations.

In 2002, the Company received service of a grand jury subpoena issued by the United States District Court for the Central District of California. The subpoena seeks documents related to the activities of an international sales representative engaged by the Company related to a foreign military sales contract in Korea in the late 1990s. The Company has cooperated fully in the investigation including producing documents in response to the subpoena. The Company has in place appropriate compliance policies and procedures, and believes its conduct has been consistent with those policies and procedures.

The Company continues to cooperate with the staff of the Securities and Exchange Commission (SEC) on a formal investigation related to the Company's accounting practices primarily related to the commuter aircraft business and the timing of revenue recognition at Raytheon Aircraft. The Company has been providing documents and information to the SEC staff. In addition, certain present and former officers and employees of the Company have provided testimony in connection with this investigation. The Company is unable to predict the outcome of the investigation or any action that the SEC might take.

In late 1999, the Company and two of its officers were named as defendants in several class action lawsuits which were consolidated into a single complaint in June 2000, when four additional former or present officers were named as defendants (the "Consolidated Complaint"). The Consolidated Complaint principally alleged that the defendants violated federal securities laws by making misleading statements and by failing to disclose material information concerning the Company's financial performance during the purported class period. In March 2000, the court certified the class of plaintiffs as those people who purchased the Company's stock between October 7, 1998 and October 12, 1999. In August 2001, the court issued an order dismissing most of the claims asserted against the Company and the individual defendants. In March 2003, the plaintiff filed an amendment to the Consolidated Complaint (the “Second Consolidated and Amended Complaint”) which sought to add the Company’s independent auditor as an additional defendant. In May 2003, the court issued an order dismissing one of the two claims that had been asserted against the Company’s independent auditor. In February 2004, the Company and the individual defendants filed a motion for summary judgment which the plaintiff opposed. The Company’s independent auditor also filed a motion for summary judgment which the plaintiff opposed. The court heard arguments on the summary judgment motions in April 2004 and denied the motions. In May 2004, without admitting any liability or wrongdoing, the Company reached an agreement to settle this class action lawsuit on behalf of the Company and all individual defendants. The terms of the settlement, which has received preliminary approval from the court but must still receive final court approval, include a cash payment of $210 million and the issuance of warrants for the Company’s stock with a stipulated value of $200 million. The warrants will have a five-year term with a strike price of $37.50 and will be issued when the settlement proceeds are distributed to the claimants. Upon final approval, the settlement will resolve all claims asserted against the Company and the individual defendants. In connection with the settlement, the Company recorded a charge of $329 million, of which $325 million was included in other expense, a $410 million accrued expense, and an $85 million receivable for insurance proceeds primarily related to this settlement. The charge for the settlement will be revised in future quarters to reflect changes in the fair value of the warrants after they are issued. In the three months ended September 26, 2004, the Company paid $210 million into escrow in connection with the settlement. In May 2004, the Company’s independent auditor also reached a settlement with the plaintiff, which is also subject to final court approval.

In 1999 and 2000, the Company was also named as a nominal defendant and all of its directors at the time (except one) were named as defendants in purported derivative lawsuits. The derivative complaints contain allegations similar to those included in the Consolidated Complaint and further allege that the defendants breached fiduciary duties to the Company and allegedly failed to exercise due care and diligence in the management and administration of the affairs of the Company. In December 2001, the Company and the individual defendants filed a motion to dismiss one of the derivative lawsuits. These actions have since been consolidated, and the plaintiffs have filed a Consolidated Amended Complaint. In April 2003, the defendants filed a motion to dismiss the Consolidated Amended Complaint. In July 2004, without admitting any liability or wrongdoing, the Company and the individual defendants reached a tentative agreement to settle this derivative action. The settlement, which is subject to court approval, will resolve all claims in the case and is not expected to have a material effect on the Company’s financial position or results of operations.

In June 2001, a class action lawsuit was filed on behalf of all purchasers of common stock or senior notes of WGI during the class period of April 17, 2000 through March 1, 2001 (the “WGI Complaint”). The plaintiff class claims to have suffered harm by purchasing WGI securities because the Company and certain of its officers allegedly violated federal securities laws by misrepresenting the true financial condition of RE&C in order to sell RE&C to WGI at an artificially inflated price. An amended complaint was filed in October 2001 alleging similar claims. The Company and the individual defendants filed a motion seeking to dismiss the action in November 2001. In April 2002, the motion to dismiss was denied. The defendants have filed their answer to the amended complaint and discovery is proceeding. In April 2003, the District Court conditionally certified the class and defined the class period as that between April 17, 2000 and March 2, 2001, inclusive. The defendants have filed their answer to the amended complaint and discovery is proceeding.

In July 2001, the Company was named as a nominal defendant and all of its directors at the time have been named as defendants in two identical purported derivative lawsuits. These lawsuits were consolidated into one action (the "Consolidated Amended Derivative Complaint") in January 2004 and contain allegations similar to those included in the WGI Complaint and further allege that the individual defendants breached fiduciary duties to the Company and failed to maintain systems necessary for prudent management and control of the Company's operations. The defendants filed a motion to dismiss the Consolidated Amended Derivative Complaint.

Also in July 2001, the Company was named as a nominal defendant and members of its Board of Directors and several current and former officers have been named as defendants in another purported shareholder derivative action which contains allegations similar to those included in the WGI Complaint and further alleges that the individual defendants breached fiduciary duties to the Company and failed to maintain systems necessary for prudent management and control of the Company's operations. In June 2002, the defendants filed a motion to dismiss the complaint. In September 2002, the plaintiff agreed to voluntarily dismiss this action without prejudice so that it can be re-filed in another jurisdiction.

In May 2003, two purported class action lawsuits were filed on behalf of participants in the Company's savings and investment plans who invested in the Company's stock between August 19, 1999 and May 27, 2003. The two class action complaints are brought pursuant to the Employee Retirement Income Security Act (ERISA). Both lawsuits are substantially similar and have been consolidated into a single action. In April 2004, a second consolidated amended complaint (the "Second Consolidated Amended ERISA Complaint") was filed on behalf of participants and beneficiaries in the Company's savings and investment plans who invested in the Company's stock since October 7, 1998. The Second Consolidated Amended ERISA Complaint alleges that the Company, its Pension and Investment Group, and its Investment Committee breached ERISA fiduciary duties by failing to: (1) prudently and loyally manage plan assets, (2) monitor the Pension and Investment Group and the Investment Committee and provide them with accurate information, (3) provide complete and accurate information to plan participants and beneficiaries, and (4) avoid conflicts of interest. In October 2004, the defendants filed a motion to dismiss the Second Consolidated Amended ERISA Complaint.

Although the Company believes that it and the other defendants have meritorious defenses to each and all of the aforementioned class action and derivative complaints and intends, except as to tentative settlements noted above, to contest each lawsuit vigorously, an adverse resolution of any of the lawsuits could have a material adverse effect on the Company's financial position and results of operations. The Company is not presently able to reasonably estimate potential losses, if any, related to any of the lawsuits, except as noted above.

In addition, various claims and legal proceedings generally incidental to the normal course of business are pending or threatened against the Company. While the ultimate liability from these proceedings is presently indeterminable, any additional liability is not expected to have a material adverse effect on the Company's financial position or results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Consolidated Results of Operations - Third Quarter 2004 Compared with Third Quarter 2003

Net sales were $4.9 billion in the third quarter of 2004 versus $4.4 billion in the third quarter of 2003. The increase in sales was primarily driven by Integrated Defense Systems and Raytheon Aircraft, as described below. In the third quarter of 2003, charges of $178 million at Network Centric Systems and $34 million at Technical Services resulted in a sales reduction. Sales to the U.S. Department of Defense were 68 percent of sales in the third quarter of 2004 versus 69 percent of sales in the third quarter of 2003. Total sales to the U.S. government, including foreign military sales, were 74 percent of sales in the third quarter of 2004 versus 75 percent of sales in the third quarter of 2003. Total international sales, including foreign military sales, were 18 percent of sales in the third quarter of 2004 versus 19 percent of sales in the third quarter of 2003.

Gross margin, net sales less cost of sales, in the third quarter of 2004 was $819 million or 16.6 percent of sales versus $602 million or 13.8 percent of sales in the third quarter of 2003. Included in gross margin was a FAS/CAS Pension Adjustment, described below, of $117 million and $27 million of expense in the third quarter of 2004 and 2003, respectively. The change in the FAS/CAS Pension Adjustment was due primarily to the reduction in the Company's discount rate assumption under SFAS No. 87 and the actual rate of return on pension plan assets over the last several years. Gross margin in the third quarter of 2003 included charges of $187 million at Network Centric Systems and $39 million at Technical Services. The increase in gross margin as a percent of sales in 2004 was due to the third quarter 2003 charges offset by the increase in the FAS/CAS Pension Adjustment in 2004.

Statement of Financial Accounting Standards (SFAS) No. 87, Employers' Accounting for Pensions, 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, which are determined by other factors. A major factor in determining pension funding requirements are Cost Accounting Standards (CAS) that proscribe the allocation to and recovery of pension costs on U.S. government contracts. The difference between SFAS No. 87 (FAS) pension expense or income and CAS pension expense is reported as a separate line item in the Company's segment results called FAS/CAS Pension Adjustment. The results for each segment only include pension expense as determined under CAS, which can generally be recovered through the pricing of products and services to the U.S. government.

Administrative and selling expenses were $339 million or 6.9 percent of sales in the third quarter of 2004 versus $305 million or 7.0 percent of sales in the third quarter of 2003.

Research and development expenses were $123 million or 2.5 percent of sales in the third quarter of 2004 versus $129 million or 2.9 percent of sales in the third quarter of 2003.

Operating income was $357 million or 7.2 percent of sales in the third quarter of 2004 versus $168 million or 3.8 percent of sales in the third quarter of 2003. The changes in operating income by segment are discussed below.

Interest expense in the third quarter of 2004 was $100 million versus $137 million in the third quarter of 2003. The decrease in interest expense in 2004 was primarily due to lower average debt.

Other expense, net in the third quarter of 2004 was $5 million versus $12 million in the third quarter of 2003. Other expense, net includes equity income and losses in other unconsolidated affiliates.

The effective tax rate was 29.3 percent and 27.6 percent in the third quarter of 2004 and 2003, respectively, reflecting ESOP dividend deductions, export-related tax benefits, and research and development tax credits applicable to certain government contracts.

Income from continuing operations was $186 million in the third quarter of 2004, or $0.41 per diluted share on 453.5 million average shares outstanding versus $21 million in the third quarter of 2003, or $0.05 per diluted share on 417.8 million average shares outstanding. The increase in average shares outstanding was due primarily to common stock issued in connection with the Company's equity security units described below in Capital Structure and Resources.

The loss from discontinued operations, described below in Discontinued Operations, was $34 million after-tax, or $0.07 per diluted share in the third quarter of 2004 versus $56 million after-tax, or $0.13 per diluted share in the third quarter of 2003.

Net income in the third quarter of 2004 was $152 million, or $0.34 per diluted share versus a net loss of $35 million, or $0.08 per diluted share in the third quarter of 2003.

Integrated Defense Systems had sales of $833 million in the third quarter of 2004 versus $718 million in the third quarter of 2003. The increase in sales was due to continued growth in DD(X), the Navy's future destroyer program, and the Cobra Judy Replacement Mission Equipment program. Operating income was $100 million in the third quarter of 2004 versus $82 million in the third quarter of 2003.

Intelligence and Information Systems had sales of $567 million in the third quarter of 2004 versus $533 million in the third quarter of 2003. The increase in sales was due to growth in classified programs. Operating income was $51 million in the third quarter of 2004 versus $54 million in the third quarter of 2003.

Missile Systems had sales of $928 million in the third quarter of 2004 versus $905 million in the third quarter of 2003. Operating income was $109 million in the third quarter of 2004 versus $111 million in the third quarter of 2003. The decline in operating margin in 2004 was due primarily to the wind-down of cost recovery for prior year restructuring actions.

