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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2004.

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________ to ________

Commission File Number 1-13699

RAYTHEON COMPANY
(Exact Name of Registrant as Specified in its Charter)

DELAWARE	**95-1778500**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

870 WINTER STREET, WALTHAM, MASSACHUSETTS 02451
(Address of Principal Executive Offices) (Zip Code)

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

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

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

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

None

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

Indicate by check mark whether the registrant is an accelerated filer. Yes ☒ No ☐

The aggregate market value of the voting stock held by non-affiliates of the Registrant, as of June 27, 2004, was approximately $15.5 billion.

Number of shares of Common Stock outstanding as of December 31, 2004: 453,096,000.

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

Portions of the Definitive Proxy Statement for Raytheon's 2005 Annual Meeting are incorporated by reference in Part III of this Form 10-K.

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PART I

Item 1. Business

GENERAL

Raytheon Company ("Raytheon" or the "Company"), with worldwide 2004 sales of $20.2 billion, is an industry leader in defense and government electronics, space, technical services, and business and special mission aircraft. Raytheon was founded in 1922 and is currently incorporated in the state of Delaware. The Company is the surviving company of the 1997 merger of HE Holdings, Inc. and Raytheon Company.

Raytheon's government and defense business is currently aligned in six business segments: Integrated Defense Systems; Intelligence and Information Systems; Missile Systems; Network Centric Systems; Space and Airborne Systems; and Technical Services. Raytheon Aircraft is one of the leading providers of business and special mission aircraft and delivers a broad line of jet, turboprop, and piston-powered airplanes to individual, corporate and government customers world-wide.

The Company's principal executive offices are located at 870 Winter Street, Waltham, Massachusetts 02451. The Company's Internet address is www.raytheon.com. The content on the Company's website is available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-K.

The Company makes available free of charge on or through its Internet website under the heading "Investor Relations," its report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission.

BUSINESS SEGMENTS

Integrated Defense Systems. The Integrated Defense Systems (IDS) business, headquartered in Tewksbury, Massachusetts, is a leader in mission systems integration. With a strong international and domestic customer base, including the U.S. Missile Defense Agency and the U.S. Armed Forces, IDS provides integrated air and missile defense and naval and maritime war-fighting solutions. The business primarily consists of the following business areas: DD(X), Integrated Air Defense Systems, International Integrated Air Defense, Japan Integrated Programs, Missile Defense, Naval Integrated Systems, Saudi Arabian Programs, and Surveillance and Sensor Systems.

IDS had 2004 net sales of $3.5 billion.

DD(X) – The DD(X) business area is responsible to the U.S. Navy, under contract to Northrop Grumman Ship Systems (NGSS), to deliver a fully integrated Ship System. This includes design of the Combat Systems Suite as well as design and oversight of the Total Ship's Computing Environment Infrastructure in which all on board systems will operate. Within the program there are numerous areas of expertise, including Total Ship's Systems Engineering (TSSE) and Integration, Total Ship's Computing Environment Infrastructure Design, Software Programming, Human Systems Integration, Training and Logistics, and Modeling and Simulation, and Design, Test and Integration of Command and Control Systems, Radar, Sonar, Planar Array Antenna, and Vertical Missile Launcher. Additional work in the program includes Sensor and Vehicle Control, Electro-Optic/InfraRed, Electronic Surveillance, Acoustic Sensor Suite, and Identification Friend or Foe elements. Further work in the Command and Control, Communications, Computers and Intelligence (C4I) area includes External Communications and Imagery areas. The following key programs exist within the DD(X) Program: Dual Band Radar (SPY-3 Multifunction Radar and Volume Search Radar), Integrated Undersea Warfare System, MK 57 Vertical Launching System, and Total Ship Computing Environment Infrastructure.

Integrated Air Defense Systems (IADS) – IADS serves U.S. Department of Defense customers by providing total air and missile defense (AMD) systems integration efforts within a Joint AMD Architecture enabling warfighters access to air and ground-based sensors, and combat systems communications which link together weapons, battle management command and control hardware and software in a seamless system of systems open architecture. This business area produces system of systems engineering solutions, architecture and product capabilities such as Patriot Air & Missile Defense System, Joint Land Attack Cruise Missile Defense Elevated Netted Sensor (JLENS), Surface Launched AMRAAM (SLAMRAAM), Complementary Low Altitude Weapon System (CLAWS), Common Aviation Command & Control System (CAC2S) and Affordable Ground Based Radar (AGBR).

International Integrated Air Defense (IIAD) – The IIAD business area provides integrated air and missile defense solutions and support to foreign customers. IIAD, in coordination with the U.S. government and U.S. Armed Forces, designs and tailors scalable, integrated short range, lower tier and homeland defense systems capable of defending against air breathing, cruise missile and ballistic missile threats. Products include the Patriot missile system, SLAMRAAM missile system, Hawk missile system and related whole life services and support.

Japan Integrated Programs – The Japan Integrated Programs business area has been providing the Japanese Defense Agency with advanced integrated air-defense solutions, primarily based on the Hawk and Patriot Air Defense Systems, for over 40 years. The Japan Integrated Programs business area is working with Japanese Industry to upgrade the Patriot System to Configuration-3 (PI-3) program and to provide a Ballistic Missile Defense Command and Control capability under the Japan Air-Defense Ground Environment-Ballistic Missile Defense (JADGE-BMD) program.

Missile Defense (MD) – The Missile Defense business area provides mission system solutions for ballistic missile defense. Key capabilities and products of the MD business area include system integration, information management, sensor fusion, discrimination, and sensor systems. The MD business area is the premier provider of radars for the Ballistic Missile Defense System (BMDS) currently under development by the U.S. Missile Defense Agency (MDA). This business area provides the Early Warning Radars for threat detection, track and classification as well as the X-band Family-of-Radars for precision track and discrimination of ballistic missile threats. The X-band Family-of-Radars includes the transportable Forward-based X-band (FBX-T), the Sea-based X-band (SBX), the Terminal High-Altitude Area Defense (THAAD) sensor and Command, Control, Battle Management and Communications (C2BMC), as well as a number of key test assets such as the prototype Ground-based radar (GBR-P) located at the Kwajelein test facility and TPS-X at the Pacific Missile Test Range. The Missile Defense business area is also the Raytheon lead for the development and implementation of discrimination technology and solutions through its Discrimination Center of Excellence which supports cross-product development and implementation of key discrimination solutions.

Naval Integrated Systems (NIS) – The NIS business area provides capabilities to U.S. and foreign navies in surface ship electronics integration and submarine combat systems and weapons. The business area is the ship electronics integrator for the LPD-17 San Antonio Class Amphibious Assault Ship and delivers the Surface Ship Self Defense System (SSDS) Mk1 and Mk2 to the U.S. Navy’s fleet of large deck platforms and the BYG-1 combat system to all U.S. submarines, as well as Australia’s Collins class. NIS is also the Navy’s primary industrial partner on both heavyweight and lightweight torpedoes, delivering undersea superiority to the U.S. and its allies.

Saudi Arabian Programs – The Saudi Arabian Programs business area provides technical, logistics and training services, as well as replenishment spare parts, in support of Hawk and Patriot systems fielded by the Royal Saudi Air Defense Forces (RSADF) throughout the Kingdom of Saudi Arabia. Currently, the business area is working with the United States Air and Missile Command (AMCOM) Security Assistance Management Directorate (SAMD) to develop plans for refurbishing and upgrading the RSADF Patriot system to the latest U.S. configuration (Configuration 3), and for upgrading RSADF Command, Control and Communications systems. In 2004, this business area completed the 2nd year of Raytheon’s 3-year Hawk and Patriot Systems Technical and Logistics

Support Contract (HPSSC). In 2004, this IDS unit completed the System Integration and check-out of six Patriot battalions and support equipment.

Surveillance and Sensor Systems (SSS) – The SSS business area encompasses a broad range of domestic and international programs including the Cobra Judy Replacement Mission Equipment Program, the Taiwan Surveillance Sensor Program and the U.S. Air Force Space Surveillance Sensor Program. The Cobra Judy Replacement Mission Equipment Program is a ship based radar suite for world wide ballistic missile data collection. The Taiwan Surveillance Radar Program is an early warning radar for ballistic missile protection. The U.S. Air Force Space Surveillance Sensor Program tracks objects orbiting the earth. Production and whole life support services for a number of legacy radar and fire control systems is included in the business area, specifically, AEGIS Weapon System radar equipment, the SPS-49 Long Range Surveillance Radar, the TARTAR Fire Control System, the NATO Seasparrow Fire Control System and associated Guided Missile Launchers and the SPS-73 Surface Search Radar. Maritime Domain Awareness systems are developed and produced within SSS. Advanced technology development for future radar systems is also a key focus.

Product performance, support and price are among the principal competitive factors considered by IDS' customers, which include the U.S. Missile Defense Agency and the U.S. Armed Forces. IDS relies upon its domain knowledge and products to compete in the Missile Defense, Integrated Air Defense and other mission areas.

Intelligence and Information Systems. The Intelligence and Information Systems (IIS) business, headquartered in Garland, Texas, is a leading provider of systems, subsystems and software engineering services for national and tactical intelligence systems, as well as for homeland security and information technology solutions. Areas of special concentration include processing, analysis and dissemination of signals and imagery, production of geospatial intelligence, command and control of airborne and spaceborne platforms including unmanned aerial vehicles (UAVs) and satellites, and integrated ground systems for weather and environmental programs.

IIS had 2004 net sales of $2.2 billion.

IIS contracts encompass a broad range of products from signal intelligence (SIGINT) sensors (used on platforms such as U2) to mission management systems (used to manage operation and data for platforms like Global Hawk). In addition, IIS delivers integrated solutions for government IT requirements and knowledge-driven homeland security solutions for customers worldwide. IIS is comprised of the following business areas:

National Systems – National Systems provides systems and operational support for high-performance signals intelligence and multi-INT mission/resource management and execution, signal processing and analysis; information management and knowledge discovery; and operations, maintenance and engineering support. Customers include the National Security Agency (NSA), a proprietary customer, the U.S. Department of Defense (DoD) and the Defense Advanced Research Projects agency (DARPA). Contracts include: PROCON, integrated operations support, PASSGEAR, involving processing, exploitation and dissemination systems; Emergejust, a cryptologic solutions program; and Highpoint in mission signals management.

Operational Technologies and Solutions (OTS) – OTS provides information management systems, broadband broadcast systems and operations support to the DoD, DARPA, Missile Defense Agency (MDA) and classified and proprietary customers. Its capabilities are diverse, ranging from managing state of the art collection systems, and large volumes of information securely and reliably, to developing next-generation technology, to providing operations support to customers at their respective sites. Customers include the DoD, DARPA, MDA, FBI, the Drug Enforcement Agency (DEA) and foreign governments. Contracts include: Future Combat Systems (FCS), Global Broadcast System (GBS), and numerous classified contracts.

Raytheon Information Solutions (RIS) – RIS develops and supports information technology solutions in technical computing, enterprise systems, e-Commerce and logistics management, primarily for the U.S. Federal agency and DoD marketplace. RIS contracts include US-VISIT; teamed with Accenture as a member of the Smart

Border Alliance, RIS is developing an integrated, automated system to track the entry and exit of visitors entering the United States. Other contracts include operations and maintenance of the NASA Earth Observing System Data and Information System (EOSDIS), and Common Services to Borrowers (CSB) which provides a student loan debt collection system for the Department of Education.

Space Systems (SS) – The SS business is focused on satellites and the support required for satellites. SS develops satellite command and control software and provides mission and resource management, end-to-end information and network management, and modeling and simulation capabilities to its customers. Primary customers include the National Aeronautics and Space Administration (NASA), the National Oceanic and Atmospheric Administration (NOAA), the National Reconnaissance Office (NRO), NSA, the U.S. Air Force, The Boeing Company, Northrop Grumman Corporation and Lockheed Martin Corporation. SS also works with commercial customers as the ground systems integrator supporting satellites used to support hundreds of television channels to households around the world. Contracts include the National Polar-orbiting Operational Environmental Satellite System (NPOES), the Global Positioning System III (GPSIII), NASA’s EOS and the James Webb Space Telescope.

Strategic Imaging Systems (SIS) – SIS provides automated intelligence systems, information management and automated releasability dissemination systems; architecture design, development and integration, ground systems engineering support, operations/management, advanced data processing technology and algorithms; multi-level security architecture and accreditation. Customers include the National Geospatial-Intelligence Agency (NGA), National Air and Space Intelligence Center, Space Imaging, LLC, and various classified and proprietary governmental customers. SIS contracts include Freedom, involving life-cycle support for a large data processing center for a proprietary customer, and the MIND, which provides common ground services for a proprietary customer.

Tactical Intelligence Systems (TIS) – TIS has core competencies in manned and unmanned Signals Intelligence (SIGINT) sensors, ground control of airborne SIGINT sensors, multi-INT ground systems, Unmanned Aerial Vehicle (UAV) ground stations and Intelligence, Surveillance and Reconnaissance (ISR) battle space management. Customers include the DoD, primarily the Air Force, and classified as well as proprietary agencies. TIS programs include: Distributed Common Ground System (DCGS), Consolidated Field Services (CFS) for all sensors and ground systems and data links for the U-2, and Tactical Control System (TCS) for simultaneous control of multiple UAV’s and their payloads from the same station.

Technical solutions, value, delivery schedules, past performance and award fee achievement are among the principal competitive factors considered by IIS’ customers, which include classified customers, the U.S. Air Force, U.S. Navy, NOAA, NASA, NGA and other federal civil and military customers. IIS relies upon its domain knowledge and ability to address customer issues, along with its program performance, to compete for its business.

Missile Systems. The Missile Systems (MS) business, headquartered in Tucson, Arizona, is the world’s premier missile manufacturer. The Missile Systems business creates a broad range of cutting edge solutions and products for the U.S. military and many allied countries. MS consists of the following business areas: Strike, Air-to- Air, Naval Weapon Systems, Exo-Atmospheric Kill Vehicle, Kinetic Energy Interceptor, Advanced Missile Defense and Directed Energy, Land Combat and Advanced Programs.

MS had 2004 net sales of $3.8 billion.

Strike – Products and services included in the Strike product line enable U.S. Air Force and U.S. Navy customers to attack, suppress or destroy ground-based targets such as bridges, buildings, aircraft/bunkers, tanks, radar sites and/or air-defense missile installations. Programs involving the Strike product line includes Tactical Tomahawk, an advanced surface- or sub-launched cruise missile with loitering and network communication capability, Paveway laser guided “smart” bomb; Joint Stand Off Weapon (JSOW), a joint Navy/Air Force low cost, air-to-ground weapon; High Speed Anti-Radiation Missile (HARM), which suppresses or destroys surface-to-air missile radars, early warning radars, and radar-directed air defense artillery systems; and Maverick, a family of versatile, precision strike missiles.

Air-to-Air – Raytheon is a leading supplier of air-to-air missiles. These products help ensure the air dominance of our nation's military, contributing to the security of the U.S. and many of its allies. Programs involving the Air-to-Air product line include: AIM 9X, the latest member of the Sidewinder short range missile family; AIM 9M; and Advanced Medium Range Air-to-Air Missile (AMRAAM), a state of the art, highly dependable and battle proven air-to-air missile.