Network Centric Systems (NCS) had sales of $777 million in the third quarter of 2004 versus $556 million in the third quarter of 2003. Operating income was $65 million in the third quarter of 2004 versus an operating loss of $138 million in the third quarter of 2003. Included in the third quarter of 2003 were charges resulting in a reduction in sales and operating income of $178 million and $187 million, respectively, related to performance issues on certain NCS programs.

Space and Airborne Systems had sales of $929 million in the third quarter of 2004 versus $930 million in the third quarter of 2003. Operating income was $138 million in the third quarter of 2004 versus $131 million in the third quarter of 2003. The increase in operating margin in 2004 was due to higher volume on certain international programs.

Technical Services had sales of $512 million in the third quarter of 2004 versus $447 million in the third quarter of 2003. Operating income was $38 million in the third quarter of 2004 versus an operating loss of $2 million in the third quarter of 2003. Included in the third quarter of 2003 were charges resulting in a reduction in sales and operating income of $34 million and $39 million, respectively, related to a change in scope on a long-term contract and a provision for the recoverability of certain costs.

Raytheon Aircraft had sales of $624 million in the third quarter of 2004 versus $470 million in the third quarter of 2003. Operating income was $21 million in the third quarter of 2004 versus an operating loss of $4 million in the third quarter of 2003. The increase in sales and operating income was due primarily to higher new aircraft sales.

The Other segment had sales of $164 million in the third quarter of 2004 versus $191 million in the third quarter of 2003 and an operating loss of $7 million in the third quarter of 2004 versus $5 million in the third quarter of 2003.

Nine Months 2004 Compared with Nine Months 2003

Net sales in the first nine months of 2004 were $14.5 billion versus $13.0 billion in the first nine months of 2003. The increase in sales was due to higher U.S. Department of Defense (DoD) expenditures in the Company’s defense businesses, primarily Integrated Defense Systems, Missile Systems, and Space and Airborne Systems. Sales to the U.S. DoD were 69 percent of sales in the first nine months of 2004 versus 68 percent of sales in the first nine months of 2003. Total sales to the U.S. government, including foreign military sales, were 75 percent of sales in the first nine months of 2004 versus 76 percent of sales in the first nine months of 2003. Total international sales, including foreign military sales, were 18 percent of sales in the first nine months of 2004 versus 19 percent of sales in the first nine months of 2003.

Gross margin, net sales less cost of sales, in the first nine months of 2004 was $2.3 billion or 16.1 percent of sales versus $2.2 billion or 16.8 percent of sales in the first nine months of 2003. Included in gross margin was a FAS/CAS Pension Adjustment, described above, of $356 million and $82 million of expense in the first nine months of 2004 and 2003, respectively. The change in the FAS/CAS Pension Adjustment was due primarily to the reduction in the Company’s discount rate assumption under SFAS No. 87 and the actual rate of return on pension plan assets over the last several years. The decrease in gross margin as a percent of sales was due to the increase in the FAS/CAS Pension Adjustment offset by the 2003 Network Centric Systems and Technical Services charges. Included in gross margin in the first nine months of 2003 were charges of $237 million at Network Centric Systems and $39 million at Technical Services.

Administrative and selling expenses were $1,022 million or 7.0 percent of sales in the first nine months of 2004 versus $952 million or 7.3 percent of sales in the first nine months of 2003.

Research and development expenses were $365 million or 2.5 percent of sales in the first nine months of 2004 versus $366 million or 2.8 percent of sales in the first nine months of 2003.

Operating income was $948 million or 6.5 percent of sales in the first nine months of 2004 versus $864 million or 6.6 percent of sales in the first nine months of 2003. The changes in operating income by segment are discussed below.

Interest expense in the first nine months of 2004 was $326 million versus $415 million in the first nine months of 2003. The decrease in interest expense in 2004 was primarily due to lower average debt.

Other expense, net in the first nine months of 2004 was $368 million versus $27 million in the first nine months of 2003. Included in other expense, net in the first nine months of 2004 was a $325 million charge related to the settlement of a securities class action lawsuit described below in Financial Condition and Liquidity and a $47 million charge related to the Company's repurchase of long-term debt and subordinated notes payable described below in Capital Structure and Resources. Included in other expense, net in the first nine months of 2003 was a $27 million gain on the sale of a preferred stock investment in the Company's former aviation support business offset by $20 million of equity losses related to Flight Options recorded prior to the Consolidation of Flight Options in June 2003 and $12 million of charges to reduce the carrying value of certain investments and assets held for sale. Other expense, net also includes equity income and losses in other unconsolidated affiliates.

The effective tax rate was 32.8 percent and 30.1 percent in the first nine months of 2004 and 2003, respectively, reflecting ESOP dividend deductions, export-related tax benefits, and research and development tax credits applicable to certain government contracts. Primarily as a result of anticipated legislation that will extend the foreign tax credit from five to 10 years, the Company expects its full year tax rate to be 22.4 percent.

Income from continuing operations was $193 million in the first nine months of 2004, or $0.44 per diluted share on 437.3 million average shares outstanding versus $318 million in the first nine months of 2003, or $0.77 per diluted share on 414.5 million average shares outstanding. The increase in average shares outstanding was due primarily to common stock issued in connection with the Company's equity security units, described below in Capital Structure and Resources.

The loss from discontinued operations, described below in Discontinued Operations, was $62 million after-tax, or $0.14 per diluted share in the first nine months of 2004 versus $158 million after-tax, or $0.38 per diluted share in the first nine months of 2003.

Effective January 1, 2004, the Company changed the measurement date for its pension and other postretirement benefit plans from October 31 to December 31. This change in measurement date was accounted for as a change in accounting principle. The cumulative effect of this change in accounting principle was a gain of $53 million pretax for pension benefits and a gain of $10 million pretax for other postretirement benefits. Using the Company's year end as the measurement date for pension and other postretirement benefit plans more appropriately reflects the plans' financial status for the years then ended. In the first nine months of 2004, the total cumulative effect of change in accounting principle was a gain of $63 million pretax, $41 million after-tax, or $0.09 per diluted share.

Net income in the first nine months of 2004 was $172 million, or $0.39 per diluted share versus $160 million, or $0.39 per diluted share in the first nine months of 2003.

Integrated Defense Systems (IDS) had sales of $2,542 million in the first nine months of 2004 versus $2,073 million in the first nine months of 2003. The increase in sales was due to continued growth in DD(X), the Navy's future destroyer program and the Cobra Judy Replacement Mission Equipment program and strong sales on missile defense programs. Operating income was $298 million in the first nine months of 2004 versus $236 million in the first nine months of 2003.

Intelligence and Information Systems had sales of $1,614 million in the first nine months of 2004 versus $1,520 million in the first nine months of 2003. The increase in sales was due to growth in the DCGS (Distributed Common Ground System) program and growth in classified programs. Operating income was $147 million in the first nine months of 2004 versus $141 million in the first nine months of 2003.

Missile Systems (MS) had sales of $2,832 million in the first nine months of 2004 versus $2,595 million in the first nine months of 2003. The increase in sales was due to continued growth in missile defense, including work on the Standard Missile – 3 program. Operating income was $322 million in the first nine months of 2004 versus $316 million in the first nine months of 2003. The decline in operating margin in 2004 was due to the wind-down of cost recovery for prior year restructuring actions. The costs related to these restructuring actions were accrued in 1997 through 2000, but are being recovered through the pricing of products and services to the U.S. government over a five year period. The wind-down of this recovery will be substantially complete in 2004.

Network Centric Systems had sales of $2,277 million in the first nine months of 2004 versus $2,043 million in the first nine months of 2003. Operating income was $186 million in the first nine months of 2004 versus an operating loss of $56 million in the first nine months of 2003. Included in the first nine months of 2003 were charges resulting in a reduction in sales and operating income of $237 million and $228 million, respectively, related to performance issues on certain NCS programs.

Space and Airborne Systems (SAS) had sales of $2,927 million in the first nine months of 2004 versus $2,710 million in the first nine months of 2003. The increase in sales was due to growth in classified and international programs. Operating income was $409 million in the first nine months of 2004 versus $362 million in the first nine months of 2003.

Technical Services had sales of $1,482 million in the first nine months of 2004 versus $1,403 million in the first nine months of 2003. Operating income was $105 million in the first nine months of 2004 versus $68 million in the first nine months of 2003. Included in the first nine months of 2003 were charges resulting in a reduction in sales and operating income of $34 million and $39 million, respectively, related to a change in scope on a long-term contract and a provision for the recoverability of certain costs.

Raytheon Aircraft (RAC) had sales of $1,568 million in the first nine months of 2004 versus $1,371 million in the first nine months of 2003. The increase in sales was primarily due to higher new aircraft sales. Operating income was $16 million in the first nine months of 2004 versus an operating loss of $27 million in the first nine months of 2003. The increase in operating income was due to higher volume on new aircraft sales as well as productivity and cost savings initiatives implemented throughout 2003 and during the first nine months of 2004. The Company has made a significant investment in its Premier and Horizon aircraft, the realization of which is contingent upon future sales at forecasted prices and reductions in production costs on future deliveries. The Company anticipates provisional type certification and first customer delivery of the Horizon aircraft by year end 2004. Revenue will not be recognized on this delivery until 2005 as the Company expects to lease this aircraft back from the customer for demonstration and operational evaluation purposes.

The Other segment had sales of $492 million in the first nine months of 2004 versus $343 million in the first nine months of 2003 and an operating loss of $29 million in the first nine months of 2004 versus $13 million in the first nine months of 2003. The increase in sales and operating loss was primarily due to the consolidation of Flight Options in June 2003.

In June 2003, the Company participated in a financial recapitalization of Flight Options and exchanged certain Flight Options debt for equity. The Company now owns approximately 68 percent of Flight Options, and is consolidating Flight Options' results in its financial statements. In order to finance current operations and any growth of Flight Options, additional capital may be required.

At September 26, 2004 and December 31, 2003, the Company's exposure on commuter aircraft-related assets was approximately $595 million consisting of 321 aircraft and approximately $650 million consisting of 349 aircraft, respectively.

The general aviation market appears to be improving after having hit recent low levels of demand but the Company remains concerned about changes in market conditions and the Company's ability to sell its general aviation, commuter, and fractional products. Specific risks include the levels of used aircraft available for sale, pricing pressure, and the demand for the Company's product offerings.

Total backlog consisted of the following at:

	Sept. 26, 2004	Dec. 31, 2003
	(In millions)	
Integrated Defense Systems	$ 6,566	$ 6,526
Intelligence and Information Systems	3,913	3,899
Missile Systems	8,328	5,028
Network Centric Systems	3,725	3,259
Space and Airborne Systems	5,715	4,865
Technical Services	1,865	1,510
Aircraft	2,449	2,279
Other	288	176
Total	$ 32,849	$ 27,542
Defense businesses included above	$ 30,112	$ 25,087
U.S. government backlog included above	$ 26,036	$ 21,353

Funded backlog consisted of the following at:

	Sept. 26, 2004	Dec. 31, 2003
	(In millions)	
Integrated Defense Systems	$ 2,831	$ 3,318
Intelligence and Information Systems	860	655
Missile Systems	4,109	4,069
Network Centric Systems	2,635	2,488
Space and Airborne Systems	3,714	3,801
Technical Services	904	858
Aircraft	2,449	2,279
Other	288	176
Total	$ 17,790	$ 17,644
Defense businesses included above	$ 15,053	$ 15,189

Funded backlog excludes U.S. and foreign government contracts for which funding has not been appropriated.

Gross bookings were as follows:

	Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003
	(In millions)	
Integrated Defense Systems	$ 2,525	$ 2,317
Intelligence and Information Systems	1,600	1,845
Missile Systems	6,140	3,269
Network Centric Systems	2,609	2,101
Space and Airborne Systems	3,399	2,491
Technical Services	1,394	878
Aircraft	1,979	1,112
Other	579	296
Total	$ 20,225	$ 14,309
Defense businesses included above	$ 17,667	$ 12,901

MS booked $2.1 billion for the Kinetic Energy Interceptor system contract, SAS booked over $1 billion on several classified contracts, and RAC booked an order totaling more than $300 million for 40 new Hawker mid-size and light business jets in the first nine months of 2004.

Discontinued Operations

In 2002, the Company sold its Aircraft Integration Systems business (AIS) for $1,123 million, net, subject to purchase price adjustments. The Company is currently involved in a purchase price dispute related to the sale of AIS in which the purchaser has claimed a purchase price adjustment of $85 million. The Company disputes this claim and expects the matter to be resolved in arbitration. As part of the transaction, the Company retained the responsibility for performance of the Boeing Business Jet (BBJ) program and retained certain assets related to the BBJ program. In the third quarter of 2004, the Company sold the last BBJ aircraft for $29 million.

The Company recorded charges related to AIS of $9 million and $8 million in the third quarter of 2004 and 2003, respectively, and $20 million and $27 million in the first nine months of 2004 and 2003, respectively.

In 2000, the Company sold its Raytheon Engineers & Constructors businesses (RE&C) to Washington Group International, Inc. (WGI). In May 2001, WGI filed for bankruptcy protection. As a result, the Company was required to perform under various contract and lease obligations in connection with a number of different projects under letters of credit, surety bonds, and guarantees (Support Agreements) that it had provided to project owners and other parties.

For several of these projects, the Company has entered into settlement agreements that resolve the Company’s obligations under the related Support Agreements. On a number of these projects, the Company is continuing close-out efforts which includes warranty obligations, commercial closeout, and claims resolution. There are also Support Agreements on projects where WGI is continuing to perform work which could present risk to the Company if WGI fails to meet its obligations in connection with those projects.

In performing its obligations under the remaining Support Agreements, the Company has various risks and exposures, including delays, equipment and subcontractor performance, warranty closeout, various liquidated damages issues, collection of amounts due under contracts, and potential adverse claims resolution under various contracts and leases.

In August 2004, AES Red Oak LLC drew $30 million on a letter of credit provided by the Company. AES Red Oak LLC is the owner of the Red Oak power project in Sayreville, NJ, and there is a dispute between the Company and AES Red Oak LLC regarding the closeout of this project. The Letter of Credit was provided to AES Red Oak LLC in 2002 in lieu of the owner withholding retainage from periodic construction milestone payments.

The Company recorded net charges related to RE&C of $7 million pretax, $28 million after-tax and $78 million pretax, $51 million after-tax in the third quarter of 2004 and 2003, respectively, and $39 million pretax, $49 million after-tax and $217 million pretax, $141 million after-tax in the first nine months of 2004 and 2003, respectively, which included an after-tax charge of $24 million in the third quarter of 2004 for an estimated liability for foreign tax related matters. Although not expected to be material, additional losses on foreign tax related matters could be recorded in the future as estimates are revised or the underlying matters are settled.

In the third quarter of 2004, the total loss from discontinued operations was $16 million pretax, $34 million after-tax, or $0.08 per basic and $0.07 per diluted share versus $86 million pretax, $56 million after-tax, or $0.13 per basic and diluted share in the third quarter of 2003.

In the first nine months of 2004, the total loss from discontinued operations was $59 million pretax, $62 million after-tax, or $0.14 per basic and diluted share versus $244 million pretax, $158 million after-tax, or $0.38 per basic and diluted share in the first nine months of 2003.

Financial Condition and Liquidity

Net cash provided by operating activities was $993 million in the first nine months of 2004 versus $499 million in the first nine months of 2003. Net cash provided by operating activities from continuing operations was $1,025 million in the first nine months of 2004 versus $984 million in the first nine months of 2003. The improvement was due to the receipt of advances on international programs at IDS, the receipt of performance-based payments at MS, and improved performance at RAC offset by a $210 million payment in connection with the settlement of the class action lawsuit described below.

Savings and investment plan activity includes certain items related to the Company's 401(k) plan that were funded through the issuance of the Company's common stock and are non-cash operating activities included on the statement of cash flows. In the second quarter of 2004, the Company began funding its 401(k) plan match with cash.

Total contributions (required and discretionary) to the Company's pension plans are expected to be approximately $420 million in 2004.

Net cash used in investing activities in the first nine months of 2004 was $277 million versus $409 million in the first nine months of 2003. Origination of financing receivables in the first nine months of 2004 was $223 million versus $274 million in the first nine months of 2003. Collection of financing receivables not sold was $329 million in the first nine months of 2004 versus $430 million in the first nine months of 2003.

Capital expenditures were $209 million in the first nine months of 2004 versus $243 million in the first nine months of 2003. Capital expenditures for the full year 2004 are expected to be approximately $400 million. Capitalized expenditures for internal use software were $73 million in the first nine months of 2004 versus $71 million in the first nine months of 2003. Capitalized expenditures for internal use software are expected to be approximately $115 million in 2004 as the Company continues to convert significant portions of existing financial systems to an integrated financial system.

In the first quarter of 2004, the Company paid the second installment of $70 million related to the 2003 acquisition of Solipsys Corporation. The final installment of $60 million is due in the first quarter of 2005. In the first quarter of 2003, the Company paid $130 million which fully satisfied the Company's credit facility guarantee for Space Imaging.

Net cash used in financing activities was $328 million in the first nine months of 2004 versus $431 million in the first nine months of 2003. Dividends paid to stockholders were $258 million in the first nine months of 2004 versus $247 million in the first nine months of 2003. The quarterly dividend rate was $0.20 per share for the first three quarters of 2004 and 2003.

In May 2004, the Company reached an agreement in principle to settle a securities class action lawsuit. The terms of the settlement, which must be approved by the court, included a cash payment of $210 million, which was made in the third quarter of 2004, and the issuance of warrants for the Company's stock with a stipulated value of $200 million. The warrants will have a five-year term with a strike price of $37.50 and are expected to be issued in the first half of 2005. The actual number of warrants issued will depend on the stock price at the time of distribution. In connection with the settlement, the Company recorded a charge of $329 million, of which $325 million was included in other expense, a $410 million accrued expense, and an $85 million receivable for insurance proceeds primarily related to this settlement.

Capital Structure and Resources

Total debt was $6.4 billion at September 26, 2004 compared with $7.4 billion at December 31, 2003. Cash, cash equivalents, and short-term investments were $1,123 million at September 26, 2004 and $661 million at December 31, 2003. Total debt as a percentage of total capital was 38.8 percent at September 26, 2004 versus 44.7 percent at December 31, 2003.

In the nine months ended September 26, 2004, the Company repurchased long-term debt and subordinated notes payable with a par value of $1,014 million at a loss of $47 million pretax.

Subsequent to the end of the quarter, the Company initiated tender offers for the retirement of debt with a par value of $1.0 billion, initiated the redemption of $190 million par value of the outstanding 8.20% Notes due on March 1, 2006, and repurchased mandatorily redeemable equity securities with a par value of $50 million. The Company intends to finance the debt repurchases with cash on hand or borrowings under certain credit facilities and expects to take a charge in the fourth quarter of approximately $90 million associated with this debt retirement.

In the first quarter of 2003, the Company issued $425 million of long-term debt and used the proceeds to reduce the amounts outstanding under the Company's lines of credit.

The Company had outstanding interest rate swap agreements at September 26, 2004 with a notional value of $600 million that expire on various dates from 2007 to 2013. Under the interest rate swaps, the Company pays variable rates of interest based on six-month LIBOR and receives fixed rates of interest ranging from 3.4% to 5.2%.

The Company's most restrictive financial bank agreement covenant is an interest coverage ratio that currently requires earnings before interest, taxes, depreciation, and amortization (EBITDA), excluding certain charges, to be at least 3.0 times net interest expense for the prior four quarters. The Company was in compliance with the interest coverage ratio covenant during the first nine months of 2004. The Company's bank agreements also have other default and cross-default provisions including failure to make payments on indebtedness, failure to make payments under guarantees, and judgments against the Company, each of which is subject to a $50 million aggregate threshold and also applies to the Company's consolidated subsidiaries.

Lines of credit with certain commercial banks exist to provide short-term liquidity. The lines of credit bear interest based upon LIBOR and were $2.3 billion at September 26, 2004 and $2.7 billion at December 31, 2003. There were no borrowings under these lines of credit at September 26, 2004 and December 31, 2003, however, the Company had approximately $200 million of outstanding letters of credit at September 26, 2004 which effectively reduced the Company's borrowing capacity under the lines of credit to $2.1 billion.

In the second quarter of 2004, in accordance with the terms of the Company's equity security units, the Company received proceeds of $863 million and issued 27.0 million shares of common stock.

The Company has on file a shelf registration with the Securities and Exchange Commission of which $1.3 billion remained outstanding at September 26, 2004. A substantial portion of the remaining availability under the shelf registration is expected to be used as common stock is issued upon the exercise of the warrants expected to be issued in connection with the settlement of the class action lawsuit, described above in Financial Condition and Liquidity.

The Company's need for, cost of, and access to funds are dependent on future operating results, as well as conditions external to the Company. Cash and cash equivalents, cash flow from operations, proceeds from divestitures, and other available financing resources are expected to be sufficient to meet anticipated operating, capital expenditure, and debt service requirements. In addition, the Company may, from time to time, utilize excess cash balances to repurchase debt or common stock as warranted by market conditions.

Rent expense in the first nine months of 2004 was $160 million versus $166 million in the first nine months of 2003.

Risk Factors

The following are some of the factors the Company believes could cause actual results to differ materially from expected and historical results.

We heavily depend on our government contracts, which are only partially funded, subject to immediate termination and heavily regulated and audited, and the termination or failure to fund one or more of these contracts could have a negative impact on our operations.

We act as prime contractor or major subcontractor for many different government programs. Over its lifetime, a program may be implemented by the award of many different individual contracts and subcontracts. The funding of government programs is subject to congressional appropriations. Although multiple year contracts may be planned in connection with major procurements, Congress generally appropriates funds on a fiscal year basis even though a program may continue for several years. Consequently, programs are often only partially funded initially, and additional funds are committed only as Congress makes further appropriations. The termination of funding for a government program would result in a loss of anticipated future revenues attributable to that program. That could have a negative impact on our operations. In addition, the termination of a program or failure to commit funds to a prospective program or a program already started could increase our overall costs of doing business.

Generally, government contracts are subject to oversight audits by government representatives and contain provisions permitting termination, in whole or in part, without prior notice at the government's convenience upon the payment of compensation only for work done and commitments made at the time of termination. We can give no assurance that one or more of our government contracts will not be terminated under these circumstances. Also, we can give no assurance that we would be able to procure new government contracts to offset the revenues lost as a result of any termination of our contracts. As our revenues are dependent on our procurement, performance, and payment under our contracts, the loss of one or more critical contracts could have a negative impact on our financial condition.

Our government business is also subject to specific procurement regulations and a variety of socio-economic and other requirements. These requirements, although customary in government contracts, increase our performance and compliance costs. These costs might increase in the future, reducing our margins, which could have a negative effect on our financial condition. Failure to comply with these regulations and requirements could 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
- foreign corruption

The termination of a government contract or relationship as a result of any of these acts would have a negative impact on our operations and could have a negative effect on our reputation and ability to procure other government contracts in the future.

In addition, sales to the government may be affected by:

- changes in procurement policies
- budget considerations
- unexpected developments, such as the terrorist attacks of September 11, 2001, which change concepts of national defense
- political developments abroad, such as those occurring in the wake of the September 11 attacks

The influence of any of these factors, which are largely beyond our control, could also negatively impact our financial condition. We may also experience problems associated with advanced designs required by the government which may result in unforeseen technological difficulties and cost overruns. Failure to overcome these technological difficulties and the occurrence of cost overruns would have a negative impact on our results.

We depend on the U.S. government for a significant portion of our sales, and the loss of this relationship or a shift in government funding could have severe consequences on the financial condition of Raytheon.