Naval Weapon Systems (NWS) – NWS is a leading supplier of defensive missiles and the largest business area of Raytheon Missile Systems. Programs include: the Standard Missile family of state of the art air and missile defense missiles; Evolved Sea Sparrow Missile (ESSM), which provides self-defense against high-speed, highly maneuverable anti-ship missiles, Rolling Airframe Missile (RAM), a supersonic, light-weight, quick-reaction, fire-and-forget missile designed to destroy antiship missiles; Phalanx, an advanced radar-controlled gun system that provides defense against close-in air and surface threats; and Extended Range Guided Munition (ERGM), a new projectile that will support forces ashore with sustained, accurate fire.

Atmospheric Kill Vehicle (EKV) – Utilizing state of the art target discrimination technologies and sophisticated embedded software, the EKV payload represents the tip of the spear for the Ground Based Interceptor (GBI), a key element in the Ground-based Midcourse Defense (GMD) system.

Kinetic Energy Interceptor (KEI) – This missile defense program's goal is to design, develop and deploy kinetic energy-based, mobile, ground and sea-launched missiles that can intercept and destroy enemy ballistic missiles during their boost phase. The KEI element consists of the Interceptor Component, the Mobile Launcher Component and the C2BMC component.

Advanced Missile Defense, Directed Energy Weapons Product Line (AMD DEW) – This business area was created to pursue growth opportunities in the missile defense and directed energy markets. It includes concept and development of new kill vehicles, space applications, discrimination, high power microwave and high energy laser systems.

Land Combat – The Land Combat business area supports the U.S. Army and more than 25 U.S. allies. The multi-mission capability of Land Combat missiles has been demonstrated in Iraq and Afghanistan. Programs include Javelin, a fire and forget anti-tank weapon, TOW, an anti-tank, anti-armor weapon, Excalibur, a guided projectile and Non-Line of Site Launch System (NLOS-LS), an integral part of the U.S. Army's Future Combat Systems.

Advanced Programs – Focuses on next generation technology and systems to provide customers superior capability.

Technical superiority, reputation, price, delivery schedules, financing and reliability are among the principal competitive factors considered by MS' customers, which include the U.S. Armed Forces and the U.S. Missile Defense Agency. As a result of consolidation in the defense industry, MS frequently partners on various programs with its major suppliers, some of whom are, from time to time, competitors on other programs.

Network Centric Systems. The Network Centric Systems (NCS) business, headquartered in McKinney, Texas, develops and produces mission solutions for networking, command and control, battlespace awareness, and air traffic management. Programs include civilian applications, command and control systems, integrated communications systems and netted sensor systems. NCS serves all branches of the U.S. Armed Forces, the National Guard, the Department of Homeland Security, the Federal Aviation Administration, other U.S. national security agencies, and foreign customers.

NCS had 2004 net sales of $3.1 billion.

NCS consists of the following business areas: Air Space Management and Homeland Security, Command and Control Systems, Combat Systems, Integrated Communication Systems (ICS), Precision Technologies and Components, Thales-Raytheon Systems LLC, and Raytheon Systems Limited.

Air Space Management and Homeland Security (AMHS) – AMHS is a key participant in designing future air traffic solutions in partnership with the Multi-Agency Joint Planning and Development Office. AMHS integrates ground-to-ground management of both civil and military markets in more than 50 countries. Safe travel is enhanced through the Standard Terminal Automation Replacement System (STARS), the Wide Area Augmentation System (WAAS) and a broad range of other adaptable, network enabled systems. AMHS also provides solutions to the emerging Homeland Security market for border and perimeter security and surveillance and tracking.

Command and Control Systems (C2S) – C2S develops and provides integrated solutions, systems and supporting services. C2S delivers capabilities to enable network-centric warfare via agile and responsive integrated command and control systems and functionality, such as the Advanced Field Artillery Tactical Data System (AFATDS). C2S delivers transformational capabilities in Network Centric Warfare (NCW) and Command and Control (C2) systems. C2S serves as Ground Sensor Integrator (GSI) for the U.S. Army’s Future Combat System (FCS). This business has met other mission integration requirements, including that of a mobile command post with the accelerated production of the CENTCOM Deployable Headquarters (CDHQ), providing mobile communications for the battlespace.

Combat Systems (CS) – CS is a premier developer and producer of integrated ground-based surveillance and target engagement solutions that provide overwhelming advantage to warfighters today. CS is the mission integrator for the Stryker Brigade Combat Team and is developing ground sensor capabilities for the Future Combat System with the Battlefield Target Identification (BTID), Multi-Function RF (MFRF) and Medium Range Electro-Optic Infrared (MREO) programs.

Integrated Communications Systems (ICS) – ICS is a leader in transformational communications through the development of wireless, high bandwidth communications solutions for its customers. ICS provides communication systems, services and products that enable Net Centric Operations and the Global Information Grid effective on land, sea and air through products like Enhanced Position Location Reporting System (EPLRS) and Microlight for the dismounted soldier.

Precision Technologies and Components (PTC) – PTC provides imaging capabilities from infrared focal plane arrays for thermal imaging, earth remote sensing, and astronomy applications to precision optical solutions for medical, industrial, defense, optical telecommunications, and commercial entertainment markets. Developments in cooled and uncooled infrared technologies at PTC provide significant discriminators for Raytheon’s service to the U.S. Armed Forces for sensing capabilities.

Thales-Raytheon Systems, LLC – Thales-Raytheon Systems (TRS) – is a joint venture between Thales Group and Raytheon Company. TRS gathers its two parent companies’ capabilities in the field of Air Command and Control Systems (ACCS), for example Air Surveillance Military Radars, Air Operations Centers and Battlefield Air Defense Coordination Systems, including radar and associated centers. TRS has three operating units, Thales-Raytheon Systems, LLC in the U.S. and two in France. Thales-Raytheon Systems, LLC offers its customers cost-effective systems engineering solutions.

Raytheon Systems Limited (RSL) – Within RSL, Raytheon’s U.K. subsidiary, NCS designs, develops and manufactures a wide range of advanced systems for network enabled operations. Battlefield situational awareness is enhanced through the Identification Friend or Foe (IFF) System and the Joint Effects Tactical Targeting System (JETTS) for command and control, as well as guided weapon systems. RSL also provides Integrated Logistics Support for major systems such as UKADGE, Paveway and Maverick, as well as commercial activities, including Monopulse Secondary Surveillance Radar (MSSR) systems for air traffic control and various integrated electronic systems. RSL is also actively involved in Galileo, the European commercial satellite positioning and timing system.

Price and performance are among the principal competitive factors considered by NCS’ customers. NCS relies upon its past performance reputation, technical expertise and pricing to compete for business.

Space and Airborne Systems. The Space and Airborne Systems (SAS) business, headquartered in El Segundo, California, provides electro-optic/infrared sensors, airborne radars, solid-state high energy lasers, precision guidance systems, electronic warfare systems, and space-qualified systems for civil and military applications. SAS is a leader in the design and development of integrated systems and solutions for advanced missions including: unmanned aerial operations, electronic warfare, active electronically scanned array radars, airborne processors, weapon grade lasers, missile defense, and intelligence, surveillance and reconnaissance systems.

SAS had 2004 net sales of $4.1 billion.

Air Combat Avionics (ACA) – The ACA business area provides advanced fire control radar, avionics and processor technologies. Customers include the U.S. Navy and U.S. Air Force and foreign governments. ACA is a leader in providing both mechanically scanned radars and Active Electronically Scanned Array (AESA) radars for the U.S. Air Force's F-15 and B-2 as well as the U.S Navy's F/A-18 Super Hornet E/F fighter jet. ACA's airborne processor advanced avionics customers include Lockheed Martin Corporation, The Boeing Company and Northrop Grumman Corporation.

Advanced Concepts and Technologies (ACT) – The ACT business area is a technology incubator for SAS. Primary customers include Air Force Research Lab and DARPA. Internal research and development and contract research and development contracts support all business areas of SAS.

Advanced Products Center (APC) – APC is a state of the art microwave automated factory. APC provides high performance transmit/receive modules for multiple active array radars including those for Missile Defense (THAAD, BMDS, XBR), Fire Control (F/A-18, F/A-22, F-15) and Surveillance (B-2, MP-RTIP). APC products are also integral to next generation revolutionary platforms, such as the U.S. Navy's DD(X), Joint Unmanned Combat System (J-UCAS), and F-35 Joint Strike Fighter.

Electronic Warfare Systems (EWS) – The EWS business provides U.S. and foreign military services aircraft/shipboard self-protection systems to counter threats and enhance survivability. Programs include: ALE-50 and Advanced Towed Decoys, ALR-67(V)3 Radar Warning Receiver, ALR-69A(V) Radar Warning Receiver and the Advanced Self-Protection Integrated Suite.

Integrated Airborne Systems (IAS) – The IAS business area provides advanced sensor and control/exploitation solutions for multiple national and international customers and prime contractors. Programs include the Enhanced Integrated Sensor Suite (EISS) for the Global Hawk unmanned aerial system, the Airborne Stand-Off Radar (ASTOR) program for the U.K. Ministry of Defence, the U.S. Air Force's Multi-Platform Radar Technology Insertion Program (MP-RTIP) and the ASARS 2-A sensor for the U-2 reconnaissance aircraft. IAS includes the Unmanned Reconnaissance Systems business.

Precision Attack and Surveillance Systems (PASS) – The PASS business area is an industry leader in maritime surveillance radars and electro-optical and infrared sensors for surveillance, reconnaissance and targeting mission support. Customers include major prime contractors and all branches of the U.S. Armed Forces, the Department of Homeland Security and several allied militaries. The PASS product line includes the APS-137 radar upgrade for the Multi-Mission Aircraft program, SeaVue radar, the Multi-spectral Targeting System for the Predator and AAS-44 Forward-looking Infrared Radar.

Strategic Systems (SS) – The SS business area develops space and space-qualified payloads for the intelligence, defense, and civil space communities. Customers are predominantly restricted, as are the major programs. Other programs include the Space Tracking and Surveillance System (STSS), Visible Infrared Imager Radiometer Suite (VIIRS) for the National Polar-orbiting Operational Environmental Satellite System (NPOESS) and instruments for Mars exploration.

Tactical Aircraft Systems and Navigation (TAS&N) – The TAS&N business area is a leader in advanced technologies for tactical air sensors and weapons. Leading customers include the U.S. Navy as well as The Boeing

Company, Northrop Grumman Corporation and Lockheed Martin Corporation. Key programs include the ASQ-228 ATFLIR targeting pod currently in production for the Navy and U.S. Marine Corps. TAS&N's Precision Guidance Systems provides a variety of sophisticated GPS products for a range of customers including the U.S Air Force and Navy.

Price and delivery schedules are among the principal competitive factors considered by SAS' customers, which include classified customers, the U.S. Navy, and the U.S. Air Force. As a result of consolidation in the defense industry, SAS frequently partners with its major suppliers, some of whom are, from time to time, competitors on other programs.

Technical Services. Raytheon Technical Services Company LLC (RTSC), headquartered in Reston, Virginia, provides technical, scientific and professional services for defense, federal and commercial customers worldwide. RTSC is organized into the following business areas: System and Product Support Solutions; Depot Operations; Engineering & Production Support; and Logistics and Training Systems. Products and services span integrated logistics support and full life-cycle design across product lines, including range operations, logistics and maintenance support services, comprehensive engineering, manufacturing and depot services; counter-proliferation and treaty compliance and military training. RTSC also provides a significant amount of products and services in support of other Raytheon products and systems.

RTSC had 2004 net sales of $2.1 billion.

System and Product Support Solutions (SPSS) – SPSS has primary responsibility for whole life support of fielded Raytheon systems, and leads Raytheon's Mission Support effort, an integrated approach to delivering a broad array of logistics and support solutions to our customers. Mission Support harnesses capabilities across Raytheon's business. These capabilities have been built over decades of working in partnership with its customers to enhance the readiness and value of Raytheon products in the field. SPSS also has key capabilities in Logistics Support, including procurement services, training, technical manuals, life cycle support, field engineering and flight test operations. SPSS supports major command and control system upgrades for the U.S. Marine Corps, and concept of operation and doctrine development activities for the U.S. Army.

Depot Operations (DO) – DO operates repair and maintenance depots that are centers of excellence for the support and repair of military and commercial communications and electronics systems. Capabilities include mechanical and electrical fabrication and assembly; maintenance support; life-cycle logistics support; field engineering; and equipment and systems installation, testing and refurbishment. DO also provides a wide range of program management support including life-cycle management, risk and vulnerability assessment, information technology and network security support, integrated logistics support, supply chain management, inventory and asset management, configuration management and subcontractor management. DO provides support to the U.S. Navy Weapon Systems programs through performance-based logistics and other services. DO performs inventory workload scheduling, production planning and control, material source identification, small quantity spares fabrication and logistic support for the Navy.

Engineering & Production Support (EPS) – EPS offers a broad spectrum of engineering and limited-production services for Department of Defense, foreign military and commercial customers. EPS provides Capability Maturity Model Integration (CMMI) certified engineering capabilities that run the gamut of design, development, analysis, system integration and test. These reside side-by-side with manufacturing capabilities that can provide a full range of efforts from rapid prototyping to limited production. In addition, EPS' expertise extends to support capabilities such as Integrated Logistics Support (ILS) functions, overhaul, repair, upgrade and sustainment planning. EPS designed, developed and now supports special mission aircraft signaling such as the Shared Reconnaissance Pod (SHARP) throughout its lifecycle; and upgrades M60 tanks with improved fire control systems.

Logistics and Training Systems (LTS) – LTS has significant experience in large-scale facility management, military test and training range technical services, and international logistics support for remote site operations.

Range operations capabilities include engineering, design, installation, and testing of instrumentation modifications, real-time mission data processing, test planning support, systems and software engineering, and total base support. Supply chain management expertise includes inventory management, warehousing and distribution. Remote site logistics capabilities include life support, training, requirements analysis and facilities/equipment operations and maintenance. LTS is a major contractor to the Defense Threat Reduction Agency (DTRA). LTS also operates and maintains range instrumentation installed on the U.S. Army's training ranges around the world.

Price, performance, and innovative service solutions are among the principal competitive factors considered by RTSC's customers, which include all branches of the U.S. Armed Forces, NASA, NSF and foreign governments. RTSC relies upon its past performance, reputation, service expertise and pricing to compete for business.

Aircraft. Raytheon Aircraft Company (RAC), headquartered in Wichita, Kansas designs, develops, manufactures, markets and provides aftermarket support for business jets, turboprops and piston-powered aircraft for the world's Commercial, Fractional Ownership, and Military aircraft markets.

RAC had 2004 net sales of $2.4 billion.

RAC's major products and initiatives currently include:

- Aircraft and aviation services in the general aviation market, including a network of fixed-base operations (FBO's) providing business aviation services at airports throughout North America and in the United Kingdom and Mexico;
- Supply of spare parts through it's parts distribution business;
- Marketing, production and support of a piston-powered aircraft line that includes the single-engine Beechcraft Bonanza A36 and the twin-engine Beechcraft Baron 58 aircraft;
- Marketing, production and support of the Beechcraft King Air turboprop series of aircraft which includes the Beechcraft King Air C90B, B200 and 350;
- Marketing, production and support of the Hawker 400XP light jet, the Hawker 800XP mid-size business jet and the Beechcraft Premier 1 entry level business jet;
- Development of a new super mid-size business jet, the Hawker Horizon, which received provisional type certification in December 2004;
- Marketing, production and support of special mission aircraft including military versions of the Beechcraft King Air and the Hawker 800XP and its predecessor aircraft;
- Aircraft training systems, including the Beechcraft T6-A trainer previously selected as the next generation trainer for the U.S. Air Force and Navy under the Joint Primary Aircraft Training System (JPATS).