Approximately 74% of our net sales in 2003 were for the U.S. government. Therefore, any significant disruption or deterioration of our relationship with the U.S. government would significantly reduce our revenues. Our U.S. government programs must compete with programs managed by other defense contractors for a limited number of programs and for uncertain levels of funding. Our competitors continuously engage in efforts to expand their business relationships with the U.S. government at our expense and are likely to continue these efforts in the future. The U.S. government may choose to use other defense contractors for its limited number of defense programs. In addition, the funding of defense programs also competes with non-defense spending of the U.S. government. Budget decisions made by the U.S. government are outside of our control and have long-term consequences for the size and structure of Raytheon. A shift in government defense spending to other programs in which we are not involved or a reduction in U.S. government defense spending generally could have severe consequences for our results of operations.

We derive a significant portion of our revenues from international sales and are subject to the risks of doing business in foreign countries.

In 2003, sales to international customers accounted for approximately 19% of our net sales. We expect that international sales will continue to account for a significant portion of our revenues for the foreseeable future. As a result, we are subject to risks of doing business internationally, including:

- changes in regulatory requirements
- domestic and foreign government policies, including requirements to expend a portion of program funds locally and governmental industrial cooperation requirements
- fluctuations in foreign currency exchange rates
- delays in placing orders
- the complexity and necessity of using foreign representatives and consultants
- the uncertainty of adequate and available transportation
- the uncertainty of the ability of foreign customers to finance purchases
- uncertainties and restrictions concerning the availability of funding credit or guarantees
- imposition of tariffs or embargoes, export controls, and other trade restrictions
- the difficulty of management and operation of an enterprise spread over various countries

- compliance with a variety of foreign laws, as well as U.S. laws affecting the activities of U.S. companies abroad
- economic and geopolitical developments and conditions, including international hostilities, acts of terrorism and governmental reactions, inflation, trade relationships, and military and political alliances

While these factors or the impact of these factors are difficult to predict, any one or more of these factors could adversely affect our operations in the future.

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

Licenses for the export of many of our products are required from government agencies in accordance with various statutory authorities, including the Export Administration Act of 1979, the International Emergency Economic Powers Act, the Trading with the Enemy Act of 1917, and the Arms Export Control Act of 1976. We can give no assurance that we will be successful in obtaining these necessary licenses in order to conduct business abroad. In the case of certain sales of defense equipment and services to foreign governments, the U.S. Department of State must notify the Congress at least 15 to 30 days, depending on the size and location of the sale, prior to authorizing these sales. During that time, the Congress may take action to block the proposed sale.

Competition within our markets may reduce our procurement of future contracts and our sales.

The military and commercial industries in which we operate are highly competitive. Our competitors range from highly resourceful small concerns, which engineer and produce specialized items, to large, diversified firms. Several established and emerging companies offer a variety of products for applications similar to those of our products. Our competitors may have more extensive or more specialized engineering, manufacturing, and marketing capabilities than we do in some areas. There can be no assurance that we can continue to compete effectively with these firms. In addition, some of our largest customers could develop the capability to manufacture products similar to products that we manufacture. This would result in these customers supplying their own products and competing directly with us for sales of these products, all of which could significantly reduce our revenues and seriously harm our business.

Furthermore, we are facing increased international competition and cross-border consolidation of competition. There can be no assurance that we will be able to compete successfully against our current or future competitors or that the competitive pressures we face will not result in reduced revenues and market share or seriously harm our business.

Our future success will depend on our ability to develop new technologies that achieve market acceptance.

Both our commercial and defense markets are characterized by rapidly changing technologies and evolving industry standards. Accordingly, our future performance depends on a number of factors, including our ability to:

- identify emerging technological trends in our target markets

- develop and maintain competitive products
- enhance our products by adding innovative features that differentiate our products from those of our competitors
- develop and manufacture and bring products to market quickly at cost-effective prices
- effectively structure our businesses, through the use of joint ventures, teaming agreements, and other forms of alliances, to the competitive environment

Specifically, at Raytheon Aircraft Company, our future success is dependent on our ability to meet scheduled timetables for the development, certification, and delivery of new product offerings.

We believe that, in order to remain competitive in the future, we will need to continue to develop new products, which will require the investment of significant financial resources. The need to make 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 technology. Due to the design complexity of our products, we may in the future experience delays in completing 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 products 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 products might cause our existing technology and products to become obsolete. If we fail in our new product development efforts or our products fail to achieve market acceptance more rapidly than our competitors, our revenues will decline and our business, financial condition, and results of operations will be negatively affected.

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

We enter into contracts on a firm, fixed-price basis. This allows us to benefit from cost savings, but we carry the burden of 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. Our financial condition is dependent on our ability to maximize our earnings from our contracts. Lower earnings caused by cost overruns and cost controls would have a negative impact on our financial results.

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

U.S. government agencies such as the Defense Contract Audit Agency, or the DCAA, routinely audit and investigate government contractors. 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, while such costs already reimbursed must be refunded. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including 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.

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

Contract and program accounting require 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. Assumptions have to be made regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials. Incentives or penalties related to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information for us to assess anticipated performance. Estimates of award fees are also used 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 future financial performance.

We consider several factors in determining lot size and use estimates in measuring average cost of manufacturing aircraft in the lot.

The Company uses lot accounting for new commercial aircraft such as the Beechcraft Premier I. Lot accounting involves selecting an initial lot size at the time a new aircraft begins to deliver and measuring an average cost over the entire lot for each aircraft sold. The Company determines lot size based on several factors, including the size of firm backlog, the expected annual production on the aircraft, and the anticipated market demand for the product.

Incorrect underlying assumptions, circumstances, or estimates concerning the selection of the initial lot size or changes in market condition, along with a failure to realize predicted unit costs from cost reduction initiatives and repetition of task and production techniques as well as supplier cost reductions, may adversely affect future financial performance.

We consider several factors when determining the market or carrying value of used general aviation aircraft.

The Company considers independent published data on value of used aircraft, comparable like sales, and current market conditions. Changes in market or economic conditions and changes in products or competitive products may adversely impact the future valuation of used general aviation aircraft.

The level of returns on pension and retirement plans could affect our earnings in future periods.

Our earnings may be positively or negatively impacted by the amount of income or expense we record for our employee benefit plans. This is particularly true with income or expense for our pension plan. A lower return on assets will increase the funding requirements of the pension plans. The Company funds annually those pension costs which are calculated in accordance with Internal Revenue Service Regulations and standards issued by the Cost Accounting Standards Board. It uses a discount rate assumption that is determined by using a model consisting of a theoretical bond portfolio which matches the Company's pension liability duration. Pension funding requirements are generally recoverable costs under government contracting regulations.

We may incur additional charges relating to our former Engineering and Construction Businesses.

We have significant outstanding letters of credit, surety bonds, guarantees, and other support agreements related to a number of contracts and leases of our engineering and construction business unit (E&C Businesses), which we sold to Washington Group International in July 2000. There are risks that the costs incurred on these projects will increase beyond the Company's estimates because of factors such as equipment and subcontractor performance, risks associated with completing punch lists and warranty closeout; potential adverse resolution of claims and closeout issues under various contracts and leases; our lack of construction industry expertise due to the sale of the E&C Businesses, the recoverability and collection of claims and the outcome of defending claims asserted against us, and the risks inherent in the final resolution and closeout of large long-term fixed price contracts. While these potential obligations, liabilities, and risks or the impact of them are difficult to predict, any one or more of these factors could have a material adverse impact on our financial condition.

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

We are defendants in a number of litigation matters. These claims 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 each and all of 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 of any of these lawsuits could have a material adverse affect on our financial position and results of operations.

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 businesses, our future performance is highly dependent upon the continued services of our key engineering personnel and executive officers. Our prospects depend upon our ability to attract and retain 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. Our failure to compete for these personnel could seriously harm our business, results of operations, and financial condition.

Some of our workforce is represented by labor unions.

Approximately 11,700 of our employees are unionized, which represented approximately 15% of our employees at December 31, 2003. As a result, we may experience prolonged work stoppages, which could adversely affect our business, and we are vulnerable to the demands imposed by our collective bargaining relationships. We cannot predict how stable these relationships, currently with 9 different U.S. labor organizations and 4 different non-U.S. labor organizations, will be or whether we will be able to meet the requirements of these unions without impacting the financial condition of Raytheon. In addition, the presence of unions may limit our flexibility in dealing with our workforce. Work stoppages and instability in our union relationships could negatively impact our ability to manufacture our products on a timely basis, resulting in strain on our relationships with our customers, as well as a loss of revenues. That would adversely affect our results of operations.

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

Protecting our intellectual property rights is critical to our ability to compete and succeed as a company. We own a large number of United States and foreign patents and patent applications, as well as trademark, copyright, and semiconductor chip mask work registrations which are necessary and contribute significantly to the preservation of our competitive position in the market. There can be no assurance that any of these 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 United States law.

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

Because we use and generate large quantities of hazardous substances and wastes in our manufacturing operations, 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 current or 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, and require maintenance of a safe workplace. These laws and regulations can impose substantial fines and criminal sanctions for violations, and 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. 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.

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

Our manufacturing operations are highly dependent upon the delivery of materials by outside suppliers in a timely manner. In addition, we depend in part upon subcontractors to assemble major components and subsystems used in our products in a timely and satisfactory manner. While we enter into long-term or volume purchase agreements with a few of our suppliers, we cannot be sure that materials, components, and subsystems will be available in the quantities we require, if at all. We are dependent for some purposes on sole-source suppliers. If any of these sole-source suppliers fails to meet our needs, we may not have readily available alternatives. Our inability to fill our supply needs would jeopardize our ability to satisfactorily and timely complete our obligations under government and other contracts. This might result in reduced sales, termination of one or more of these contracts and damage to our reputation and relationships with our customers. All of these events could have a negative effect on our financial condition.

The unpredictability of our results may harm the trading price of our securities or contribute to volatility.

Our operating results may vary significantly over time for a variety of reasons, many of which are outside of our control, and any of which may harm our business. The value of our securities may fluctuate as a result of considerations that are difficult to forecast, such as:

- volume and timing of product orders received and delivered
- levels of product demand
- consumer and government spending patterns
- the timing of contract receipt and funding
- our ability and the ability of our key suppliers to respond to changes in customer orders
- timing of our new product introductions and the new product introductions of our competitors

- changes in the mix of our products
- cost and availability of components and subsystems
- price erosion
- adoption of new technologies and industry standards
- competitive factors, including pricing, availability and demand for competing products
- fluctuations in foreign currency exchange rates
- conditions in the capital markets and the availability of project financing
- regulatory developments
- general economic conditions, particularly the cyclical nature of the general aviation market in which we participate
- our ability to obtain licenses from the U.S. Government to sell products abroad

Disclosure Regarding Forward-Looking Statements

Certain statements made in this report, including any statements relating to the Company’s future plans, objectives, and projected future financial performance, contain or are based on, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Specifically, statements that are not historical facts, including statements accompanied by words such as “believe,” “expect,” “estimate,” “intend,” or “plan,” variations of these words, and similar expressions, are intended to identify forward-looking statements and convey the uncertainty of future events or outcomes. The Company cautions readers that any such forward-looking statements are based on assumptions that the Company believes are reasonable, but are subject to a wide range of risks, and actual results may differ materially. Given these uncertainties, readers of this report should not rely on forward-looking statements. Forward-looking statements also represent the Company’s estimates and assumptions only as of the date that they were made. The Company expressly disclaims any current intention to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this report. Important factors that could cause actual results to differ include, but are not limited to those discussed in the immediately preceding section of this report, under “Risk Factors.”

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market exposures are to interest rates and foreign exchange rates.

The Company meets its working capital requirements with a combination of variable rate short-term and fixed rate long-term financing. The Company enters into interest rate swap agreements with commercial and investment banks primarily to manage interest rates associated with the Company's financing arrangements. The Company also enters into foreign currency forward contracts with commercial banks to fix the dollar value of commitments and payments to international vendors and the value of foreign currency denominated receipts. The market-risk sensitive instruments used by the Company for hedging are entered into with commercial and investment banks and are directly related to a particular asset, liability, or transaction for which a firm commitment is in place.

Financial instruments held by the Company which are subject to interest rate risk include notes payable, long-term debt, long-term receivables, investments, and interest rate swap agreements. The aggregate hypothetical loss in earnings for one year of those financial instruments held by the Company at September 26, 2004 and September 28, 2003, which are subject to interest rate risk resulting from a hypothetical increase in interest rates of 10 percent, was $1 million after-tax. The hypothetical loss was determined by calculating the aggregate impact of a 10 percent increase in the interest rate of each variable rate financial instrument held by the Company at September 26, 2004 and September 28, 2003, which was subject to interest rate risk. Fixed rate financial instruments were not evaluated, as the risk exposure is not material.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management conducted an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 26, 2004. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in alerting them in a timely manner, as appropriate, to material information required to be included in the Company's SEC reports.

In designing and evaluating the Company's disclosure controls and procedures, the Company's management recognizes that any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

There were no changes in the Company's internal control over financial reporting that occurred during the third quarter of 2004 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to or has property subject to litigation and other proceedings referenced in "Note 12 – Commitments and Contingencies" of the Notes to Financial Statements (Unaudited) included in this Form 10-Q and in the Company's Annual Report on Form 10-K for the year ended December 31, 2003, or arising in the ordinary course of business. In the opinion of management, except as otherwise indicated in the Form 10-K, it is unlikely that the outcome of any such litigation or other proceedings will have a material adverse effect on the Company's financial position or results of operations.

See the "Legal Proceedings" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2003 for a detailed description of previously reported actions.

The Company is 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. The Company also provides products and services under subcontracts from prime contractors contracting directly with 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 the Company's operations are being conducted in accordance with these requirements. U.S. government investigations of the Company, 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 the Company, 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 the Company. Defense contractors are also subject to many levels of audit and investigation. Agencies which oversee contract performance include: the Defense Contract Audit Agency, the Department of Defense Inspector General, 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 the Company.

Previously Reported Matters

As previously reported, the Company and two of its officers were named as defendants in several purported class action lawsuits. These lawsuits were consolidated into a single complaint in June 2000, when four additional former or present officers were named as defendants in a Consolidated and Amended Class Action Complaint (the "Consolidated Complaint") with the caption, In Re Raytheon Securities Litigation (Civil Action No. 12142-PBS), filed in the U.S. District Court in Massachusetts. Without admitting any liability or wrongdoing, in May 2004 the Company reached an agreement to settle this class action lawsuit on behalf of the Company and all individual defendants. The terms of the settlement, which were announced on May 13, 2004 and which has received preliminary approval from the court but must still receive final court approval, include a cash payment of $210 million and the issuance of warrants for Raytheon stock with a value of $200 million. The warrants will have a five-year term with a strike price of $37.50 and will be issued if the settlement is approved and at the time the settlement proceeds are distributed. Upon final approval, the settlement will resolve all claims asserted against the Company and the individual defendants. In May 2004, the Company's independent auditor also reached a settlement with the plaintiff, which is also subject to final court approval.

As previously reported, the Company was also named as a nominal defendant and all of its directors at the time (except one) were named as defendants in purported derivative lawsuits filed in the State of Delaware by Ralph Mirarchi and others and filed in the Commonwealth of Massachusetts by John Chevedden. On February 28, 2000, Mr. Chevedden filed another derivative action in the Delaware Chancery Court and on March 22, 2000, Mr. Chevedden's Massachusetts derivative action was dismissed. The Mirarchi and Chevedden derivative complaints contain allegations similar to those included in the In Re Raytheon Securities Litigation referenced above, and further allege that the defendants purportedly breached fiduciary duties to the Company and allegedly failed to exercise due care and diligence in the management and administration of the affairs of the Company. The court has consolidated the Mirarchi and Chevedden actions and the plaintiffs have filed a Consolidated Amended Complaint under the caption In re: Raytheon Derivative Litigation (No. 17495-NC). Without admitting any liability or wrongdoing, in July 2004, the Company and the individual defendants reached a tentative agreement to settle this derivative action. The settlement, which is subject to court approval, will resolve all claims in the case and the Company currently anticipates that the settlement amount will be funded by its directors and officers insurance carrier.

As previously reported, in May 2003 two purported class action lawsuits entitled, Benjamin Wall v. Raytheon Company et al. (Civil Action No. 03-10940-RGS) and Joseph I. Duggan, III v. Raytheon Company et al. (Civil Action No. 03-10995-RGS), were filed in federal court in Boston, Massachusetts on behalf of participants in the Company's savings and investment plans who invested in the Company's stock between August 19, 1999 and May 27, 2003. The two class action complaints are brought pursuant to the Employee Retirement Income Security Act (ERISA). Both complaints alleged that the Company and certain officers and directors breached ERISA fiduciary and co-fiduciary duties arising out of the Company's savings and investment plans' investment in the Company stock. Both lawsuits were substantially similar and were consolidated into a single action in September 2003. In April 2004, a Second Consolidated Amended Complaint under the caption In re: Raytheon ERISA Litigation (No. 03-CV-10940) was filed on behalf of participants and beneficiaries in the Company's savings and investment plans who invested in the Company's stock since October 7, 1998. The Second Consolidated Complaint alleges that the Company, its Pension and Investment Group and its Investment Committee breached ERISA fiduciary duties by failing to: (1) prudently and loyally manage plan assets, (2) monitor the Pension and Investment Group and the Investment Committee and provide them with accurate information, (3) provide complete and accurate information to plan participants and beneficiaries, and (4) avoid conflicts of interest. In October 2004, the defendants filed a motion to dismiss the Second Consolidated Amended Complaint.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased*	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
July (June 8, 2004 – July 25, 2004)	2,965	$ 34.13	—	—
August (July 26, 2004 – August 22, 2004)	3,798	$ 34.42	—	—
September (August 23, 2004 – September 26, 2004)	11,986	$ 35.92	—	—
Total	18,749	$ 35.33	—	—

* Shares repurchased relate to treasury activity under the Company's stock plans. The total number of shares purchased includes the following transactions during the fiscal third quarter of 2004: (i) the deemed surrender to the Company of 83 shares of common stock to pay the exercise price and to satisfy tax withholding obligations in connection with the exercise of employee stock options, and (ii) the surrender to the Company of 3,371 shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

In 1995, the Board of Directors authorized the repurchase of up to 12 million shares of the Company's common stock from time to time when warranted by market conditions. In 1998, the Board of Directors ratified and reauthorized the repurchase of 2.5 million shares that remained under the original authorization. There have been 11.8 million shares purchased under this program through September 26, 2004. There have been no shares repurchased under this program since 1999.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 Form Raytheon Company Nonqualified Stock Option Agreement under the Raytheon Company 1995 Stock Option Plan*

10.2 Form Raytheon Company Incentive Stock Option Agreement under the Raytheon Company 1995 Stock Option Plan*

10.3 Form Raytheon Company Incentive Stock Option Agreement under the Raytheon Company 2001 Stock Plan*

10.4 Form Raytheon Company Nonqualified Stock Option Agreement under the Raytheon Company 2001 Stock Plan*

10.5 Form Raytheon Company Restricted Stock Award Agreement under the Raytheon Company 2001 Stock Plan*

10.6 Form Performance Share Award Agreement under the Raytheon Company 2001 Stock Plan*

31.1 Certification of William H. Swanson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

31.2 Certification of Edward S. Pliner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

(b) Reports on Form 8-K

1. Current report on Form 8-K filed on October 28, 2004.

The Company furnished information contained in its press release dated October 28, 2004 related to the Company's financial results for quarter ended September 26, 2004.

(Exhibits marked with an asterisk (*) are filed electronically herewith.)

(Exhibits marked with two asterisks (**) are deemed to be furnished and not filed.)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RAYTHEON COMPANY (Registrant)

By: /s/ Biggs C. Porter

Biggs C. Porter
Vice President and Corporate Controller
(Chief Accounting Officer)

October 28, 2004

Exhibit List

Exhibit No.	Description
10.1	Form Raytheon Company Nonqualified Stock Option Agreement under the Raytheon Company 1995 Stock Option Plan
10.2	Form Raytheon Company Incentive Stock Option Agreement under the Raytheon Company 1995 Stock Option Plan
10.3	Form Raytheon Company Incentive Stock Option Agreement under the Raytheon Company 2001 Stock Plan
10.4	Form Raytheon Company Nonqualified Stock Option Agreement under the Raytheon Company 2001 Stock Plan
10.5	Form Raytheon Company Restricted Stock Award Agreement under the Raytheon Company 2001 Stock Plan
10.6	Form Performance Share Award Agreement under the Raytheon Company 2001 Stock Plan
31.1	Certification of William H. Swanson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Edward S. Pliner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 10.1

RAYTHEON COMPANY
INCENTIVE STOCK OPTION AGREEMENT

This Agreement made as of **«Grant_Date»** between Raytheon Company (the “Company”) and

«FirstName» «MidName» «LastName»	**«SSN»**

(the “Optionee”). In consideration of the agreements set forth below, the Company and the Optionee agree as follows:

1. **Grant**. An Incentive Stock Option (the “Option”) is hereby granted by the Chief Executive Officer of the Company in accordance with the authority delegated to him by the Management Development Compensation Committee as administrator of the Plan, to the Optionee, for and with respect to Raytheon Common Stock, $0.01 par value per share (the “Common Shares”), subject to the following terms and conditions and to the provisions of the Raytheon Company 1995 Stock Option Plan (the “Plan”), as amended from time to time, the terms of which are incorporated by reference herein.

2. **Exercise**. The Option shall entitle the Optionee to purchase from the Company all or any part of the number of Common Shares, at the purchase price per share, as set forth below. At the time of exercise of the Option, payment of the purchase price may be made in cash (payable via certified or cashier’s check), Common Shares (valued at the fair market value as of the day before the date of exercise), or a combination thereof. In lieu of payment by certified check, cashier’s check or other Common Shares, an Optionee may, unless prohibited by applicable law, elect to effect payment by including with the written notice irrevocable instructions to deliver for sale to a registered securities broker acceptable to the Company a number of the shares subject to the Option being exercised sufficient, after brokerage commissions, to cover the aggregate exercise price of such Option, together with irrevocable instructions to such broker to sell such shares and to remit directly to the Company such aggregate exercise price.

Number of Common Shares Subject to Option	Price Per Share	Exercise Period Commencement Date	Exercise Period ExpirationDate
«vest_1_»	**$ «Grant_Price»**	**«Vest_date_1»**	**«expire_date»**
«vest_2_»	**$ «Grant_Price»**	**«vest_date_2_»**	**«expire_date»**
«vest_3_»	**$ «Grant_Price»**	**«vest_date_3»**	**«expire_date»**

3. **Termination of Employment**. (a) Except as provided in this Section 3 or Section 4, the Option may not be exercised at any time unless the Optionee is then a key employee of the Company or one of its subsidiaries. In the event of the Optionee’s termination of employment with the Company and its subsidiaries for any reason specified below, the Option shall be exercisable only within the period of time provided below, which period shall commence on the last day worked by the Optionee (without giving effect to any period of accrued vacation or salary continuance to which the Optionee is entitled); provided that the Option was exercisable as of the Optionee’s last day worked (i.e., the last day the Optionee was performing the duties of the Optionee’s position at the Company or one of its subsidiaries); and provided further that the Option may not be exercised at any time following cancellation or the expiration date:

Termination Reason	Option Expiration Date
Layoff	1 Year
Termination for Cause	Date of Termination
Voluntary Termination	3 Months

(b) If the Optionee’s employment terminates because of Retirement (as defined below), Common Shares subject to Option which were exercisable by the Optionee as of the Optionee’s last workday may be exercised at any time before their expiration date or within three years after the Optionee’s last workday, whichever is earlier. In the event that the Optionee’s Last Workday and Retirement occur one year or more after the date hereof, Common Shares not then exercisable will vest on their scheduled Commencement Date set forth in Section 2 above and may thereafter be exercised at any time within three years after the Optionee’s last workday, as provided hereunder. For purposes of this Agreement, “Retirement” means (i) retirement at age 65 or later or (ii) retirement at age 55 or later with at least 10 years’ credited service with the Company or one of its subsidiaries.