Price, financing, operating costs, product reliability, cabin size and comfort, product quality, travel range and speed, and product support are among the principal competitive factors considered by RAC's customers.

Other. The Other segment is comprised of Flight Options LLC (FO), Raytheon Airline Aviation Services LLC (RAAS), and Raytheon Professional Services LLC (RPS). FO offers services in the fractional jet industry. RAAS manages the Company's commuter aircraft business. RPS provides integrated learning solutions to commercial and government organizations worldwide.

SALES TO THE UNITED STATES GOVERNMENT

Sales to the United States Government (the "Government"), principally to the Department of Defense ("DoD"), were $15.0 billion in 2004 and $13.4 billion in 2003, representing 74% of total sales in 2004 and 74% of total sales in 2003.

GOVERNMENT CONTRACTS

The Company and its various subsidiaries act as a prime contractor or major subcontractor for many different Government programs, including those that involve the development and production of new or improved electronic systems or major components of such systems. 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 multi-year contracts may be authorized in connection with major procurements, Congress generally appropriates funds on a fiscal year basis even though a program may continue for many years. Consequently, programs are often only partially funded initially, and additional funds are committed only as Congress makes further appropriations. The Government is required to adjust equitably a contract price for additions or reductions in scope or other changes ordered by it.

Generally, government contracts are subject to oversight audits by Government representatives, and, in addition, they include 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. In the event of termination for convenience, the contractor will receive some allowance for profit on the work performed. The right to terminate for convenience has not had any material adverse effect upon Raytheon's business in light of its total government business.

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

The Company's fixed-price contracts are either firm fixed-price contracts or fixed-price incentive contracts. Under firm fixed-price contracts, Raytheon agrees to perform a specific scope of work for a fixed price and as a result, benefits from cost savings and carries the burden of cost overruns. Under fixed-price incentive contracts, Raytheon shares with the Government savings accrued from contracts performed for less than target costs and costs incurred in excess of targets up to a negotiated ceiling price (which is higher than the target cost) and carries the entire burden of costs exceeding the negotiated ceiling price. Accordingly, under such incentive contracts, the Company's profit may also be adjusted up or down depending upon whether specified performance objectives are met. Under firm fixed-price and fixed-price incentive type contracts, the Company usually receives either milestone payments equaling 90% of the contract price or monthly progress payments from the Government generally in amounts equaling 80% of costs incurred under Government contracts. The remaining amount, including profits or incentive fees, is billed upon delivery and acceptance of end items under the contract.

The Company's government business is subject to specific procurement regulations and a variety of socio-economic and other requirements. Failure to comply with such 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, the protection of the environment, the accuracy of records and the recording of costs.

Under many government contracts, the Company is required to maintain facility and personnel security clearances complying with DoD requirements.

Companies which are engaged in supplying defense-related equipment to the Government are subject to certain business risks, some of which are peculiar to that industry. Among these are: the cost of obtaining trained and skilled employees; the uncertainty and instability of prices for raw materials and supplies; the problems associated with advanced designs, which may result in unforeseen technological difficulties and cost overruns; and the intense competition and the constant necessity for improvement in facilities and personnel training. Sales to the Government may be affected by changes in procurement policies, budget considerations, changing concepts of national defense, political developments abroad and other factors. See the “Risk Factors” section beginning on page 11 of this Form 10-K, for a description of additional business risks.

See “Sales to the United States Government” on page 8 of this Form 10-K for information regarding the percentage of the Company’s revenues generated from sales to the Government.

BACKLOG

The Company’s backlog of orders was $32.5 billion at December 31, 2004 and $27.5 billion at December 31, 2003. The 2004 amount includes backlog of approximately $25.5 billion from the Government compared with $21.4 billion at the end of 2003.

Approximately $3.8 billion of the overall backlog figure represents direct orders from foreign governments.

Approximately $1.3 billion of the overall backlog represents non-government foreign backlog.

Approximately $18.3 billion of the 2004 year-end backlog is not expected to be filled during the following twelve months. For additional information related to backlog figures, see “Segment Results” within Item 7 of this Form 10-K.

RESEARCH AND DEVELOPMENT

During 2004, Raytheon expended $491 million on research and development efforts compared with $487 million in 2003 and $449 million in 2002. These expenditures principally have been for product development for the Government and for aircraft products. In addition, Raytheon conducts funded research and development activities under Government contracts which is included in net sales. For additional information related to research and development efforts, see “Note A – Accounting Policies” within Item 8 of this Form 10-K.

RAW MATERIALS, SUPPLIERS AND SEASONALITY

Delivery of raw materials and supplies to Raytheon is generally satisfactory. Raytheon is sometimes dependent, for a variety of reasons, upon sole-source suppliers for procurement requirements which may create difficulties in meeting production and delivery obligations because of delays in delivery or reliance on such suppliers. In the case of Raytheon Aircraft, production of certain aircraft and spare parts are dependent on the successful performance of suppliers under international supply contracts. In recent years, revenues in the second half of the year have generally exceeded revenues in the first half. The timing of Government awards, the availability of Government funding, product deliveries and customer acceptance are among the factors affecting the periods in which revenues are recorded. Management expects this trend to continue in 2005.

COMPETITION

The Company's defense electronics businesses are direct participants in most major areas of development in the defense, space, information gathering, data reduction and automation fields. Technical superiority and reputation, price, delivery schedules, financing, and reliability are among the principal competitive factors considered by defense electronics customers. The on-going consolidation of the U.S. and global defense, space and aerospace industries continues to intensify competition. Consolidation among U.S. defense, space and aerospace companies has resulted in a reduction in the number of principal prime contractors. As a result of this consolidation, the Company frequently partners on various programs with its major suppliers, some of whom are, from time to time, competitors on other programs.

The Aircraft segment competes primarily with four other companies in the business aviation industry. The principal factors for competition in the industry are price, financing, operating costs, product reliability, cabin size and comfort, product quality, travel range and speed, and product support.

PATENTS AND LICENSES

Raytheon and its subsidiaries own a large intellectual property portfolio which includes, by way of example, United States and foreign patents, unpatented know-how, trademarks and copyrights, all of which contribute significantly to the preservation of the Company's competitive position in the market. In certain instances, Raytheon has augmented its technology base by licensing the proprietary intellectual property of others. The Company also licenses its intellectual property to others.

EMPLOYMENT

As of December 31, 2004, Raytheon had approximately 79,000 employees compared with approximately 78,000 employees at the end of 2003. The increase is mainly due to overall business growth in multiple market sectors and on multiple programs during 2004.

Raytheon considers its union-management relationships to be generally satisfactory. In 2004, there were no work stoppages at any of the Company's sites.

INTERNATIONAL SALES

Raytheon's sales to customers outside the United States (including foreign military sales) were $3.7 billion or 18% of total sales in 2004, $3.5 billion or 19% of total sales in 2003, and $3.5 billion or 21% of total sales in 2002. These sales were principally in the fields of air defense systems, air traffic control systems, sonar systems, aircraft products, electronic equipment, computer software and systems, personnel training, equipment maintenance and microwave communication. Foreign subsidiary working capital requirements generally are financed in the countries concerned. Sales and income from international operations and investments are subject to changes in currency values, domestic and foreign government policies (including requirements to expend a portion of program funds in-country) and regulations, embargoes and international hostilities. Exchange restrictions imposed by various countries could restrict the transfer of funds between countries and between Raytheon and its subsidiaries. Raytheon has acted to protect itself against most undue risks through insurance, foreign exchange contracts, contract provisions, government guarantees or progress payments. See revenues derived from external customers and long-lived assets by geographical areas set forth in "Note O – Business Segment Reporting" within Item 8 of this Form 10-K.

Raytheon utilizes the services of sales representatives and distributors in connection with certain foreign sales. Normally representatives are paid commissions and distributors are granted resale discounts in return for services rendered.

The export from the U.S. of many of Raytheon's products may require the issuance of a license by the U.S. Department of State under the Arms Export Control Act of 1976, as amended (formerly the Foreign Military Sales Act); or by the U.S. Department of Commerce under the Export Administration Act, as amended, and its implementing Regulations as kept in force by the International Emergency Economic Powers Act of 1977, as amended ("IEEPA"); or by the U.S. Department of the Treasury under IEEPA or the Trading with the Enemy Act of 1917, as amended. Such licenses may be denied for reasons of U.S. national security or foreign policy. In the case of certain exports of defense equipment and services, the Department of State must notify Congress at least 15 or 30 days (depending on the identity of the country that will utilize the equipment and services) prior to authorizing such exports. During that time, the Congress may take action to block a proposed export by joint resolution which is subject to Presidential veto.

ENVIRONMENTAL REGULATION

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

In order to assess the potential impact on the Company's financial statements, management estimates the possible remediation costs that reasonably could be incurred by the Company. Such estimates take into consideration the professional judgment of the Company's environmental professionals and, when necessary, consultation with outside environmental specialists. In most instances, only a range of reasonably possible costs can be estimated.

If the Company is ultimately found to have liability at those sites where we have been designated a PRP, the Company expects that the actual costs of remediation will be shared with other liable PRPs. Generally, PRPs that are ultimately determined to be responsible parties are strictly liable for site clean-up and usually agree among themselves to share, on an allocated basis, the costs and expenses for investigation and remediation of hazardous materials. Under existing environmental laws, however, responsible parties may be jointly and severally liable and, therefore, potentially liable for the full cost of funding such remediation. In the unlikely event that the Company is required to fund the entire cost of such remediation, the statutory framework provides that the Company may pursue rights of contribution from the other PRPs. The amounts the Company records do not reflect the fact that it may recover some of the environmental costs the Company has incurred through insurance or from other PRPs.

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

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

Additional information regarding the effect of compliance with environmental protection requirements and the resolution of environmental claims against the Company and its operations is contained in “Risk Factors and Forward-Looking Statements” immediately below, in Item 3 “Legal Proceedings”, in “Commitments and Contingencies” within Item 7 of this Form 10-K and in “Note L – Commitments and Contingencies” within Item 8 of this Form 10-K.

RISK FACTORS AND FORWARD-LOOKING STATEMENTS

An investment in our common stock or debt securities includes risks and uncertainties. Investors should consider the following factors carefully, in addition to the other information included in this Form 10-K, before purchasing our securities.

This filing and the information we are incorporating by reference, 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 federal securities laws. 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, you should not rely on forward-looking statements.

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. On those contracts for which we are teamed with others and are not the prime contractor, the U.S. Government could terminate a prime contract under which we are a subcontractor, irrespective of the quality of our services as a subcontractor.

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 also may experience problems associated with advanced designs and programs 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 2004 were to 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 2004, sales to international customers, including foreign military sales, accounted for approximately 18% 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, changes in governments and military and political alliances
- Uncertainty of dispute resolution in foreign jurisdictions

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 International Emergency Economic Powers Act, as amended, the Trading with the Enemy Act of 1917, as amended, and the Arms Export Control Act of 1976, as amended. 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 and derivative product offerings and our ability to continue to compete with our existing legacy aircraft products.

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.

A significant portion of our contracts are entered into on a fixed-price basis. This allows us to benefit from cost savings, but we carry the burden of cost overruns. 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 and the Hawker Horizon. Lot accounting involves selecting an initial lot size at the time a new aircraft begins to be delivered and measuring an average cost over the entire lot for each aircraft sold. The costs attributed to aircraft delivered are based on the estimated average cost of all aircraft in the lot and are determined under the learning curve concept which anticipates a predictable decrease in unit costs from cost reduction initiatives and as tasks and production techniques become more efficient through repetition. Once the initial lot has been completed, the use of lot accounting is discontinued. The selection of lot size is a critical judgment. 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 and commuter 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 aircraft.

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

We have obligations related to outstanding letters of credit, surety bonds and guarantees (Support Agreements) provided in connection with a number of contracts and leases of our engineering and construction business unit (E&C Business), which we sold to Washington Group International in July 2000. In meeting the obligations under the remaining Support Agreements, we have 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. 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 decision 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 11,500 of our employees are unionized, which represented approximately 14% of our employees at December 31, 2004. As a result, we may experience 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.

Our insurance coverage may be inadequate to cover all significant risk exposures.

We are exposed to liabilities that are unique to the products and services we provide. A significant portion of our business relates to designing, developing and manufacturing advanced defense and technology systems and products. New technologies may be untested or unproven. In some, but not all, circumstances, we may receive indemnification from the U.S. Government. While we maintain insurance for certain risks, the amount of our insurance coverage may not be adequate to cover all claims or liabilities, and we may be forced to bear substantial costs resulting from risks and uncertainties of our business. It also is not possible to obtain insurance to protect against all operational risks and liabilities.

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 in full compliance with purchase order terms and conditions and all applicable laws and regulations. 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 level of returns and the discount rate on pension and retirement plan assets 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 plans. Generally accepted accounting principles (GAAP) require that we calculate income or expense for the plans using actuarial valuations. These valuations are based on assumptions that we make relating to financial and other economic conditions. Changes in key economic indicators can result in changes in the assumptions we use.

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.

A rating downgrade by credit agencies could limit our access to capital and cause our borrowing costs to increase.

A downgrade in our credit rating could negatively affect our ability to access capital. Credit ratings for the Company were assigned by Fitch at F3 for short-term borrowing and BBB- for senior debt, by Moody's at P-3 for short-term borrowing and Baa3 for senior debt, and by S&P at A-3 for short-term borrowing and BBB- for senior debt. If the rating agencies downgrade our ratings, particularly below investment grade, it may significantly limit our access to capital and our borrowing costs would increase. In addition, we would likely be required to pay a higher interest rate in future financings and our potential pool of investors and funding sources would likely decrease.

Item 2. Properties

The Company and its subsidiaries operate in a number of plants, laboratories, warehouses, and office facilities in the United States and abroad.

At December 31, 2004, the Company owned, leased, and utilized approximately 40 million square feet of floor space for manufacturing, engineering, research, administration, sales, and warehousing, approximately 93% of which was located in the United States. Of such total, approximately 41% was owned (or held under a long-term ground lease with ownership of the improvements), approximately 50% was leased, and approximately 9% was made available under facilities contracts for use in the performance of United States Government contracts. At December 31, 2004, the Company had approximately 693,000 square feet of additional floor space that was not in use, including approximately 202,000 square feet in Company-owned facilities.

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

At December 31, 2004, our business segments had major operations at the following locations:

- Network Centric Systems – Fullerton, CA; Goleta, CA; Largo, FL; St. Petersburg, FL; Ft. Wayne, IN; Towson, MD; Marlboro, MA; Dallas, TX; McKinney, TX; Plano, TX; Richardson, TX; Sherman, TX; Midland, Ontario, Canada; and Waterloo, Ontario, Canada;
- Raytheon Aircraft – Little Rock, AR; Salina, KS; Wichita, KS; and Dallas, TX;
- Space and Airborne Systems – El Segundo, CA; Goleta, CA; Forest, MS; and Dallas, TX;
- Integrated Defense Systems – San Diego, CA; Andover, MA; Woburn, MA; Sudbury, MA; Tewksbury, MA; Waltham, MA; Portsmouth, RI; Poulsbo, WA; Huntsville, AL; and Kiel, Germany;

- Missile Systems – East Camden, AR; Tucson, AZ; Louisville, KY; Rancho Cucamonga, CA; and Farmington, NM;
- Raytheon Technical Services Company – Chula Vista, CA; Long Beach, CA; Pomona, CA; Van Nuys, CA; Indianapolis, IN; Burlington, MA; Norfolk, VA; Reston, VA; and Tamuning, Guam;
- Intelligence and Information Systems – Aurora, CO; Landover, MD; State College, PA; Garland, TX; Falls Church, VA; Linthicum, MD; Omaha, NE; Springfield, VA; and Reston, VA;
- Raytheon United Kingdom – Harlow, England; and Glenrothes, Scotland;
- Raytheon Australia – Canberra, Australia;
- Administration and Services – Waltham, MA; and Arlington, VA;
- Raytheon Professional Services LLC – Troy, MI;
- Flight Options LLC – Richmond Heights, OH;
- Raytheon Airline Aviation Services LLC – Wichita, KS.

A summary of the owned and leased floor space at December 31, 2004, by business segment, follows:

(in square feet with 000’s omitted)	LEASED	OWNED*	GOVERNMENT OWNED	TOTAL
Network Centric Systems	3,698	4,312	0	8,010
Raytheon Aircraft Company	2,462	3,801	0	6,263
Space and Airborne Systems	1,643	3,130	12	4,467
Integrated Defense Systems	1,290	3,057	120	6,137
Missile Systems	4,231	659	1,247	5,721
Raytheon Technical Services Company LLC	3,379	80	2,262	5,856
Intelligence and Information Systems	2,337	861	0	3,198
Administration and Services	271	150	0	421
Flight Options LLC	138	125	0	263
Raytheon United Kingdom	107	155	0	262
Raytheon Professional Services LLC	117	0	0	117
Raytheon International, Inc.	44	0	0	44
Raytheon Airline Aviation Services LLC	25	19	0	44
TOTALS	**19,742**	**16,349**	**3,641**	**39,732**

*Ownership may include either fee ownership of land and improvements or a long-term land lease with ownership of improvements.

Item 3. Legal Proceedings

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. 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.

As previously reported, during late 1999, the Company and two of its officers were named as defendants in several 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. The Consolidated Complaint principally alleged that the defendants violated federal securities laws by purportedly making misleading statements and by failing to disclose material information concerning the Company’s financial performance during the class period. In March 2002, the court certified the class of plaintiffs as those people who purchased Raytheon stock between October 7, 1998 through October 12, 1999. On March 17, 2003 the named plaintiff filed a Second Consolidated and Amended Complaint which did not change the claims against the Company or the individual defendants, but which added the Company’s independent registered public accounting firm as an additional defendant. 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 included 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. On December 6, 2004, the Court issued an Order granting Final Approval of the settlement and, on December 10, 2004, Final Judgment was entered resolving all claims asserted against the Company and the individual defendants. In May 2004, the Company’s independent registered public accounting firm reached a settlement with the plaintiff, which was also approved on December 6, 2004. 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.

As previously reported, the Company also was named as a nominal defendant and all of its directors at the time (except one) were named as defendants in purported derivative lawsuits filed on October 25, 1999 in the Court of Chancery of the State of Delaware in and for New Castle County by Ralph Mirarchi and others (No. 17495- NC), and on November 24, 1999 in Middlesex County, Massachusetts, Superior Court by John Chevedden (No. 99-5782). On February 28, 2000, Mr. Chevedden filed another derivative action in the Delaware Chancery Court entitled *John Chevedden v. Daniel P. Burnham, et al*., (No. 17838- NC) 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 Consolidated Complaint in the *In Re Raytheon Securities Litigation*, 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 *Mirachi* and *Chevedden* actions, and plaintiffs have filed a Consolidated Amended Complaint under the caption *In re Raytheon Derivative Litigation* (No. 17495-NC). On April 25, 2003, the defendants filed a motion to dismiss the Consolidated Amended Complaint. 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 is not expected to have a material effect on the Company’s financial position or results of operations.

As previously reported, in June 2001, a class action lawsuit entitled, *Muzinich & Co., Inc. et al v. Raytheon Company, et. al.*, (Civil Action No. 01-0284-S-BLW) was filed in federal court in Boise, Idaho allegedly on behalf of all purchasers of common stock or senior notes of Washington Group International, Inc. (“WGI”) during the period April 17, 2000 through March 1, 2001 (the class period). 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 purportedly 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 on October 1, 2001 alleging similar claims. The Company and the individual defendants filed a motion seeking to dismiss the action in mid-November 2001. On April 30, 2002, the

Court denied the Company's and the individual defendants' motion to dismiss the complaint. Thereafter, the defendants filed a petition with the District Court requesting permission to seek an immediate appeal of the District Court's decision to the United States Court of Appeals for the Ninth Circuit, which the District Court granted on July 1, 2002. In August 2002, the Ninth Circuit issued an order denying the petition for interlocutory appeal. 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. Defendants have filed their answer to the amended complaint and discovery is proceeding.

As previously reported, the Company has been named as a nominal defendant and all of its directors at the time have been named as defendants in two identical purported derivative lawsuits filed in Chancery Court in New Castle County, Delaware in July 2001, entitled *Melvin P. Haar v. Barbara M. Barrett, et. al.*, (Civil Action No. 19018) and *Howard Lasker v. Barbara M. Barrett, et. al.*, (Civil Action No. 19027). *The Haar* and *Lasker* derivative complaints contain allegations similar to those included in *the Muzinich* class action complaint and further allege that the individual defendants breached fiduciary duties to the Company and purportedly failed to maintain systems necessary for prudent management and control of the Company's operations. *The Haar* and *Lasker* actions have been consolidated under the caption *In re Raytheon Company Shareholders Litigation* (No. 19018-NC). On January 30, 2004, the plaintiffs filed a Consolidated Amended Derivative Complaint in which the Company's outside auditor is also named as a defendant. In March 2004, all defendants filed a motion to dismiss the Consolidated Amended Derivative Complaint. Without admitting any liability or wrongdoing, in November 2004, the individual defendants, the Company and its outside auditor 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.

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 allege 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. In September 2003, these actions were consolidated. 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. In October 2004, the defendants filed a motion to dismiss the Second Consolidated Amended ERISA Complaint.

Although the Company believes that it has meritorious defenses to the claims made in each and all of the aforementioned complaints and intends, except as to tentative settlements noted above, to contest each proceeding vigorously, an adverse resolution of any of the proceedings could have a material adverse effect on the Company's financial position and results of operations. Other than the matters noted above as to which tentative settlements have been reached, the Company is not presently able to reasonably estimate potential losses, if any, related to any of the lawsuits.

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.

As previously reported, several claims have been or were asserted and certain proceedings have been or were commenced against the Company and certain third parties seeking schedule and performance liquidated damages and payment under certain outstanding Company guarantees or other support agreements in connection with the Jindal, Posven, Ratchaburi, Saltend, Ilijan and Red Oak construction contracts of the former Raytheon Engineers & Constructors businesses (RE&C) that the Company sold to Washington Group International, Inc. (WGI) in 2000. These contracts were rejected by WGI in bankruptcy. The existing claims against the Company support agreements involving the Jindal, Ratchaburi, Illijan and Saltend contracts have been settled or otherwise resolved. The claims against the Company and its support agreements involving the Posven contracts also have been resolved, with the exception of two subcontractor-related disputes. Additionally, several other proceedings have been commenced against the Company by parties that had contractual relationships with certain former indirect subsidiaries of the Company which comprised its engineering and construction business. These former indirect subsidiaries were transferred to WGI in the sale of the engineering and construction business to WGI. The plaintiffs in these proceedings have alleged that the Company is responsible to them on various theories including alter ego liability and the assignment to, and/or the assumption by, the Company of the former indirect subsidiaries' obligations. While the Company cannot predict the outcome of these matters, in the opinion of management, any liability arising from them will not have a material adverse effect on the Company's financial position, liquidity or results of operations after giving effect to provisions already recorded.

The Company is involved in various stages of investigation and cleanup relative to remediation of various environmental sites. All appropriate costs expected to be incurred in connection therewith have been accrued. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative cleanup methods and technologies, the uncertainty of insurance coverage and the unresolved extent of the Company's responsibility, it is difficult to determine the ultimate outcome of these matters. However, in the opinion of management, any liability is not expected to have a material effect on the Company's financial position, liquidity or results of operations. Additional information regarding the effect of compliance with environmental protection requirements and the resolution of environmental claims against the Company and its operations is contained in Item 1 "Business-Environmental Regulation," "Risk Factors and Forward Looking Statements" beginning on page 11 of this Report, in "Commitments and Contingencies" within Item 7 of this Form 10-K and in "Note L – Commitments and Contingencies" within Item 8 of this Form 10-K.

The Company is responsible for properties and facilities that are subject to litigation and other proceedings arising under the provisions relating to the protection of the environment. In December 2004, the Company commenced settlement discussions with the South Coast Air Quality Management District in the State of California for alleged violations of District regulations. In correspondence contemplating legal proceedings, the South Coast Air Quality Management District alleged that the Company violated certain requirements regarding permitting and emissions reporting at three of the Company's California facilities. The resolution of all of these claims is not expected to have a material adverse effect on the Company's financial position and results of operations.

Accidents involving personal injuries and property damage occur in general aviation travel. When permitted by appropriate government agencies, Raytheon Aircraft investigates many accidents that may be related to its products involving fatalities or serious injuries. Through a relationship with FlightSafety International, Raytheon Aircraft provides initial and recurrent pilot and maintenance training services to reduce the frequency of accidents involving its products.

Raytheon Aircraft is a defendant in a number of product liability lawsuits that allege personal injury and property damage and seek substantial recoveries including, in some cases, punitive and exemplary damages. Raytheon Aircraft maintains partial insurance coverage against such claims and maintains a level of uninsured risk determined by management to be prudent. Additional information regarding aircraft product liability insurance is contained in "Note L – Commitments and Contingencies" within Item 8 of this Form 10-K.

The insurance policies for product liability coverage held by Raytheon Aircraft do not exclude punitive damages, and it is the position of Raytheon Aircraft and its counsel that punitive damage claims are therefore covered.

Historically, the defense of punitive damage claims has been undertaken and paid by insurance carriers. Under the law of some states, however, insurers are not required to respond to judgments for punitive damages. Nevertheless, to date no judgments for punitive damages have been sustained.

Various other claims and legal proceedings generally incidental to the normal course of business are pending or threatened on behalf of or against the Company. While the Company cannot predict the outcome of these matters, in the opinion of management, any liability arising from them will not have a material adverse effect on the Company's financial position, liquidity or results of operations after giving effect to provisions already recorded.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2004.

Item 4(A). Executive Officers of the Registrant

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

Thomas M. Culligan: Senior Vice President – Business Development of Raytheon Company and CEO of Raytheon International, Inc. since March 2001. From 2000 to March 2001, Mr. Culligan was Vice President and General Manager of Defense and Space at Honeywell International Inc. From 1994 to 2000, Mr. Culligan held various positions at Allied Signal, including Vice President and General Manager, Vice President – Europe, Africa and the Middle East – Marketing, Sales and Service unit and President of Government Operations. Prior to joining Allied Signal, he held executive positions at McDonnell Douglas. Age 53.

Bryan J. Even: Vice President of Raytheon Company since April 2002 and President of Raytheon Technical Services Company LLC (RTSC) since October 2001. Before assuming leadership of RTSC, Mr. Even had oversight for the Engineering and Production Support business unit in Indianapolis, formerly the Naval Air Warfare Center, from 1999 to 2001. From 1998 to 1999, Mr. Even was Director of East Coast Depot Operations for RTSC. Prior thereto, he was the Deputy General Manager of the Engineering and Depots Group of Raytheon Service Company. Age 44.

***Louise L. Francesconi*:** Vice President of Raytheon Company and President of the Missile Systems business unit since September 2002. From November 1999 to September 2002, Ms. Francesconi was a vice president of Raytheon Company and General Manager of the Missile Systems division within the Electronic Systems business unit. From February 1998 to November 1999, she was Senior Vice President of the former Raytheon Systems Company and Deputy General Manager of the company's Defense Systems segment. Ms. Francesconi joined Raytheon in 1997 with the merger of Hughes, where she had served as the President of the Hughes Missile Company since 1996. Age 51.

***Charles E. Franklin*:** Vice President of Raytheon Company leading the Raytheon Company Evaluation Team since September 2003. Mr. Franklin was President of the Integrated Defense Systems (IDS) business unit from September 2002 to September 2003. From 1998 to September 2002, Mr. Franklin was Vice President and General Manager of the Air and Missile Defense Systems division within the Electronic Systems business unit. From 1996 to 1998, Mr. Franklin was Vice President, Programs and Mission Success at Lockheed Martin Sanders Company. Age 66.

***Richard A. Goglia*:** Vice President and Treasurer since January 1999. Mr. Goglia joined the Company in March 1997 and until January 1999, Mr. Goglia was Director, International Finance. Prior to joining the Company, Mr. Goglia spent 16 years in various financial and management positions at General Electric and General Electric Capital Corporation where his last position was Senior Vice President – Corporate Finance. Age 53.

Lawrence J. Harrington**:** Vice President, Internal Audit since July 2004. From January 2002 to July 2004, Mr. Harrington served as Vice President of Audit of Staples Inc. From July 2001 to January 2002, Mr. Harrington was a Managing Director at PricewaterhouseCoopers Consulting. From January 1994 to June 2001, Mr. Harrington was Vice President, Director Internal Audit; Vice President Human Resources; Vice President Core Customer Service – Healthcare; and Head of Northeast Customer Service – Healthcare at Aetna, Inc. Age 51.

John D. Harris**:** Vice President of Contracts since June 2003. From September 2002 to June 2003, Mr. Harris was Vice President of Contracts for Raytheon’s government and defense businesses. From April 2001 to September 2002, he was Vice President of Operations for the former Electronic Systems business unit. From November 1999 to April 2001, Mr. Harris was Vice President of Contracts for the Electronic Systems business unit. Age 43.

Michael D. Keebaugh**:** Vice President of Raytheon Company and President of the Intelligence and Information Systems (IIS) business unit since September 2002. From February 1998 to September 2002, Mr. Keebaugh was Vice President and General Manager of the Imagery and Geospatial Systems division within the Command, Control, Communication and Information Systems business unit. Mr. Keebaugh joined Raytheon in 1990 as a result of an acquisition and held other senior positions within the Company including Vice President and General Manager of the Imagery and Geospatial Systems division within Raytheon Systems Company. Age 59.

Jack R. Kelble**:** Vice President of Raytheon Company and President of the Space and Airborne Systems (SAS) business unit since September 2002. From October 2001 to September 2002, Mr. Kelble was Vice President and General Manager of the Surveillance and Reconnaissance division within the Electronic Systems business unit. From January 2000 to October 2001, Mr. Kelble was Vice President of Engineering for the Electronic Systems business unit. From October 1998 to January 2000, he was Senior Vice President and Deputy General Manager of the Sensors and Electronic Systems division within the Electronic Systems business unit. From January 1998 to October 1998, he was Vice President and General Manager of the Integrated Systems division within the Electronic Systems business unit. Age 62.