If you exercise this Option on a date which is more than three months following your last workday, the special tax treatment applicable to an incentive stock option under Sections 421(a) and 422(a) of the Internal Revenue Code shall cease to apply. You should consult your own tax advisor regarding the timing of your exercise.

4. **Death of Optionee**. In the event of the Optionee’s death, the Option may be exercised (if and to the extent that the Optionee was entitled to exercise the Option at the date of the Optionee’s death) during the shorter of (i) the one year period following the Optionee’s date of death and (ii) the period remaining until the Option expiration date by the legatees of the Optionee under the Optionee’s will, or by the Optionee’s executors, personal representatives or distributees.

5. **Procedure for Exercise**. The Option may be exercised by the Optionee (or in the event of the Optionee's death as specified in Section 4) by delivering to the Company at its principal executive office, for the attention of the Human Resources Department—Stock Option Administration, an exercise form indicating the number of Common Shares with respect to which the Option is being exercised accompanied by full payment to the Company of the purchase price of the shares being purchased. The date of exercise shall be the date such notice is received by the Company (provided full payment is tendered therewith) unless a later date is specified in the notice.

6. **Withholding Taxes**. The Company shall have the right to require the Optionee to remit to the Company, or to withhold from other amounts payable to the Optionee as compensation or otherwise, an amount sufficient to satisfy all federal, state and local tax withholding requirements.

7. **Disposition of the Option**. The Option may be exercised only by the Optionee during his or her lifetime, by legatees of such Optionee under the Optionee's will or by his or her executors, personal representatives or distributees and may not be transferred other than by will or the applicable laws of descent and distribution. The Option shall not otherwise be transferred, assigned, pledged or hypothecated for any purpose whatsoever and shall not be subject, in whole or in part, to execution, attachment or similar process. Any attempted assignment, transfer, pledge or hypothecation or other disposition of the Option, other than in accordance with the terms set forth herein, shall be void and of no effect.

8. **Rights as Stockholder**. Neither the Optionee nor any other person entitled to exercise the Option under the terms hereof shall be or have any of the rights or privileges of a stockholder of the Company in respect of any of the Common Shares issuable on exercise of the Option unless and until certificates for Common Shares are issued to him or her.

9. **Rights as Employee**. The grant of the Option confers upon the Optionee no right to continued employment by the Company or its subsidiaries.

10. **Administrative Regulations**. The Option shall be exercised in accordance with such administrative regulations as the Management Development and Compensation Committee (or the Options Subcommittee thereof) of the Company's Board of Directors shall from time to time adopt to the extent not inconsistent with the Delaware General Corporation Law, the Plan and Section 422 of the Internal Revenue Code.

11. **Government Regulations**. Notwithstanding anything contained herein to the contrary, the Company's obligations to issue or deliver certificates evidencing the Common Shares shall be subject to all applicable laws, rules and regulations and to such approvals by any governmental agencies or national securities exchanges as may be required.

IN WITNESS WHEREOF, this Agreement has been executed as of the day and year first above written.

Raytheon Company

By: ______________________________

Daniel P. Burnham
Chairman and Chief Executive Officer

The undersigned Optionee hereby accepts the foregoing Option and the terms and conditions hereof.

____

Optionee

QUESTIONS CONCERNING THIS AGREEMENT OR THE OPTION GRANT SHOULD BE DIRECTED TO THE OFFICE OF STOCK OPTION ADMINISTRATION, 141 SPRING STREET, LEXINGTON, MA 02421

RAYTHEON COMPANY
NONQUALIFIED STOCK OPTION AGREEMENT

This Agreement made as of **«Grant_Date»** between Raytheon Company (the “Company”) and

«FirstName»«MidName». «LastName»	**«SSN»**

(the “Optionee”). In consideration of the agreements set forth below, the Company and the Optionee agree as follows:

1. **Grant**. A Nonqualified Stock Option (the “Option”) is hereby granted by the Management Development and Compensation Committee (or the Options Subcommittee thereof) of the Board of Directors of the Company to the Optionee, for and with respect to Raytheon Common Stock, $0.01 par value per share (the “Common Shares”), subject to the following terms and conditions and to the provisions of the Raytheon Company 1995 Stock Option Plan (the “Plan”), as amended from time to time, the terms of which are incorporated by reference herein.

2. **Exercise**. The Option shall entitle the Optionee to purchase from the Company all or any part of the number of Common Shares, at the purchase price per share, as set forth below. At the time of exercise of the Option, payment of the purchase price may be made in cash (payable via certified or cashier’s check), Common Shares (valued at the fair market value as of the day before the date of exercise), or a combination thereof. In lieu of payment by certified check, cashier’s check or other Common Shares, an Optionee may, unless prohibited by applicable law, elect to effect payment by including with the written notice irrevocable instructions to deliver for sale to a registered securities broker acceptable to the Company a number of the shares subject to the Option being exercised sufficient, after brokerage commissions, to cover the aggregate exercise price of such Option, together with irrevocable instructions to such broker to sell such shares and to remit directly to the Company such aggregate exercise price.

Number of Common Shares Subject to Option	Price Per Share	Exercise Period Commencement Date	Exercise Period Expiration Date
«M_1st_Vesting»	**«Price»**	**«M_1st_Vesting_Date»**	**«Expiration_Date»**
«M_2nd_Vesting»	**«Price»**	**«M_2nd_Vesting_Date»**	**«Expiration_Date»**
«M_3rd_Vesting»	**«Price»**	**«M_3rd_Vesting_Date»**	**«Expiration_Date»**

3. **Termination of Employment**. (a) Except as provided in this Section 3 or Section 4, the Option may not be exercised at any time unless the Optionee is then a key employee of the Company or one of its subsidiaries. In the event of the Optionee’s termination of employment with the Company and its subsidiaries for any reason specified below, the Option shall be exercisable only within the period of time provided below, which period shall commence on the last day worked by the Optionee (without giving effect to any period of accrued vacation or salary continuance to which the Optionee is entitled); provided that the Option was exercisable as of the Optionee’s last day worked (i.e., the last day the Optionee was performing the duties of the Optionee’s position at Raytheon; and provided further that the Option may not be exercised at any time following cancellation or the expiration date:

Termination Reason	Option Expiration Date
Layoff	1 Year
Termination for Cause	Date of Termination
Voluntary Termination	3 Months

(b) If the Optionee’s employment terminates because of Retirement (as defined below), Common Shares subject to Option which were exercisable by the Optionee as of the Optionee’s last workday may be exercised at any time before their expiration date or within three years after the Optionee’s last workday, whichever is earlier. In the event that the Optionee’s Last Workday and Retirement occur one year or more after the date hereof, Common Shares not then exercisable will vest on their scheduled Commencement Date set forth in Section 2 above and may thereafter be exercised at any time within three years after the Optionee’s last workday, as provided hereunder. For purposes of this Agreement, “Retirement” means (i) retirement at age 65 or later or (ii) retirement at age 55 or later with at least 10 years’ credited service with the Company or one of its subsidiaries.

4. **Death of Optionee**. In the event of the Optionee’s death, the Option may be exercised (if and to the extent that the Optionee was entitled to exercise the Option at the date of the Optionee’s death) during the shorter of (i) the one year period following the Optionee’s date of death and (ii) the period remaining until the Option expiration date by the legatees of the Optionee under the Optionee’s will, or by the Optionee’s executors, personal representatives or distributees.

5. **Procedure for Exercise**. The Option may be exercised by the Optionee (or in the event of the Optionee's death as specified in Section 4) by delivering to the Company at its principal executive office, for the attention of the Human Resources Department - Stock Option Administration, an exercise form indicating the number of Common Shares with respect to which the Option is being exercised accompanied by full payment to the Company of the purchase price of the shares being purchased. The date of exercise shall be the date such notice is received by the Company (provided full payment is tendered therewith) unless a later date is specified in the notice.

6. **Withholding Taxes**. The Company shall have the right to require the Optionee to remit to the Company, or to withhold from other amounts payable to the Optionee as compensation or otherwise, an amount sufficient to satisfy all federal, state and local withholding tax requirements.

7. **Disposition of the Option**. Except as otherwise expressly provided in the Plan, the Option may be exercised only by the Optionee during his or her lifetime, by legatees of such Optionee under the Optionee's will or by his or her executors, personal representatives or distributees and may not be transferred other than by will or the applicable laws of descent and distribution. The Option shall not otherwise be transferred, assigned, pledged or hypothecated for any purpose whatsoever and shall not be subject, in whole or in part, to execution, attachment or similar process. Any attempted assignment, transfer, pledge or hypothecation or other disposition of the Option, other than in accordance with the terms set forth herein, shall be void and of no effect.

8. **Rights as Stockholder**. Neither the Optionee nor any other person entitled to exercise the Option under the terms hereof shall be or have any of the rights or privileges of a stockholder of the Company in respect of any of the Common Shares issuable on exercise of the Option unless and until certificates for Common Shares are issued to him or her.

9. **Rights as Employee**. The grant of the Option confers upon the Optionee no right to continued employment by the Company or its subsidiaries.

10. **Administrative Regulations**. The Option shall be exercised in accordance with such administrative regulations as the Options Subcommittee of the Management Development and Compensation Committee of the Company's Board of Directors shall from time to time adopt to the extent not inconsistent with the Plan.

11. **Government Regulations**. Notwithstanding anything contained herein to the contrary, the Company's obligations to issue or deliver certificates evidencing the Common Shares shall be subject to all applicable laws, rules and regulations and to such approvals by any governmental agencies or national securities exchanges as may be required.

IN WITNESS WHEREOF, this Agreement has been executed as of the day and year first above written.

Raytheon Company

By: ______________________________

Daniel P. Burnham
Chairman and Chief Executive Officer

The undersigned Optionee hereby accepts the foregoing Option and the terms and conditions hereof.

____

Optionee

QUESTIONS CONCERNING THIS AGREEMENT OR THE OPTION GRANT SHOULD BE DIRECTED TO THE OFFICE OF STOCK OPTION ADMINISTRATION, 141 SPRING STREET, LEXINGTON, MA 02421

RAYTHEON COMPANY
INCENTIVE STOCK OPTION AGREEMENT

This Agreement made as of **«grant_date»** between Raytheon Company (the "Company") and

«optionee» **«ssn2»**

(the "Optionee"). In consideration of the agreements set forth below, the Company and the Optionee agree as follows:

1. **Grant**. An Incentive Stock Option (the "Option") is hereby granted by the Options Subcommittee of the Management Development and Compensation Committee as administrator of the Plan, to the Optionee, to purchase that number of shares of Raytheon Common Stock, $0.01 par value per share (the "Common Shares") set forth below, subject to the following terms and conditions and to the provisions of the Raytheon Company 2001 Stock Plan (the "Plan"), as amended from time to time, the terms of which are incorporated by reference herein.

Number of Common Shares Subject to Option	*Price Per Share*	*Exercise Period Commencement Date*	*Exercise Period Expiration Date*
«ISO1»	**$«price»**	**«exercise_date_1»**	**«expire_date»**
«ISO2»	**$«price»**	**«exercise_date_2»**	**«expire_date»**
«ISO3»	**$«price»**	**«exercise_date_3»**	**«expire_date»**

2. **Exercise**. An Option may be exercised through Smith Barney, in the manner set forth in Section 7, specifying the number of shares as to which the Option is being exercised, accompanied (except as otherwise provided in Section 3 below) by full payment for such shares in the form of check or bank draft payable to the order of Smith Barney or other shares of the Stock with a current Fair Market Value equal to the Option Price of the shares to be purchased. Receipt by Smith Barney of such notice and payment shall constitute the exercise of the Option or a part thereof. Within 20 days thereafter, Smith Barney shall deliver or cause to be delivered to the Optionee a certificate or certificates (or other evidence of ownership) for the number of shares then being purchased. Such shares shall be fully paid and nonassessable. If such shares are not at that time effectively registered under the Securities Act of 1933, as amended, the Optionee shall include with such notice a letter, in form and substance satisfactory to the Company, confirming that such shares are being purchased for the Optionee's own account for investment and not with a view to distribution.