Keith J. Peden**:** Senior Vice President – Human Resources since March 2001. From November 1997 to March 2001, Mr. Peden was Vice President and Deputy Director – Human Resources. From April 1993 to November 1997, Mr. Peden was Corporate Director of Benefits and Compensation. Age 54.

Edward S. Pliner**:** Senior Vice President and Chief Financial Officer since December 2002. From April 2000 to December 2002, Mr. Pliner was Vice President and Corporate Controller. From September 1995 to April 2000, Mr. Pliner was a partner at PricewaterhouseCoopers LLP. Age 47.

Biggs C. Porter**:** Vice President and Corporate Controller since May 2003. From December 2000 to May 2003, Mr. Porter was Senior Vice President and Corporate Controller of TXU Corp. From 1996 to December 2000, he was chief financial officer of Northrop Grumman’s Integrated Systems and Aerostructure Sector and its Commercial Aircraft Division. Age 51.

Rebecca B. Rhoads**:** Vice President and Chief Information Officer since April 2001. From February 2000 to April 2001, Ms. Rhoads was Vice President of Information Systems Technology for the Electronic Systems business unit. From July 1999 to February 2000, she was Vice President of Information Technology for the Defense Systems division of Raytheon Systems Company. From 1996 to 1999, Ms. Rhoads was Director of the Raytheon Test Systems Design Center. Age 47.

Colin Schottlaender**:** Vice President of Raytheon Company and President of the Network Centric Systems (NCS) business unit since September 2002. From November 1999 to September 2002, Mr. Schottlaender was Vice President and General Manager of the Tactical Systems division within the Electronic Systems business unit. From December 1997 to November 1999, Mr. Schottlaender was Vice President of Tactical Systems within the Sensors and Electronic Systems division of Raytheon Systems Company. He joined the Company in 1977 and held positions of increasing responsibility in domestic and international business development, program management, quality assurance, test engineering and product design/manufacture. Age 49.

James E. Schuster**:** Executive Vice President of Raytheon Company and Chief Executive Officer of Raytheon Aircraft Company since May 2001. From April 2000 to May 2001, Mr. Schuster was Vice President of Raytheon Company and President of the Aircraft Integration Systems business unit. From September 1999 to April 2000, he was Deputy General Manager for the Aircraft Integration Systems business unit. Age 51.

Gregory S. Shelton**:** Vice President – Engineering and Technology since May 2001. From 1998 to May 2001, Mr. Shelton served as Vice President of Engineering for Raytheon's Missile Systems division within the Electronic Systems business unit. From 1996 to 1997, he was Vice President, Engineering for Hughes Weapons Systems. From 1995 to 1996, he served as Vice President and Product Line Manager, Air Missiles and Advanced Programs and Technology for Hughes Missile Systems Company. Age 54.

Daniel L. Smith**:** Vice President of Raytheon Company and President of the Integrated Defense Systems (IDS) business unit since September 2003. From August 2002 to September 2003, Mr. Smith was Vice President and Deputy of the IDS business unit. From October 1996 to August 2002, he served as Vice President and General Manager of Raytheon's Naval & Maritime Integrated Systems division. Mr. Smith joined Raytheon in 1996 as the manager of programs for U.S. Navy LPD-17 class ships. Age 52.

Jay B. Stephens**:** Senior Vice President and General Counsel since October 2002. From January 2002 to October 2002, Mr. Stephens was Associate Attorney General of the United States. From 1997 to 2002, Mr. Stephens was Corporate Vice President and Deputy General Counsel for Honeywell International (formerly AlliedSignal). From 1993 to 1997, he was a partner in the Washington office of the law firm of Pillsbury, Madison & Sutro (now Pillsbury and Winthrop). Mr. Stephens served as United States Attorney for the District of Columbia from 1988 to 1993. From 1986 to 1988, he served in the White House as Deputy Counsel to the President. Age 58.

William H. Swanson**:** Chairman since January 2004; Chief Executive Officer since July 2003; President from July 2002 to May 2004. Mr. Swanson joined Raytheon in 1972 and has held increasingly responsible management positions, including: Executive Vice President of Raytheon Company and President of Raytheon's Electronic Systems business unit from January 2000 to July 2002; Executive Vice President of Raytheon Company and Chairman and CEO of Raytheon Systems Company from January 1998 to January 2000; Executive Vice President of Raytheon Company and General Manager of Raytheon's Electronic Systems business unit from March 1995 to January 1998; and Senior Vice President and General Manager of the Missile Systems division from August 1990 to March 1995. Age 56.

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PART II

Item 5. Market For Registrant’s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

At December 31, 2004, there were approximately 71,000 record holders of the Company’s common stock. The Company’s common stock is traded on the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange under the symbol “RTN”. The Company’s annual CEO certification to the New York Stock Exchange was issued on May 28, 2004. For information concerning stock prices and dividends paid during the past two years, see “Note P – Quarterly Operating Results (unaudited)” within Item 8 of this Form 10-K.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan (2)
October (September 27, 2004-October 24, 2004)	8,271	$ 37.02	–	–
November (October 25, 2004-November 21, 2004)	1,818	$ 38.65	–	–
December (November 22, 2004-December 31, 2004)	232	$ 39.16	–	$ 700 million
Total	10,321	$ 37.35		

(1) Shares purchased relate to treasury activity under the Company’s stock plans. The total number of shares purchased during the fiscal fourth quarter of 2004 includes: (i) the surrender by employees of 510 shares of already owned common stock to pay the exercise price in connection with the exercise of employee stock options, and (ii) the surrender by employees of 9,811 shares to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

(2) On November 30, 2004, the Board of Directors authorized the repurchase, between January 1, 2005 and December 31, 2006, of up to $700 million of the Company’s outstanding common stock. Purchases may take place from time to time at management’s discretion depending upon market conditions. The Company announced the authorization of the share repurchase plan in its Current Report on Form 8-K, filed on December 1, 2004.

Item 6. Selected Financial Data

FIVE-YEAR STATISTICAL SUMMARY

(In millions except share amounts and total employees)	**2004**	2003	2002	2001	2000
Results of Operations					
Net sales	**$ 20,245**	$ 18,109	$ 16,760	$ 16,017	$ 15,817
Operating income	**1,388**	1,316	1,783	766(1)	1,580
Interest expense	**418**	537	497	696	761
Income from continuing operations	**439**	535	756	2(1)	477
Loss from discontinued operations, net of tax	**(63)**	(170)	(887)	(757)	(339)
Cumulative effect of change in accounting principle, net of tax	**41**	–	(509)	–	–
Net income (loss)	**417**	365	(640)	(755)(1)	138
Net cash provided by operating activities from continuing operations	**2,114**	2,567	847	576	917
Net cash provided by (used in) operating activities	**2,071**	2,034	(349)	(20)	888
Diluted earnings per share from continuing operations	**$ 0.99**	$ 1.29	$ 1.85	$ 0.01(1)	$ 1.40
Diluted earnings (loss) per share	**0.94**	0.88	(1.57)	(2.09)(1)	0.40
Dividends declared per share	**0.80**	0.80	0.80	0.80	0.80
Average diluted shares outstanding *(in thousands)*	**442,201**	415,429	408,031	361,323	341,118
Financial Position at Year-End					
Cash and cash equivalents	**$ 556**	$ 661	$ 544	$ 1,214	$ 871
Current assets	**7,124**	7,125	7,922	10,458	10,156
Property, plant, and equipment, net	**2,738**	2,711	2,396	2,196	2,339
Total assets	**24,153**	24,208	24,678	27,584	27,761
Current liabilities	**5,644**	4,322	5,839	6,626	5,783
Long-term liabilities (excluding debt)	**3,224**	3,281	2,831	1,846	2,021
Long-term debt	**4,229**	6,517	6,280	6,874	9,051
Subordinated notes payable	**408**	859	858	857	—
Total debt	**5,153**	7,391	8,291	9,094	9,927
Stockholders' equity	**10,551**	9,162	8,870	11,381	10,906
General Statistics					
Total backlog	**$ 32,543**	$ 27,542	$ 25,666	$ 25,605	$ 25,709
U.S. government backlog included above	**25,525**	21,353	18,254	16,943	16,650
Capital expenditures	**363**	428	458	461	421
Depreciation and amortization	**434**	393	364	677	642
Total employees from continuing operations	**79,400**	77,700	76,400	81,100	87,500

(1) Includes charges of $745 million pretax related to the Company's commuter aircraft business and Starship aircraft portfolio, $484 million after-tax, or $1.34 per diluted share.
Certain prior year amounts have been reclassified to conform with the current year presentation.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Raytheon Company (the "Company") is one of the largest defense electronics contractors in the world, serving all branches of the U.S. military and other U.S. government agencies, NATO, and many allied governments. The Company is a leader in its core defense markets: radars and radio-frequency systems; sensors and electro-optics; precision weapons; and command, control, communications, and information systems. In all of these markets, the Company provides full life-cycle services to its customers, including product design, delivery, and support.

Raytheon Aircraft is a leading provider of business and special mission aircraft and delivers a broad line of jet, turboprop, and piston-powered airplanes to individual, corporate, and government customers worldwide.

DEFENSE INDUSTRY CONSIDERATIONS

The global War on Terrorism, Operation Enduring Freedom, and Operation Iraqi Freedom, have altered the defense and security environment of the United States. These events have had, and for the foreseeable future are likely to continue to have, a significant impact on the markets for defense and advanced technology systems and products. The U.S. Department of Defense (DoD) continues to focus on both supporting ongoing operations and transforming our military to confront future threats. Our customers plan to operate in a new paradigm. They define an approach that emphasizes speed, precision, and flexibility; and by sharing superior knowledge, enables forces to seize and sustain initiative, concentrate combat power, and prevent an enemy response. In this new environment, the need for advanced technology and defense electronics is clear.

The recent growth in military expenditures is driven by the multi-pronged approach required to fight the War on Terrorism, replenish war materials consumed during continued operations in Afghanistan and Iraq, and sustain the momentum in pursuit of transformation. The Company is an active participant in all three efforts.

Much of the Company's business is with the DoD, and the Company's future growth prospects are sensitive to changes in the DoD budget. In particular, the DoD Research, Development, Test and Evaluation (RDT&E) budget and the DoD Procurement budget, collectively known as the investment accounts, are a key source of funding for the Company's programs. The Future Years Defense Program included in the President's FY06 budget submission to Congress shows continued projected growth in the investment accounts through FY11, with some shift from RDT&E to Procurement in the later years. The FY05 supplemental request submitted to Congress, while primarily targeted to supporting ongoing operations in Iraq and Afghanistan, also includes proposed additional investment account funding.

The Company's strategy is designed to capitalize on the breadth and depth of the Company's technology and domain expertise in order to meet the evolving needs of the Company's customers. The Company is focusing on the following Strategic Business Areas, which are aligned with the ongoing military operations and Department of Defense transformation goals and the goals of the Department of Homeland Security:

- Missile Defense
- Precision Engagement
- Intelligence, Surveillance and Reconnaissance
- Homeland Security

Missile Defense The Company is working with the U.S. Missile Defense Agency and other companies to develop and test a layered system that will detect, identify, and intercept missiles in all phases of flight – the boost, midcourse, and terminal phases. The fundamental components of integrated missile defense are sensors, interceptors, command and control, and systems integration. The Company is a technology leader in all of these areas. The Company is committed to helping the U.S. Missile Defense Agency to develop an operational Ballistic Missile Defense System. The Company's broad array of solutions provides the capability to detect and respond to threats at all three phases of the missile defense system. The Company's programs addressing all three phases include Ballistic Missile Defense System Radar, Space Tracking and Surveillance System, and Cobra Judy Radar. The Kinetic Energy Interceptor addresses the boost phase. The Company's programs addressing the midcourse phase include Upgraded Early Warning Radars, Exo-Atmospheric Kill Vehicle, Sea-Based X-Band Radar, and Standard Missile-3. Those addressing the terminal phase threat include the Patriot Air and Missile Defense System, Terminal High-Altitude Area Defense (THAAD) Battle Management Command Control and Communication, and THAAD Ground-Based Radar.

Precision Engagement The Company provides mission solutions across the entire precision engagement chain. The Company's customers are increasingly looking for mission solutions that address the need to operate jointly (across services and between allied forces), work in a new net-centric paradigm, minimize collateral damage, and strike time sensitive targets. The Company's precision engagement systems include: F-15 and F/A-18 Active Electronically Scanned Array radars, Advanced Medium Range Air-to-Air Missile, Miniature Air Launched Decoy, Situation Awareness Data Link, UK Joint Effects Tactical Targeting System, NetFires, Joint Standoff Weapon, Paveway, Tactical Tomahawk, F/A-18 Radar Warning Receiver, High Power Microwave, and High Energy Lasers.

Intelligence, Surveillance and Reconnaissance The Company's sensing, processing, and dissemination technologies effectively compress the information gap from hours to minutes. The Company provides integrated systems solutions for observing, locating, processing, deciding, and disseminating actionable information, enabling network-centric operations for decision makers. These abilities are crucial for war fighters to achieve information dominance throughout the entire battlespace. The Company's key ISR programs include: Global Hawk sensor suite, Distributed Common Ground System, Space Based Radar, National Polar-orbiting Operational Environmental Satellite Systems, Future Combat Systems Ground Sensor Integrator, and numerous classified programs.

Homeland Security In the area of Homeland Security, the Company continues to leverage the technologies and solutions it has developed for its traditional defense markets to provide solutions to homeland security customers. Recent efforts have focused on the exploitation of the Company's expertise in the collection and analysis of large amounts of data. This has led to wins in border security, most notably US-VISIT, and in related areas.

The Company provides electronics for a wide range of missions and platforms and has several thousand active programs with U.S. government and other customers. The Company believes that this diversification reduces some of the risk and volatility often inherent in the defense industry.

The Company generally acts as a prime contractor or subcontractor on its programs. The funding of U.S. government programs is subject to Congressional authorization and appropriation. While Congress generally appropriates funds on a fiscal year basis, major defense programs are usually conducted under binding contracts over multiple years. The termination of funding for a U.S. government program could result in a loss of future revenues, which would have a negative effect on the Company's financial position and results of operations. U.S. government contracts are also subject to oversight audits and contain provisions for termination. Failure to comply with U.S. government regulations could lead to suspension or debarment from U.S. government contracting.

Sales to the U.S. government may be affected by changes in procurement policies, budget considerations, changing defense requirements, and political developments. The influence of these factors, which are largely beyond the Company's control, could impact the Company's financial position or results of operations.

AIRCRAFT INDUSTRY CONSIDERATIONS

As the economy has been recovering, indicated by several measures including gross domestic product, corporate profits, and personal disposable income, the general aviation market has been recovering as well. Although still below its peak performance in 2001, 2004 reflected an improvement compared to the depressed level of activity experienced in 2002 and 2003.

Traditionally, the used aircraft market has led the recovery of the new aircraft market by 9-12 months and although worldwide levels of used aircraft available for sale have declined, a slower or delayed economic recovery could delay market demand for used, and ultimately new aircraft.

The decline in the worldwide fleet of used aircraft available for sale has resulted in improved pricing of new aircraft and many manufacturers have increased line or production rates. In order to support a continued recovery of the new aircraft market, however, the current worldwide inventory of used aircraft must be reduced even further.

Due to the lower levels of used inventory and strong third and fourth quarter 2004 sales activity for new aircraft, the industry consensus is that the market for new aircraft will continue to improve in 2005 and into the foreseeable future. It is unknown at this time what impact, if any, will be felt without the benefit of bonus depreciation from the Jobs Growth Tax Relief Reconciliation Act of 2003, which expired in 2004.

FINANCIAL SUMMARY

As discussed in more detail throughout Management's Discussion and Analysis of Financial Condition and Results of Operations:

Gross bookings were $25.7 billion in 2004, $22.7 billion in 2003, and $17.9 billion in 2002, resulting in backlog of $32.5 billion, $27.5 billion, and $25.7 billion at December 31, 2004, 2003, and 2002, respectively. Backlog represents future sales expected to be recognized over the next several years.

Net sales were $20.2 billion in 2004, $18.1 billion in 2003, and $16.8 billion in 2002. The increase in sales was a result of strong growth at the defense businesses, primarily Integrated Defense Systems and Space and Airborne Systems as well as growth at Raytheon Aircraft.

Operating income was $1.4 billion in 2004, $1.3 billion in 2003, and $1.8 billion in 2002. Operating income as a percent of net sales was 6.9 percent, 7.3 percent, and 10.6 percent in 2004, 2003, and 2002, respectively. Included in operating income was a FAS/CAS Pension Adjustment, described below in Consolidated Results of Operations, of $474 million of expense in 2004, $109 million of expense in 2003, and $210 million of income in 2002. The FAS/CAS Pension Adjustment in 2005 is expected to approximate the 2004 amount. Also included in operating income in 2003 were charges on certain programs at Network Centric Systems and Technical Services of $276 million.

Operating cash flow from continuing operations was $2.1 billion in 2004, $2.6 billion in 2003, and $0.8 billion in 2002. Total debt was $5.2 billion at December 31, 2004 versus $7.4 billion at December 31, 2003.

CRITICAL ACCOUNTING POLICIES

The Company has identified the following accounting policies that require significant judgment. The Company believes its judgments related to these accounting policies are appropriate.

Sales under long-term government contracts are recorded under the percentage of completion method. Incurred costs and estimated gross margins are recorded as sales when work is performed based on the percentage that incurred costs bear to the Company's estimates of total costs and contract value. Cost estimates include direct and indirect costs such as labor, materials, warranty, and overhead. Some contracts contain incentive provisions based upon performance in relation to established targets which are included at estimated realizable value. Contract change orders and claims are included when they can be reliably estimated and realization is probable. Due to the long-term nature of many of the Company's programs, developing estimates of total costs and contract value often requires significant judgment. Factors that must be considered in estimating the work to be completed and ultimate contract recovery include labor productivity and availability, the nature and complexity of the work to be performed, the impact of change orders, availability of materials, the impact of delayed performance, availability and timing of funding from the customer, award fee estimations, and the recoverability of claims. In 2004, 2003, and 2002, operating income as a percent of net sales for the defense businesses did not vary by more than 1.6 percent. If operating income as a percent of net sales for the defense businesses had been higher or lower by 1.6 percent in 2004, the Company's operating income would have changed by approximately $300 million.

The Company uses lot accounting for new commercial aircraft introductions at Raytheon Aircraft. Lot accounting involves selecting an initial lot size at the time a new aircraft begins to be delivered and measuring an average cost over the entire lot for each aircraft sold. The costs attributed to aircraft delivered are based on the estimated average cost of all aircraft in the lot and are determined under the learning curve concept which anticipates a predictable decrease in unit costs from cost reduction initiatives and as tasks and production techniques become more efficient through repetition. Once the initial lot has been completed, the use of lot accounting is discontinued. The selection of lot size is a critical judgment. The Company determines lot size based on several factors, including the size of firm backlog, market and competitive conditions, the expected annual production for the aircraft, and experience on similar new aircraft. The size of the initial lot for the Beechcraft Premier I is 200 units. The size of the initial lot for the Hawker Horizon is 75 units. A five percent increase in the remaining estimated costs to produce the initial lots of these two aircraft would reduce the Company's operating income by approximately $75 million in the aggregate.

The valuation of used aircraft in inventories, which are stated at cost, but not in excess of realizable value, requires significant judgment. As part of the assessment of realizable value, the Company must evaluate many factors including current market conditions, future market conditions, the age and condition of the aircraft, and availability levels for the aircraft in the market. A five percent decrease in the aggregate realizable value of used aircraft in inventory at December 31, 2004, would result in an impairment charge of approximately $15 million. The valuation of aircraft materials and parts that support the worldwide fleet of aircraft, which are stated at cost, but not in excess of realizable value, also requires significant judgment. As part of the assessment of realizable value, the Company must evaluate many factors including the expected useful life of the aircraft, some of which have remained in service for up to 50 years. A five percent decrease in the aggregate realizable value of aircraft materials and parts at December 31, 2004, would result in an impairment charge of approximately $10 million.

The Company evaluates the recoverability of long-lived assets upon indication of possible impairment by measuring the carrying amount of the assets against the related estimated undiscounted cash flows. When an evaluation indicates that the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets are adjusted to their estimated fair value. The determination of what constitutes an indication of possible impairment, the estimation of future cash flows, and the determination of estimated fair value are all significant judgments. In addition, the Company performs an annual goodwill impairment test in the fourth quarter of each year. The Company estimates the fair value of reporting units using a discounted cash flow model based on the Company's most recent five-year plan and compares the estimated fair value to the net book value of the reporting unit, including goodwill. Preparation of forecasts for use in the five-year plan involve significant judgments. Changes in these forecasts could affect the estimated fair value of certain of the Company's reporting units and could result in a goodwill impairment charge in a future period, however, a 10 percent decrease in the current fair value of each of the Company's reporting units would not result in a goodwill impairment charge.

The Company has pension plans covering the majority of its employees, including certain employees in foreign countries. The selection of the assumptions used to determine pension expense or income involves significant judgment. The Company's long-term return on asset (ROA) and discount rate assumptions are considered the key variables in determining pension expense or income. To develop the long-term ROA assumption, the Company considered the current level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset classes in which the Company has invested pension plan assets, and the expectations for future returns of each asset class. Since the Company's investment policy is to employ active management strategies in all asset classes, the potential exists to outperform the broader markets, therefore, the expected returns are higher than the broader markets. The expected return for each asset class was then weighted based upon an asset allocation within the Company's policy allocation ranges to develop the long-term ROA assumption. The policy asset allocation ranges are between 50 and 76 percent equities with a 9.3% expected return, between 20 and 40 percent fixed income with a 6.6% expected return, between 2 and 7 percent real estate with a 9.9% expected return, and between 2 and 17 percent other (including private equity and cash) with a 12.4% expected return. The long-term ROA assumption for the Company's domestic pension plans in 2005 is 8.75%. The discount rate assumption was determined by using a model consisting of theoretical bond portfolios that match the various durations of the Company's pension liability duration. The discount rate assumption for the Company's domestic pension plans in 2005 is 5.75%. The Company's pension expense is expected to be approximately $800 million in 2005 and $700 million in 2006. For every 2.5 percent that the actual domestic pension plan asset return exceeds or is less than the long-term ROA assumption for 2005, the Company's pension expense for 2006 will change by approximately $15 million. If the Company adjusts the discount rate assumption for 2006 up or down by 25 basis points, the Company's pension expense for 2006 would change by approximately $45 million.

CONSOLIDATED RESULTS OF OPERATIONS

Net sales were $20.2 billion in 2004, $18.1 billion in 2003, and $16.8 billion in 2002. The increase in sales was due primarily to higher U.S. Department of Defense expenditures in the Company's defense businesses, primarily Integrated Defense Systems and Space and Airborne Systems as well as higher sales at Raytheon Aircraft. Sales to the U.S. Department of Defense were 67 percent of sales in 2004, 65 percent in 2003, and 62 percent in 2002. Total sales to the U.S. government, including foreign military sales, were 74 percent of sales in 2004 and 2003 and 73 percent in 2002. International sales, including foreign military sales, were $3.7 billion or 18 percent of sales in 2004, $3.5 billion or 19 percent in 2003, and $3.5 billion or 21 percent in 2002. While international sales have remained essentially flat, the amount as a percent of sales has declined as a result of increased sales to the U.S. Department of Defense.

Gross margin (net sales less cost of sales) was $3.3 billion in 2004, $3.1 billion in 2003, and $3.4 billion in 2002, or 16.4 percent of sales in 2004, 17.2 percent in 2003, and 20.3 percent in 2002. Included in gross margin was a FAS/CAS Pension Adjustment, described below, of $474 million of expense, $109 million of expense, and $210 million of income in 2004, 2003, and 2002, 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 in 2000 and 2001. The decrease in gross margin as a percent of sales in 2004 and 2003 was due to the increase in the FAS/CAS Pension Adjustment. Also included in gross margin in 2003 were charges of $237 million at Network Centric Systems and $39 million at Technical Services.

Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions (SFAS No. 87), outlines the methodology used to determine pension expense or income for financial reporting purposes, which is not necessarily indicative of the funding requirements of pension plans, 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 $1,433 million or 7.1 percent of sales in 2004, $1,306 million or 7.2 percent of sales in 2003, and $1,170 million or 7.0 percent of sales in 2002. Included in administrative and selling expenses in 2002 was a $29 million gain on the sale of the Company’s corporate headquarters.

Research and development expenses were $491 million or 2.4 percent of sales in 2004, $487 million or 2.7 percent of sales in 2003, and $449 million or 2.7 percent of sales in 2002.

Operating income was $1,388 million or 6.9 percent of sales in 2004, $1,316 million or 7.3 percent of sales in 2003, and $1,783 million or 10.6 percent of sales in 2002. The changes in operating income by segment are described below in Segment Results.

Interest expense from continuing operations was $418 million in 2004, $537 million in 2003, and $497 million in 2002. In 2002, the Company allocated $79 million of interest expense to discontinued operations. The Company did not allocate interest expense to discontinued operations in 2004 or 2003. Total interest expense was $576 million in 2002. The decrease in interest expense in 2004 was due to lower average debt. The decrease in interest expense in 2003 was due to a lower weighted-average cost of borrowing.

Interest income was $45 million in 2004, $50 million in 2003, and $27 million in 2002. The increase in interest income in 2003 was due to interest on long-term receivables brought onto the Company’s books as part of the buy-out of the Company’s aircraft receivables facility in the fourth quarter of 2002.

Other expense, net was $436 million in 2004, $67 million in 2003, and $237 million in 2002. Included in other expense, net in 2004 was a $325 million charge related to the settlement of a securities class action lawsuit described below in Commitments and Contingencies and a $132 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 2002 was a $175 million charge to write-off the Company’s investment in Space Imaging and accrue for a related credit facility guarantee which the Company paid in 2003, described below in Major Affiliated Entities. Other income and expense also includes equity income and losses in unconsolidated subsidiaries.

The effective tax rate was 24.2 percent in 2004, 29.8 percent in 2003, and 29.7 percent in 2002, reflecting ESOP dividend deductions, export-related tax benefits, and research and development tax credits applicable to certain government contracts. In addition, the 2004 tax rate included a $42 million benefit from the change in tax law primarily related to the extension of foreign tax credits from five to 10 years. At December 31, 2004, the Company had net operating loss carryforwards of $835 million that expire in 2020 through 2023.

Income from continuing operations was $439 million or $0.99 per diluted share on 442.2 million average shares outstanding in 2004, $535 million or $1.29 per diluted share on 415.4 million average shares outstanding in 2003, and $756 million or $1.85 per diluted share on 408.0 million average shares outstanding in 2002. The increase in average shares outstanding in 2004 was due to common stock issued in connection with the Company’s equity security units described below in Capital Structure and Resources. The increase in average shares outstanding in 2003 was due to benefit plan-related activity.

The loss from discontinued operations, net of tax, described below in Discontinued Operations, was $63 million or $0.14 per diluted share in 2004, $170 million or $0.41 per diluted share in 2003, and $887 million or $2.17 per diluted share in 2002.

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 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 diluted share.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). This accounting standard addresses financial accounting and reporting for goodwill and other intangible assets and requires that periodic tests of goodwill impairment be performed. In 2002, the Company recorded a goodwill impairment charge of $360 million related to its former Aircraft Integration Systems business (AIS) as a cumulative effect of change in accounting principle. Due to the non-deductibility of this goodwill, the Company did not record a tax benefit in connection with this impairment. Also in 2002, the Company completed the transitional review of the other businesses for potential goodwill impairment in accordance with SFAS No. 142 and recorded a goodwill impairment charge of $185 million pretax or $149 million after-tax, which represented all of the goodwill at Raytheon Aircraft, as a cumulative effect of change in accounting principle. The total goodwill impairment charge in 2002 was $545 million pretax, $509 million after-tax, or $1.25 per diluted share.

Net income was $417, million or $0.94 per diluted share in 2004 versus net income of $365 million or $0.88 per diluted share in 2003 and a net loss of $640 million or $1.57 per diluted share in 2002.

SEGMENT RESULTS

Reportable segments have been determined based upon product lines and include the following: Integrated Defense Systems, Intelligence and Information Systems, Missile Systems, Network Centric Systems, Space and Airborne Systems, Technical Services, Aircraft, and Other.

Net Sales *(In millions)*	**2004**	2003	2002
Integrated Defense Systems	**$ 3,456**	$ 2,864	$ 2,366
Intelligence and Information Systems	**2,215**	2,045	1,887
Missile Systems	**3,844**	3,538	3,038
Network Centric Systems	**3,113**	2,809	3,091
Space and Airborne Systems	**4,068**	3,677	3,243
Technical Services	**2,075**	1,963	2,133
Aircraft	**2,421**	2,088	2,040
Other	**675**	573	210
Corporate and Eliminations	**(1,622)**	(1,448)	(1,248)
Total	**$20,245**	$18,109	$16,760

Operating Income *(In millions)*	**2004**	2003	2002
Integrated Defense Systems	**$ 417**	$ 331	$ 289
Intelligence and Information Systems	**198**	194	180
Missile Systems	**436**	424	373
Network Centric Systems	**274**	19	278
Space and Airborne Systems	**568**	492	428
Technical Services	**151**	107	116
Aircraft	**63**	2	(39)
Other	**(40)**	(34)	(12)
FAS/CAS Pension Adjustment	**(474)**	(109)	210
Corporate and Eliminations	**(205)**	(110)	(40)
Total	**$ 1,388**	$ 1,316	$ 1,783

Operating Margin	**2004**	2003	2002
Integrated Defense Systems	**12.1%**	11.6%	12.2%
Intelligence and Information Systems	**8.9**	9.5	9.5
Missile Systems	**11.3**	12.0	12.3
Network Centric Systems	**8.8**	0.7	9.0
Space and Airborne Systems	**14.0**	13.4	13.2
Technical Services	**7.3**	5.5	5.4
Aircraft	**2.6**	0.1	(1.9)
Other	**(5.9)**	(5.9)	(5.7)
FAS/CAS Pension Adjustment			
Corporate and Eliminations			
Total	**6.9%**	7.3%	10.6%

Integrated Defense Systems (IDS) provides mission systems integration for the air, surface, and subsurface battlespace. IDS had 2004 sales of $3.5 billion versus $2.9 billion in 2003 and $2.4 billion in 2002. The increase in sales in 2004 was due to continued growth on DD(X), the Navy's future destroyer program. The increase in sales in 2003 was due to continued growth on DD(X) as well as strong missile defense sales. Operating income was $417 million in 2004, $331 million in 2003, and $289 million in 2002. The decrease in operating margin in 2003 was due to lower volume on higher margin international programs.