3. **Cashless Exercise**. In lieu of payment by check, bank draft or other Common Shares, an Optionee may, unless prohibited by applicable law or Company policy, elect to effect payment by delivering sale instructions to Smith Barney a number of the shares subject to the Option being exercised sufficient, after brokerage commissions, to cover the aggregate exercise price of such Option and, if the Optionee further elects, the Optionee's withholding obligations with respect to such exercise referred to in Section 15.8 of the Plan, together with irrevocable instructions to Smith Barney to sell such shares and to remit directly to the Company such aggregate exercise price and, if the Optionee has so elected, the amount of such withholding obligation. The Company shall not be required to deliver to Smith Barney any stock certificate (or other evidence of ownership) for such shares until it has received from Smith Barney such exercise price and, if the Optionee has so elected, such withholding obligation amount.

4. **Cessation of Active Service**. If an Optionee ceases to be an active employee, consultant or non-employee Director of the Company or any Affiliate other than by reason of death or retirement, absent in any case a determination by the Committee to the contrary, any Options which were exercisable by the Optionee on the date of cessation of active employment may be exercised no later than the earlier of (a) the expiration date of the Option or (b) the respective periods listed below. Notwithstanding the foregoing, in the event an Optionee fails to exercise an Incentive Stock Option within three months after cessation of employment with the Company or a Related Corporation, such Option will be treated as a Non-Statutory Stock Option pursuant to Section 422 of the Code. The respective periods following cessation of active employment in which exercisable Options may be exercised are as follows:

Reason for Cessation of Active Employment	*Period Following Last Day of Active Employment Within Which Option May Be Exercised*
Medical Leave of Absence*	During such leave
Discharge for Cause or other severance of employment determined by Committee to warrant termination of option	None
Layoff or other involuntary termination without Cause*	Three Years
Voluntary termination (non-retirement)	Three Months

* If you exercise this option on a date which is more than three months following your last workday, the special tax treatment applicable to incentive stock options under Sections 421(a) and 422(a) of the Internal Revenue Code shall cease to apply. You should consult your own tax advisor regarding the timing of your exercise.

5. **Death of Optionee**. If an Optionee's employment terminates because of death, the Options shall be fully vested automatically without regard to whether any applicable vesting requirements in the Grant Agreement have been fulfilled, and the Options may be exercised at any time before the expiration date, but only by the Optionee's estate or by the person(s) who acquired the right to exercise such Option by bequest or inheritance or by reason of the death of the Optionee.

6. **Retirement of Optionee**. If an Optionee's employment terminates because of Retirement, any Options which were granted at least one year prior to the date of termination of employment will vest in accordance with the Vesting Period specified in the Grant Agreement and may be exercised any time before their expiration date, provided such Options are exercisable on the exercise date. Notwithstanding the foregoing, in the event an Optionee fails to exercise an Incentive Stock Option within three months after the date of his or her retirement, such Option will be treated as a Non-Statutory Stock Option.

7. **Procedure for Exercise**. The Option may be exercised by the Optionee (or in the event of the Optionee's death the persons specified in Section 5) by calling a Smith Barney customer service representative or by accessing the Smith Barney online benefit website. The Optionee must remit to Smith Barney notice and payment pursuant to the procedure specified in Section 2 above (except as otherwise provided in Section 3 above) to complete the Option exercise. The date of exercise shall be the date such notice is received by Smith Barney (provided full payment, required by Section 2, or evidence required by Section 3, is tendered therewith) unless a later date is specified in the notice.

8. **Withholding Taxes**. The Company or Smith Barney shall have the right to require the Optionee to remit to the Company, or to withhold from other amounts payable to the Optionee as compensation or otherwise, an amount sufficient to satisfy all federal, state and local tax withholding requirements.

9. **Disposition of the Option**. The Option may be exercised only by the Optionee during his or her lifetime, by legatees of such Optionee under the Optionee's will or by his or her executors, personal representatives or distributees and may not be transferred other than by will or the applicable laws of descent and distribution. The Option shall not otherwise be transferred, assigned, pledged or hypothecated for any purpose whatsoever and shall not be subject, in whole or in part, to execution, attachment or similar process. Any attempted assignment, transfer, pledge or hypothecation or other disposition of the Option, other than in accordance with the terms set forth herein, shall be void and of no effect.

10. **Rights as Stockholder**. Neither the Optionee nor any other person entitled to exercise the Option under the terms hereof shall be considered a stockholder or have any of the rights or privileges of a stockholder of the Company in respect of any of the Common Shares issuable upon exercise of the Option unless and until certificates for Common Shares are issued to him or her upon payment in full of the option exercise price in the manner specified herein and in the Plan.

11. **Rights as Employee.** The grant of the Option confers upon the Optionee no right to continued employment by the Company or its subsidiaries.

12. **Additional Restrictions.** The Option shall be exercised in accordance with such terms and conditions as the Management Development and Compensation Committee (or the Options Subcommittee thereof) of the Company's Board of Directors shall from time to time adopt to the extent not inconsistent with the Delaware General Corporation Law, the Plan and Section 422 of the Internal Revenue Code.

13. **Government Regulations**. Notwithstanding anything contained herein to the contrary, the Company's obligations to issue or deliver certificates evidencing the Common Shares shall be subject to all applicable laws, rules and regulations and to such approvals by any governmental agencies or national securities exchanges as may be required.

14. **Capitalized Terms**. All capitalized terms used but not otherwise defined herein shall have the meanings given to such terms in the Plan.

IN WITNESS WHEREOF, this Agreement has been executed as of the day and year first above written.

Raytheon Company

By: ______________________________

William H. Swanson
President

The undersigned Optionee hereby accepts the foregoing Option and the terms and conditions hereof.

____

Optionee

QUESTIONS CONCERNING THIS AGREEMENT OR THE OPTION GRANT SHOULD BE DIRECTED TO A SMITH BARNEY CUSTOMER REPRESENTATIVE AT (800) 803-5086

RAYTHEON COMPANY
NONQUALIFIED STOCK OPTION AGREEMENT

This Agreement made as of **«grant_date»** between Raytheon Company (the "Company") and

«optionee» **«ssn2»**

(the "Optionee"). In consideration of the agreements set forth below, the Company and the Optionee agree as follows:

1. **Grant**. A Nonqualified Stock Option (the "Option") is hereby granted by the Options Subcommittee of the Management Development and Compensation Committee to the Optionee, to purchase that number of shares of Raytheon Common Stock, $0.01 par value per share (the "Common Shares") set forth below, subject to the following terms and conditions and to the provisions of the Raytheon Company 2001 Stock Option Plan (the "Plan"), as amended from time to time, the terms of which are incorporated by reference herein.

Number of Common Shares Subject to Option	*Price Per Share*	*Exercise Period Commencement Date*	*Exercise Period Expiration Date*
«NQ1»	**$«price»**	**«exercise_date_1»**	**«expire_date»**
«NQ2»	**$«price»**	**«exercise_date_2»**	**«expire_date»**
«NQ3»	**$«price»**	**«exercise_date_3»**	**«expire_date»**

2. **Exercise**. An Option may be exercised through Smith Barney, in the manner set forth in Section 7, specifying the number of shares as to which the Option is being exercised, accompanied (except as otherwise provided in Section 3 below) by full payment for such shares in the form of check or bank draft payable to the order of Smith Barney or other shares of the Stock with a current Fair Market Value equal to the Option Price of the shares to be purchased. Receipt by Smith Barney of such notice and payment shall constitute the exercise of the Option or a part thereof. Within 20 days thereafter, Smith Barney shall deliver or cause to be delivered to the Optionee a certificate or certificates (or other evidence of ownership) for the number of shares then being purchased. Such shares shall be fully paid and nonassessable. If such shares are not at that time effectively registered under the Securities Act of 1933, as amended, the Optionee shall include with such notice a letter, in form and substance satisfactory to the Company, confirming that such shares are being purchased for the Optionee's own account for investment and not with a view to distribution.

3. **Cashless Exercise**. In lieu of payment by check, bank draft or other Common Shares, an Optionee may, unless prohibited by applicable law or Company policy, elect to effect payment by delivering sale instructions to Smith Barney a number of the shares subject to the Option being exercised sufficient, after brokerage commissions, to cover the aggregate exercise price of such Option and, if the Optionee further elects, the Optionee's withholding obligations with respect to such exercise referred to in Section 15.8 of the Plan, together with irrevocable instructions to Smith Barney to sell such shares and to remit directly to the Company such aggregate exercise price and, if the Optionee has so elected, the amount of such withholding obligation. The Company shall not be required to deliver to Smith Barney any stock certificate (or other evidence of ownership) for such shares until it has received from Smith Barney such exercise price and, if the Optionee has so elected, such withholding obligation amount.

4. **Cessation of Active Service.** If an Optionee ceases to be an active employee, consultant or non-employee Director of the Company or any Affiliate other than by reason of death or retirement, absent in any case a determination by the Committee to the contrary, any Options which were exercisable by the Optionee on the date of cessation of active employment may be exercised no later than the earlier of (a) the expiration date of the Option or (b) the respective periods listed below.

Reason for Cessation of Active Employment	*Period Following Last Day of Active Employment Within Which Option May Be Exercised*
Medical Leave of Absence	During such leave
Discharge for Cause or other severance of employment determined by Committee to warrant termination of option	None
Layoff or other involuntary termination without Cause	Three Years
Voluntary termination (non-retirement)	Three Months

5. **Death of Optionee**. If an Optionee's employment terminates because of death, the Options shall be fully vested automatically without regard to whether any applicable vesting requirements in the Grant Agreement have been fulfilled, and the Options may be exercised at any time before the expiration date, but only by the Optionee's estate or by the person(s) who acquired the right to exercise such Option by bequest or inheritance or by reason of the death of the Optionee.

6. **Retirement of Optionee**. If an Optionee's employment terminates because of Retirement, any Options which were granted at least one year prior to the date of termination of employment will vest in accordance with the Vesting Period specified in the Grant Agreement and may be exercised any time before their expiration date, provided such Options are exercisable on the exercise date.

7. **Procedure for Exercise**. The Option may be exercised by the Optionee (or in the event of the Optionee's death the persons specified in Section 5) by calling a Smith Barney customer service representative or by accessing the Smith Barney online benefit website. The Optionee must remit to Smith Barney notice and payment pursuant to the procedure specified in Section 2 above (except as otherwise provided in Section 3 above) to complete the Option exercise. The date of exercise shall be the date such notice is received by Smith Barney (provided full payment, required by Section 2, or evidence required by Section 3, is tendered therewith) unless a later date is specified in the notice.

8. **Withholding Taxes**. The Company or Smith Barney shall have the right to require the Optionee to remit to the Company, or to withhold from other amounts payable to the Optionee as compensation or otherwise, an amount sufficient to satisfy all federal, state and local tax withholding requirements.

9. **Disposition of the Option**. The Option may be exercised only by the Optionee during his or her lifetime, by legatees of such Optionee under the Optionee's will or by his or her executors, personal representatives or distributees and may not be transferred other than by will or the applicable laws of descent and distribution. The Option shall not otherwise be transferred, assigned, pledged or hypothecated for any purpose whatsoever and shall not be subject, in whole or in part, to execution, attachment or similar process. Any attempted assignment, transfer, pledge or hypothecation or other disposition of the Option, other than in accordance with the terms set forth herein, shall be void and of no effect.