Intelligence and Information Systems (IIS) provides signal and image processing, geospatial intelligence, airborne and spaceborne command and control, ground engineering support, weather and environmental management, and information technology. IIS had 2004 sales of $2.2 billion versus $2.0 billion in 2003 and $1.9 billion in 2002. The increase in sales in 2004 was due to growth in the DCGS (Distributed Common Ground System) program and growth in classified programs. The increase in sales in 2003 was due to strong growth in classified programs, as well as the start-up of the NPOESS (National Polar-orbiting Operational Environmental Satellite Systems) program. Operating income was $198 million in 2004 versus $194 million in 2003 and $180 million in 2002.

Missile Systems (MS) provides air-to-air, precision strike, surface Navy air defense, and land combat missiles, guided projectiles, kinetic kill vehicles, and directed energy weapons. MS had 2004 sales of $3.8 billion versus $3.5 billion in 2003 and $3.0 billion in 2002. The increase in sales in 2004 was due to continued growth in missile defense, including work on the Standard Missile-3 program. The increase in sales in 2003 was due to the Tomahawk remanufacture program and Evolved Sea Sparrow Missile (ESSM) program reaching full rate production and several production programs transitioning from engineering development to low rate initial production including Air Intercept Missile (AIM-9X), and Tactical Tomahawk. Sales also increased on several missile defense programs in order to meet accelerated deployment. Operating income was $436 million in 2004 versus $424 million in 2003 and $373 million in 2002. 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 was substantially completed in 2004.

Network Centric Systems (NCS) provides network centric solutions to integrate sensors, communications, and command and control to manage the battlespace. NCS had 2004 sales of $3.1 billion versus $2.8 billion in 2003 and $3.1 billion in 2002. Operating income was $274 million in 2004 versus $19 million in 2003 and $278 million in 2002. Included in 2003 were charges resulting in a reduction in sales and operating income of $228 million and $237 million, respectively, related to performance issues on certain NCS programs.

Space and Airborne Systems (SAS) provides electro-optical/infrared sensors, airborne radars, solid state high energy lasers, precision guidance systems, electronic warfare systems, and space-qualified systems for civil and military applications. SAS had 2004 sales of $4.1 billion versus $3.7 billion 2003 and $3.2 billion in 2002. The increase in sales in 2004 was due to growth in classified and international programs. The increase in sales in 2003 was due to higher sales on classified and Airborne Radar programs for the Air Force such as Multi-Platform Radar Technology Insertion Program, B-2 Radar Modernization Program, F-15 Korea, and increased production of the F/A-22 Radar. Operating income was $568 million in 2004 versus $492 million in 2003 and $428 million in 2002. Operating income was higher in 2004 due primarily to productivity improvements on production programs and higher volume, partially offset by a $55 million charge on an international program as a result of a qualification test failure.

Technical Services (TS) provides technical, scientific, and professional services for defense, federal, and commercial customers worldwide. TS had 2004 sales of $2.1 billion versus $2.0 billion in 2003 and $2.1 billion in 2002. The decrease in sales in 2003 was due to the loss of several key programs. Operating income was $151 million in 2004 versus $107 million in 2003 and $116 million in 2002. The decrease in operating income in 2003 was primarily due to write-offs of $39 million related to an unfavorable change in scope on a long-term contract of $22 million and a provision for the collectibility of certain unbilled costs of $17 million. Included in operating income for 2002 was a $28 million write-off of contract costs that the Company determined to be unbillable.

IDS, MS, NCS, SAS, and TS had sales growth rates in 2004 that were higher than the growth rates expected for 2005. The current market environment is consistent with the Company’s planning assumptions and performance for the defense businesses, however, in the longer term, rising budget deficits, costs associated with current U.S. Department of Defense operations overseas, and other issues affecting the U.S. Department of Defense budget may represent a risk to future performance.

Raytheon Aircraft Company (RAC) designs, manufactures, markets, and provides after-market support for business jets, turbo-props, and piston-powered aircraft for the world’s commercial, fractional ownership, and military aircraft markets. RAC had 2004 sales of $2.4 billion versus $2.1 billion in 2003 and $2.0 billion in 2002. The increase in sales in 2004 was primarily due to higher new aircraft sales. Operating income was $63 million in 2004 versus $2 million in 2003 and an operating loss of $39 million in 2002. The increase in operating income in 2004 was due to higher volume on new aircraft sales as well as productivity and cost savings initiatives implemented throughout 2003 and 2004. The increase in operating income in 2003 was due to higher productivity and cost saving initiatives implemented during 2003. Included in 2004 operating income was a $34 million favorable profit adjustment on the T-6A Texan II military training aircraft (T-6A) program. Included in 2003 operating income was a $50 million favorable profit adjustment on the T-6A program partially offset by a $22 million charge on the Premier program reflecting cost estimate increases. Included in 2002 operating income was a $22 million favorable profit adjustment on the T-6A program. The favorable profit adjustments on the T-6A program in 2004, 2003, and 2002 were due to option exercises and productivity improvements.

The Company has made significant investments in its Premier and Horizon aircrafts, the realization of which is contingent upon future sales at forecasted prices and reductions in production costs on future deliveries. During the fourth quarter of 2004, the Federal Aviation Administration granted a provisional type certification for the Horizon aircraft. Revenue has not been recognized on the first Horizon aircraft as the Company leased this aircraft back from the customer for demonstration and operational evaluation purposes.

The Other segment, which is comprised of Flight Options LLC (FO), Raytheon Airline Aviation Services LLC (RAAS), and Raytheon Professional Services LLC (RPS) had 2004 sales of $675 million versus $573 million in 2003 and $210 million in 2002. FO offers services in the aircraft fractional ownership industry. RAAS manages the Company’s commuter aircraft business. RPS works with customers to design and execute learning solutions. The increase in sales in 2004 and 2003 was primarily due to the consolidation of FO in June 2003 as described below in Major Affiliated Entities. The Other segment had an operating loss of $40 million in 2004 versus $34 million in 2003 and $12 million in 2002.

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Commuter aircraft customers are generally thinly capitalized companies that are dependent on the commuter aircraft industry. A downturn in this industry could have a material adverse effect on these customers and the Company. At December 31, 2004 and December 31, 2003, the Company's exposure on commuter aircraft-related assets was approximately $560 million consisting of 297 aircraft and approximately $650 million consisting of 349 aircraft, respectively.

Backlog at December 31 *(In millions)*	**2004**	2003	2002
Integrated Defense Systems	**$ 6,628**	$ 6,526	$ 5,011
Intelligence and Information Systems	**3,913**	3,899	3,540
Missile Systems	**8,341**	5,028	3,509
Network Centric Systems	**3,595**	3,259	2,853
Space and Airborne Systems	**5,216**	4,865	4,523
Technical Services	**1,918**	1,510	1,603
Aircraft	**2,638**	2,279	4,396
Other	**294**	176	231
Total	**$32,543**	$27,542	$25,666
U.S. government backlog included above	**$25,525**	$21,353	$18,254

Funded Backlog at December 31 *(In millions)*	**2004**	2003	2002
Integrated Defense Systems	**$ 3,454**	$ 3,318	$ 2,375
Intelligence and Information Systems	**770**	655	595
Missile Systems	**4,517**	4,069	3,263
Network Centric Systems	**2,627**	2,488	2,293
Space and Airborne Systems	**3,127**	3,801	3,229
Technical Services	**976**	858	817
Aircraft	**2,638**	2,279	4,259
Other	**294**	176	231
Total	**$18,403**	$17,644	$17,062

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

Gross Bookings *(In millions)*	**2004**	2003	2002
Integrated Defense Systems	**$ 3,494**	$ 4,344	$ 2,987
Intelligence and Information Systems	**2,191**	2,371	2,478
Missile Systems	**7,179**	5,117	3,110
Network Centric Systems	**3,230**	3,118	2,582
Space and Airborne Systems	**3,901**	3,619	2,372
Technical Services	**1,872**	1,398	1,339
Aircraft	**3,081**	2,207	2,953
Other	**752**	519	99
Total	**$25,700**	$22,693	$17,920

In 2004, Missile Systems booked $2.1 billion for the Kinetic Energy Interceptor system contract. In 2003 there were strong bookings across the defense businesses, particularly several large contract awards at Integrated Defense Systems and Missile Systems.

DISCONTINUED OPERATIONS

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 closeout efforts which includes warranty obligations, commercial close out, 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 these projects. In meeting the obligations under the remaining Support Agreements, the Company has various risks and exposures, including delays, equipment and subcontractor performance, warranty close out, 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.

In 2004, 2003, and 2002, the pretax loss from discontinued operations related to RE&C was $42 million, $231 million, and $966 million, respectively. In 2004, the Company recorded a $24 million charge 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. Included in 2003 and 2002 were charges of $176 million and $796 million, respectively, related to two construction projects, the Mystic Station facility in Everett, MA and the Fore River facility in Weymouth, MA. Following WGI's abandonment of these projects in 2001, the Company undertook construction efforts and subsequently delivered care, custody, and control of these projects to their owners in 2003 and closed on a settlement agreement with the project owners and other interested parties in 2004. The charges resulted from delays, labor and material cost growth, productivity issues, equipment and subcontractor performance, schedule liquidated damages, inaccurate estimates of field engineered materials, and disputed changes. In 2002, the Company allocated $79 million of interest expense to RE&C based upon actual cash outflows since the date of disposition. Since the projects were nearing completion, the Company did not allocate interest expense to RE&C after 2002.

Net cash used in operating activities from discontinued operations related to RE&C was $61 million in 2004 versus $513 million in 2003 and $1,129 million in 2002.

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. There was no pretax gain or loss on the sale of AIS, however, due to the non-deductible goodwill associated with AIS, the Company recorded a tax provision of $212 million resulting in a $212 million after-tax loss on the sale of AIS. 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, which is now essentially complete.

In 2004, 2003, and 2002, the pretax loss from discontinued operations related to AIS was $23 million, $30 million, and $47 million, respectively, primarily related to the completion of the BBJ program.

In 2004, the total loss from discontinued operations was $65 million pretax, $63 million after-tax, or $0.14 per basic and diluted share versus $261 million pretax, $170 million after-tax or $0.41 per basic and diluted share in 2003 and $1,013 million pretax, $887 million after-tax, or $2.21 per basic share and $2.17 per diluted share in 2002.

FINANCIAL CONDITION AND LIQUIDITY

Net cash provided by operating activities in 2004 was $2,071 million versus $2,034 million in 2003. Net cash used in operating activities was $349 million in 2002. Net cash provided by operating activities from continuing operations was $2,114 million in 2004 versus $2,567 million in 2003 and $847 million in 2002. Included in 2004 was a $210 million payment made in connection with the settlement of the class action lawsuit described below in Commitments and Contingencies. As the Company continues to convert portions of existing financial systems to a new integrated financial package, certain planned delays in billings to customers may occur during 2005, however, the Company does not expect these delays to negatively impact full year cash flow results.

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 2004, the Company began funding its 401(k) plan match with cash. Total contributions (required and discretionary) related to the Company’s pension plans are expected to be approximately $515 million in 2005.

The Company provides long-term financing to its aircraft customers. Origination of financing receivables was $325 million in 2004, $402 million in 2003, and $431 million in 2002. The Company received proceeds of $59 million in 2004 and $279 million in 2003 related to the sale of certain general aviation finance receivables, described below in Off Balance Sheet Financing Arrangements. The Company also maintained a program under which it sold general aviation and commuter aircraft long-term receivables under a receivables purchase facility through the end of 2002. In connection with this program in 2002, the sale of financing receivables was $263 million and the repurchase of financing receivables was $347 million. The Company bought out the receivables that remained in the facility in 2002 for $1,029 million, brought the related assets onto the Company’s books, and eliminated the associated $1.4 billion receivables purchase facility.

Net cash used in investing activities was $532 million in 2004 versus $708 million in 2003. Net cash provided by investing activities was $669 million in 2002. Capital expenditures were $363 million in 2004, $428 million in 2003, and $458 million in 2002. Capital expenditures in 2005 are expected to approximate $385 million. In 1998, the Company entered into a $490 million property sale and five-year operating lease (synthetic lease) facility under which property, plant, and equipment was sold and leased back to the Company. In 2003, the lease facility expired and the Company bought back the assets remaining in the lease facility for $125 million. Capitalized expenditures for internal use software were $103 million in 2004, $98 million in 2003, and $138 million in 2002. Capitalized expenditures for internal use software in 2005 are expected to approximate $115 million.

Proceeds from the sale of operating units and investments were $47 million in 2004 versus $111 million in 2003 and $1,166 million in 2002. In 2004, the Company sold its commercial infrared business for $43 million. In 2003, the Company sold the remaining interest in its former aviation support business for $97 million. In 2002, the Company sold its AIS business for $1,123 million, described above in Discontinued Operations.

In 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. Also in 2004, the Company paid $42 million for the acquisition of Photon Research Associates, Inc.

In 2003, the Company paid $130 million related to the Space Imaging credit facility guarantee, described below in Major Affiliated Entities. In October 2001, the Company and Hughes Electronics agreed to a settlement regarding the purchase price adjustment related to the Company’s merger with the defense business of Hughes Electronics Corporation. Under the terms of the agreement, Hughes Electronics agreed to reimburse the Company approximately $635 million of its purchase price over time, with the final payment received in 2002.

Net cash used in financing activities was $1,644 million in 2004 versus $1,209 million in 2003 and $990 million in 2002. Dividends paid to stockholders were $349 million in 2004, $331 million in 2003, and $321 million in 2002. The quarterly dividend rate was $0.20 per share for each of the four quarters of 2004, 2003, and 2002. Beginning in 2005, the Company plans to increase the quarterly dividend rate to $0.22 per share. Although the Company does not have a formal dividend policy, management believes that a reasonable dividend payout ratio based on the current industry environment and market conditions is approximately one third of the Company’s economic earnings (income excluding FAS/CAS Pension Adjustment). Dividends are subject to approval by the Board of Directors.

CAPITAL STRUCTURE AND RESOURCES

Total debt was $5.2 billion at December 31, 2004 and $7.4 billion at December 31, 2003. Cash and cash equivalents were $556 million at December 31, 2004 and $661 million at December 31, 2003. The Company’s outstanding debt has interest rates ranging from 4.5% to 8.3% and matures at various dates through 2028. Total debt as a percentage of total capital was 32.8 percent and 44.7 percent at December 31, 2004 and 2003, respectively.

In 2004, the Company repurchased long-term debt and subordinated notes payable with a par value of $2,254 million.

In 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. Also in 2003, the Company issued $500 million of fixed rate long-term debt and $200 million of floating rate notes and used the proceeds to partially fund the repurchase of long-term debt with a par value of $924 million. The Company has on file a shelf registration with the Securities and Exchange Commission for the issuance of up to $3.0 billion in debt securities, common or preferred stock, warrants to purchase any of the aforementioned securities, and/or stock purchase contracts, under which $1.3 billion remained outstanding at December 31, 2004. A substantial portion of the remaining availability under the shelf registration is expected to be used in connection with the settlement of the class action lawsuit, described below in Commitments and Contingencies.