10. **Rights as Stockholder**. Neither the Optionee nor any other person entitled to exercise the Option under the terms hereof shall be considered a stockholder or have any of the rights or privileges of a stockholder of the Company in respect of any of the Common Shares issuable upon exercise of the Option unless and until certificates for Common Shares are issued to him or her upon payment in full of the option exercise price in the manner specified herein and in the Plan.

11. **Rights as Employee.** The grant of the Option confers upon the Optionee no right to continued employment by the Company or its subsidiaries.

12. **Additional Restrictions**. The Option shall be exercised in accordance with such terms and conditions as the Management Development and Compensation Committee (or the Options Subcommittee thereof) of the Company's Board of Directors shall from time to time adopt to the extent not inconsistent with the Delaware General Corporation Law, the Plan and Section 422 of the Internal Revenue Code.

13. **Government Regulations**. Notwithstanding anything contained herein to the contrary, the Company's obligations to issue or deliver certificates evidencing the Common Shares shall be subject to all applicable laws, rules and regulations and to such approvals by any governmental agencies or national securities exchanges as may be required.

14. **Capitalized Terms**. All capitalized terms used but not otherwise defined herein shall have the meanings given to such terms in the Plan.

IN WITNESS WHEREOF, this Agreement has been executed as of the day and year first above written.

Raytheon Company

By: ______________________________

William H. Swanson
President

The undersigned Optionee hereby accepts the foregoing Option and the terms and conditions hereof.

____

Optionee

QUESTIONS CONCERNING THIS AGREEMENT OR THE OPTION GRANT SHOULD BE DIRECTED TO A SMITH BARNEY CUSTOMER REPRESENTATIVE AT (800) 803-5086 IF IN THE U.S. OR (212) 615-7046 IF OUTSIDE THE U.S.

Exhibit 10.5

RESTRICTED STOCK AWARD AGREEMENT

This Restricted Stock Award Agreement, dated as of **[ ]** between Raytheon Company, a Delaware corporation (the "Company"), and [ ]**,** an employee of the Company or one of its subsidiaries (the "Holder").

1. The Company hereby awards to the Holder [ ] shares of common stock of the Company, par value $.01 per share (the "Shares"), subject to the terms and conditions of the 2001 Stock Plan (the "Plan") and the provisions of this Agreement, including the vesting provisions set forth below:

Vesting Date	Number of Shares

2. The Shares shall be registered in the name of the Holder and retained in the custody of the Company until such time as the Shares (or other evidence of ownership of the Shares) are delivered to the Holder or forfeited to the Company in accordance with the terms hereof (the "Restriction Period"). During the Restriction Period, the Holder will be entitled to vote the Shares and to receive dividends paid on the Shares.

3. If the Holder is continuously employed by the Company or one of its Affiliates from the date of award of the Shares through the dates listed above, the Company shall, on or about such date(s), deliver to the Holder evidence of ownership in book entry form of the number of Shares set forth opposite such date.

4. Restrictions on the Shares shall terminate as follows:

(a) upon the Holder's death;

(b) in accordance with the vesting schedule set forth above in the event of (i) a Medical Leave of Absence of at least one year or (ii) total disability as evidenced by commencement and continuation for more than one year of benefits under the Company's Long Term Disability Plan (or but for the fact that the Holder is not a member, qualification for benefits under the Long Term Disability Plan); or

(c) upon a Change in Corporate Control.

5. The awarding of the Shares shall not be deemed to create a contract of employment between the Holder and the Company and shall not in any way prohibit or restrict the right of the Company to terminate the Holder's employment at any time, for any reason. The awarding of the Shares does not guarantee the right or expectation of the receipt of future Awards under the Plan or any future plan adopted by the Company.

6. If during the Restriction Period the Holder ceases to be an employee of the Company or one of its subsidiaries for any reason other than as specified in Paragraph 4, then the Holder shall cease to be entitled to delivery of any of the Shares as to which the applicable restrictions have not theretofore lapsed, and all rights of the Holder in and to such shares, including any prorated portion of the shares with respect to a partial year of employment, shall be forfeited immediately after the Holder ceases to be an employee of the Company or any subsidiary.

7. Until the lapse of the restrictions applicable to any Shares held in custody for the Holder pursuant to this Agreement, such shares may not be sold, transferred, pledged, exchanged, hypothecated or disposed of by the Holder (except that delivery of Shares may be deferred as set forth in paragraph 9 below) and shall not be subject to execution, attachment or similar process.

8. In addition to amounts in respect of taxes which the Company shall be required by law to deduct or withhold from any dividend payments on the Shares, the Company may withhold from any Shares deliverable to the Holder hereunder a number of shares whose market value is sufficient in amount for the Company to satisfy any applicable federal, state or local tax withholding requirement. The Holder shall not be entitled to any Shares or dividends on any Shares until all such tax obligations have been satisfied in full.

9. Notwithstanding any other provision in the Plan to the contrary, the Committee may, subject to certain terms and conditions, permit the Holder to: (i) defer receipt of the delivery of Shares; or (ii) convert or exchange an award of Shares hereunder for another Award under the Plan or under any other plan or arrangement.

10. All terms and conditions of the Plan are incorporated herein by reference and constitute an integral part hereof. Any capitalized terms used but not defined herein shall have the meanings ascribed to them in the Plan.

11. Notices required or permitted hereunder shall be in writing and shall be delivered personally or by mail, postage prepaid, addressed to the Office of the General Counsel of the Corporation, 870 Winter Street, Waltham, Massachusetts 02451, and to the Holder at his or her address as shown on the Company's payroll records, or to such other address as the Holder by notice to the Company may designate in writing from time to time.

RAYTHEON COMPANY

William H. Swanson
Chairman and Chief Executive Officer

ACCEPTED:

____

Exhibit 10.6

[GRAPHIC APPEARS HERE]

Raytheon 2001 Stock Plan

200[__] Performance Share Award

Raytheon Company hereby grants to you, the recipient identified below, an award of stock units with respect to its common stock, par value $0.01 per share (the "Stock"), pursuant to the Raytheon 2001 Stock Plan (as amended from time to time, the "Plan") on the following terms and conditions:

1. Details of Award

Recipient	
Total Target Number of Shares of Stock	
Performance Cycle	Calendar years 200[__] through 200[__]

2. Conditions to Award

Pursuant to this Award, you will entitled to payment of up to one-half of the total target number of shares set out above based on Raytheon's "free cash flow" per share over the Performance Cycle, and up to one-half of the total target number of shares set out above based on the total return to Raytheon's shareholders (compounded annually), relative to that of its "peers," over the Performance Cycle. The precise extent to which any such shares will have been earned will be determined by the Management Development and Compensation Committee of Raytheon's Board of Directors (the "Committee") as soon as possible following the close of the Performance Cycle from the following tables:

Cumulative 3-Year Free Cash Flow per share	Target Share Award Multiplier
$	
$	
$	
$	
$	
$	
$	
$	

Total Return to Shareholders		
Percentile	Rank vs. Peers	Target Share Award Multiplier
100th	1	1.000
90th	2	1.000
80th	3	0.875
70th	4	0.750
60th	5	0.625
50th	6	0.500
40th	7	0.375
30th	8	0.250
<30th	9, 10 or 11	No Award

"Internal Free Cash Flow:" Raytheon's cash from operations per share, after capital expenditures and interest payments**,** all as determined in accordance with generally accepted accounting principles and rounded to the nearest cent per share.

"Peers:" Boeing, General Dynamics, Goodrich, Honeywell, L-3 Communications, Lockheed Martin, Northrop Grumman, Rockwell Collins, Textron, and United Technologies. In the event of any mergers or other corporate events affecting the foregoing companies during the Performance Cycle, the Committee may make such adjustments to the peer group of companies, the total return calculations of the affected companies and the metrics set out above as it may determine in its sole discretion would most nearly carry out the original purposes and intent of this Award.

3. Effect of Termination of Employment, Etc.

You must remain an employee until the end of the Performance Cycle in order to be entitled to any payment pursuant to this Award, except as provided in Section 4 and except as follows. If your employment with Raytheon ends during the Performance Cycle on account of your Retirement, as that term is defined in the Plan, or because you become disabled or die, after the end of the Performance Cycle, you (or in the event of your death, your estate) will be entitled to a pro rata portion of the number of shares of Stock you would have received, if any, had you remained employed until the end of the Performance Cycle. The pro rata portion will be based on the number of full months in the Performance Cycle during which you were employed as compared to the total number of months in the Cycle.

4. Effect of Change of Corporate Control

If a Change of Corporate Control, as defined in the Plan, should occur during the Performance Cycle, the Award will terminate. However, at or immediately following the Change of Corporate Control, you will be entitled to receive a pro rata portion of the total target number of shares covered by this Award, without regard to the extent to which the performance conditions of Section 2 have been satisfied. The pro rata portion will be based on the number of full months in the Performance Cycle preceding the Change of Corporate Control as compared to the total number of months in the Cycle.

5. Payment

A. Timing. Promptly following determination of the number of shares of Stock you have earned under this Award, such number, if any, will be paid to you together with a dividend equivalent amount of shares calculated in accordance with the following paragraph. However, you will not be entitled to any payment with respect to shares of Stock covered by this Award until you have made satisfactory arrangements with Raytheon to satisfy any tax or other withholding obligations which might arise in connection with payment and all payments will be net of any such withholding.

B. Dividend Equivalents. The dividend equivalent amount will be a number of shares calculated assuming that the dividends, if any, paid by Raytheon on the shares of Stock which you ultimately become entitled to under this Award (and on any prior dividend equivalent amount attributable to such shares), had been reinvested in additional shares of Stock as of the respective payment dates of each dividend. You will not be entitled to any dividend equivalent amount on shares of Stock covered by this Award which are not ultimately earned.

C. Form of Payment. As provided in the Plan, at the election of the Committee earned shares and any dividend equivalent amount will be paid in the form of shares of Stock.

6. Other Provisions

A. Other Conditions of Plan Apply. This Award is subject to all of the remaining terms and conditions of the Plan, including but not limited to the provisions relieving Raytheon of any obligation to issue shares of Stock until all applicable securities laws have been complied with and providing that the grant of awards under the Plan, including this Award, will not interfere with or limit in any way Raytheon’s right to terminate your employment at any time. The Plan is administered and interpreted by the Committee, whose determinations are final and binding on all persons concerned.

B. No Guaranty of Future Awards. This Award in no way guarantees you the right to or expectation that you may receive similar awards with respect to any other similar performance cycle or period which the Committee may, in its discretion, establish and as to which the Committee may elect grant awards under the Plan.

C. No Rights as Stockholder**.** You will not be considered a shareholder of Raytheon with respect to the shares of Stock covered by this Award or any dividend equivalent amount of shares unless and until shares of Stock are actually issued and certificates therefor delivered to you.

D. Governing Law**.** This Award shall be governed by, construed and administered in accordance with applicable federal law; provided, however, that to the extent not in conflict with federal law, this Award shall be governed by, construed and administered in accordance with the laws of the State of Delaware, other than its laws respecting choice of law.

E. Counterparts. This Award may be executed in one or more counterparts all of which together shall constitute but one instrument.

RAYTHEON COMPANY
By: ______________________________ ______________________________

Title: Chairman and CEO Signature of Recipient

Exhibit 31.1

CERTIFICATION

I, William H. Swanson, Chairman and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Raytheon Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2004

/s/ William H. Swanson

William H. Swanson
Chairman and Chief Executive Officer

CERTIFICATION

I, Edward S. Pliner, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Raytheon Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2004

/s/ Edward S. Pliner

Edward S. Pliner
Senior Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Raytheon Company (the "Company") on Form 10-Q for the period ending September 26, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William H. Swanson, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William H. Swanson

William H. Swanson
Chairman and Chief Executive Officer
October 28, 2004

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Raytheon Company (the “Company”) on Form 10-Q for the period ending September 26, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Edward S. Pliner, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Edward S. Pliner

Edward S. Pliner
Senior Vice President and Chief Financial Officer
October 28, 2004

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.