In 2002, the Company issued $575 million of long-term debt to reduce the amounts outstanding under the Company’s lines of credit. Also in 2002, the Company repurchased debt with a par value of $96 million.

The Company enters 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. In 2002, the Company closed out certain of these interest rate swaps and received proceeds of $95 million which are being amortized over the remaining life of the debt as a reduction to interest expense. At December 31, 2004, the unamortized balance was $14 million. The $600 million notional value of interest rate swaps that remained outstanding at December 31, 2004 effectively converted that portion of the Company’s total debt to variable rate debt.

The Company’s most restrictive 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. In July 2003, the covenant was amended to exclude pretax charges of $100 million related to RE&C and in October 2003, the covenant was further amended to exclude $226 million of pretax charges related to Network Centric Systems and Technical Services and $78 million of pretax charges related to RE&C. The Company was in compliance with the interest coverage ratio covenant, as amended, during 2004 and expects to continue to be in compliance throughout 2005.

Credit ratings for the Company were assigned by Fitch’s at F3 for short-term borrowing and BBB- for senior debt, by Moody’s at P-3 for short-term borrowing and Baa3 for senior debt, and by Standard and Poor’s at A-3 for short-term borrowing and BBB- for senior debt.

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 December 31, 2004, consisting of $1.0 billion which matures in May 2005 and $1.3 billion which matures in 2006. The lines of credit were $2.7 billion at December 31, 2003. There were no borrowings under the lines of credit at December 31, 2004, however, the Company had approximately $100 million of outstanding letters of credit which effectively reduced the Company’s borrowing capacity under the lines of credit to $2.2 billion. There were no borrowings under the lines of credit at December 31, 2003.

In 2001, the Company issued 17,250,000, 8.25% equity security units. Each equity security unit consisted of a contract to purchase shares of the Company’s common stock on May 15, 2004 and a mandatorily redeemable equity security, with a stated liquidation amount of $50 due on May 15, 2006, which will require a cash payment by the Company. In 2004, in accordance with the terms of the equity security units, the Company received proceeds of $863 million and issued 27.0 million shares of common stock. The terms of the equity security units required that the mandatorily redeemable equity securities be remarketed. On February 11, 2004, the mandatorily redeemable equity securities were remarketed and the quarterly distribution rate was reset at 7.0%.

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 during the next twelve months and for the foreseeable future.

OFF BALANCE SHEET ARRANGEMENTS

In 2004, the Company entered into an agreement to sell certain general aviation finance receivables, with the buyer assuming all servicing responsibilities. As part of the agreement, the Company retains a first loss deficiency guarantee of 7.5% of the receivable amount sold. In 2004, $37 million of receivables were sold under the agreement, with no associated gain or loss. Also in 2004, the Company sold $22 million of general aviation finance receivables without any continuing involvement.

In 2003, the Company sold $337 million of general aviation finance receivables to a qualifying special purpose entity which in turn issued beneficial interests in these receivables to a commercial paper conduit, received proceeds of $279 million, retained a subordinated interest in and servicing rights to the receivables, and recognized a gain of $2 million. The sale was non-recourse to the Company, and effectively reduced the Company's exposure to general aviation market risk for receivables by approximately 25 percent. At December 31, 2004 and 2003, the outstanding balance of securitized accounts receivable held by the third party conduit totaled $204 million and $320 million, respectively, of which the Company's subordinated retained interest was $58 million and the fair value of the servicing asset was $4 million and $6 million, respectively.

In 2001, the Company formed a joint venture, Thales-Raytheon Systems (TRS), described below in Major Affiliated Entities. The Company has guaranteed TRS-related borrowings of up to $34 million under which $12 million was outstanding at December 31, 2004. The Company has also entered into other joint ventures, also described below in Major Affiliated Entities. TRS and the other joint ventures, in the normal course of business, have banks issue letters of credit and guarantees related to project performance and other contractual obligations. While the Company expects these joint ventures to satisfy their loan, project performance, and other contractual obligations, their failure to do so may result in a future obligation for the Company.

In 1997, the Company provided a first loss guarantee of $133 million on $1.3 billion of U.S. Export-Import Bank loans (maturing in 2015) to the Brazilian government related to the System for the Vigilance of the Amazon (SIVAM) program being performed by the Company's Network Centric Systems segment.

MAJOR AFFILIATED ENTITIES

In 2002, the Company formed a joint venture, Flight Options LLC (FO), whereby the Company contributed its Raytheon Travel Air fractional ownership business and loaned the new entity $20 million. In June 2003, the Company participated in a financial recapitalization of FO. The Company now owns approximately 65 percent of FO and is consolidating FO's results in its financial statements. Prior to the financial recapitalization, 100 percent of FO's $20 million of losses were recorded as other expense in the first six months of 2003 since the Company had been meeting all of FO's financing requirements. The consolidation of FO did not have a significant effect on the Company's financial position or results of operations, although the Company's reported revenue, operating income, and other expense changed as a result of the consolidation of FO's results. The Company is recording 100 percent of FO's losses since the Company has been meeting all FO's financing requirements. FO's customers, in certain instances, have the contractual ability to require FO to buy back their fractional share at its current fair market value. The estimated value of this potential obligation was approximately $575 million at December 31, 2004.

In 1995, through the acquisition of E-Systems, Inc., the Company invested in Space Imaging and currently has a 31 percent equity investment in Space Imaging LLC. In 2002, the Company recorded a $175 million charge to write-off the Company's investment in Space Imaging and accrue for payment under the Company's guarantee of a Space Imaging credit facility that matured in March 2003. In the first quarter of 2003, the Company paid $130 million related to the credit facility guarantee. In exchange for this payment, the Company received a note from Space Imaging for this amount that the Company has valued at zero.

Investments, which are included in other assets, consisted of the following at December 31:

(In millions)	2004 Ownership %	**2004**	2003
Equity method investments:			
Thales-Raytheon Systems Co. Ltd.	50.0	**$ 87**	$ 78
HRL Laboratories, LLC	33.3	**30**	30
Indra ATM S.L.	49.0	**12**	12
TelASIC Communications	23.5	**3**	7
Other	n/a	**7**	9
		139	136
Other investments		**10**	10
Total		**$149**	$146

In 2001, the Company formed a joint venture, Thales-Raytheon Systems (TRS), that has two major operating subsidiaries, one of which the Company controls and consolidates. TRS is a system of systems integrator and provides fully customized solutions through the integration of command and control centers, radars, and communication networks. HRL Laboratories is a scientific research facility whose staff engages in the areas of space and defense technologies. Indra develops flight data processors for air traffic control automation systems. TelASIC Communications delivers high performance, cost-effective radio frequency (RF), analog mixed signal, and digital solutions for both the commercial and defense electronics markets.

In addition, the Company has entered into joint ventures formed specifically to facilitate a teaming arrangement between two contractors for the benefit of the customer, generally the U.S. government, whereby the Company receives a subcontract from the joint venture in the joint venture's capacity as prime contractor. Accordingly, the Company records the work it performs for the joint venture as operating activity.

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 $130 million. Discounted at a weighted-average risk-free rate of 5.8 percent, the Company estimated the liability to be $92 million before U.S. government recovery and had this amount accrued at December 31, 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 $59 million at December 31, 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, advance payment, and certain financial obligations. Approximately $294 million, $827 million, and $250 million of these guarantees, letters of credit, and surety bonds, for which there were stated values, were outstanding at December 31, 2004, respectively and $354 million, $890 million, and $389 million were outstanding at December 31, 2003, respectively. These instruments expire on various dates through 2015. At December 31, 2004, the amount of guarantees, letters of credit, and surety bonds, for which there were stated values, that remained outstanding was $94 million, $9 million, and $234 million, respectively, related to discontinued operations and are included in the numbers above compared to $99 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.

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.

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 May 2004, without admitting any liability or wrongdoing, the Company reached an agreement to settle a securities class action lawsuit originally filed in 1999 on behalf of the Company and all individual defendants. The terms of the settlement 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 which is expected to occur in 2005. In December 2004, the court approved the settlement, resolving 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 2004, the Company paid $210 million into escrow in connection with the settlement.

In July 2004, without admitting any liability or wrongdoing, the Company and the individual defendants reached a tentative agreement to settle a derivative action related to the class action lawsuit described above. 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. In September 2002, the defendants filed an answer to the amended complaint and discovery is proceeding. In April 2003, the court conditionally certified the class and defined the class period as that between April 17, 2000 and March 2, 2001, inclusive.

In July 2001, the Company was named as a nominal defendant and all of its directors at the time were 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. In March 2004, the defendants filed a motion to dismiss the Consolidated Amended Derivative Complaint. In November 2004, without admitting any liability or wrongdoing, the individual defendants and the Company 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 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 the 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.

The following is a schedule of the Company’s contractual obligations outstanding (excluding working capital items) at December 31, 2004:

(In millions)	Total	Less than 1 Year	1–3 years	4–5 years	After 5 years
Debt	$4,779	$ 516	$ 685	$ 310	$3,268
Subordinated notes payable	382	–	382	–	–
Interest payments	2,803	323	552	433	1,495
Operating leases	1,359	340	470	266	283
IT outsourcing	343	71	136	136	–
Total	$9,666	$1,250	$2,225	$1,145	$5,046

Interest payments include interest on debt that is redeemable at the option of the Company.

The Company currently estimates that required pension plan cash contributions will be approximately $315 million in 2005 and $445 million in 2006. The Company also plans to make discretionary cash contributions of $200 million in 2005 and 2006. These estimates are based upon certain assumptions, outlined above in Critical Accounting Policies, and contemplate passage of the Pension Funding Equity Act, which will provide a certain amount of pension funding relief to the Company. The estimate for 2006 is subject to change and will not be known with certainty until the Company's SFAS No. 87 assumptions are updated at the end of 2005. Estimates for 2007 and beyond have not been provided due to the significant uncertainty of these amounts, which are subject to change until the Company's SFAS No. 87 assumptions can be updated at the appropriate times. In addition, pension contributions are eligible for future recovery through the pricing of products and services to the U.S. government, therefore, the amounts noted above are not necessarily indicative of the impact these contributions will have on the Company's liquidity.

At December 31, 2004, RAC had unconditional purchase obligations of $40 million primarily related to component parts for the Horizon aircraft with varying purchase quantities for up to 200 aircraft. In addition, the Company's defense businesses may enter into purchase commitments which can generally be recovered through the pricing of products and services to the U.S. government. These unconditional purchase obligations are not included in the table above.

ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payments (SFAS No. 123R). This accounting standard, which is effective for interim and annual periods beginning after June 15, 2005, requires the recognition of compensation expense related to stock options under SFAS No. 123, Accounting for Stock-Based Compensation. The Company plans to adopt SFAS No. 123R prospectively in the third quarter of 2005 with an anticipated impact to earnings per share of less than $0.02 per share in 2005 and 2006.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, an amendment of ARB No. 43, Chapter 4, Inventory Costs (SFAS No. 151). This accounting standard, which is effective for annual periods beginning after June 15, 2005, requires that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. The adoption of SFAS No. 151 is not expected to have a material effect on the Company's financial position or results or operations.

Item 7A. 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 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 specific 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 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 December 31, 2004 and 2003, which are subject to interest rate risk resulting from a hypothetical increase in interest rates of 10 percent, was approximately $1 million after-tax for both years. Fixed rate financial instruments were not evaluated, as the risk exposure is not material. The Company believes its exposure due to changes in foreign exchange rates is not material due to the Company’s hedging policy and the fact that the Company does not enter into speculative hedges.

Item 8. Financial Statements and Supplementary Data

COMPANY RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements and related information contained in this Annual Report have been prepared by and are the responsibility of the Company's management. The Company's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect judgments and estimates as to the expected effects of transactions and events currently being reported. The Company's management is responsible for the integrity and objectivity of the financial statements and other financial information included in this Annual Report. To meet this responsibility, the Company maintains a system of internal control over financial reporting to provide reasonable assurance that assets are safeguarded and that transactions are properly executed and recorded. The system includes policies and procedures, internal audits, and Company officers' reviews.

The Audit Committee of the Board of Directors is composed solely of outside directors. The Audit Committee meets periodically and, when appropriate, separately with representatives of the independent registered public accounting firm, Company officers, and the internal auditors to monitor the activities of each.

Upon recommendation of the Audit Committee, PricewaterhouseCoopers LLP, an independent registered public accounting firm, was selected by the Board of Directors to audit the Company's financial statements and management's assessment of the Company's internal control over financial reporting and their report is below.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on its assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2004, based on criteria in Internal Control – Integrated Framework, issued by the COSO. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which follows.

/s/ Edward S. Pliner

Edward S. Pliner
Senior Vice President and Chief Financial Officer

/s/ William H. Swanson

William H. Swanson
Chairman and Chief Executive Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Raytheon Company:

We have completed an integrated audit of Raytheon Company's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a) (1) present fairly, in all material respects, the financial position of Raytheon Company and its subsidiaries (the "Company") at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note N to the consolidated financial statements, in 2004 the Company changed its measurement date for its Pension Benefits and Other Benefits plans from October 31 to December 31.

As discussed in Note A to the consolidated financial statements, in 2002 the Company changed its method of accounting for goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, and its method of accounting for long-lived assets and discontinued operations in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing above, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control – Integrated Framework, issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Boston, Massachusetts
March 15, 2005

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RAYTHEON COMPANY
CONSOLIDATED BALANCE SHEETS

(In millions except share amounts) December 31:	**2004**	2003
Assets		
Current assets		
Cash and cash equivalents	**$ 556**	$ 661
Accounts receivable, less allowance for doubtful accounts of $41 in 2004 and $35 in 2003	**478**	485
Contracts in process	**3,514**	3,302
Inventories	**1,745**	1,998
Deferred federal and foreign income taxes	**469**	466
Prepaid expenses and other current assets	**343**	154
Assets from discontinued operations	**19**	59
Total current assets	**7,124**	7,125
Property, plant, and equipment, net	**2,738**	2,711
Deferred federal and foreign income taxes	**71**	337
Prepaid retiree benefits	**714**	703
Goodwill	**11,516**	11,479
Other assets, net	**1,990**	1,853
Total assets	**$24,153**	$24,208
Liabilities and Stockholders' Equity		
Current liabilities		
Notes payable and current portion of long-term debt	**$ 516**	$ 15
Advance payments and billings in excess of costs incurred	**1,900**	1,578
Accounts payable	**867**	833
Accrued salaries and wages	**934**	767
Other accrued expenses	**1,403**	1,086
Liabilities from discontinued operations	**24**	43
Total current liabilities	**5,644**	4,322
Accrued retiree benefits and other long-term liabilities	**3,224**	3,281
Long-term debt	**4,229**	6,517
Subordinated notes payable	**408**	859
Commitments and contingencies (note L)		
Minority interest	**97**	67
Stockholders' equity		
Preferred stock, par value $0.01 per share, 200,000,000 shares authorized, none outstanding in 2004 and 2003		
Common stock, par value $0.01 per share, 1,450,000,000 shares authorized, 453,096,000 and 418,136,000 shares outstanding in 2004 and 2003, respectively, after deducting 395,000 and 168,000 treasury shares in 2004 and 2003, respectively	**5**	4
Additional paid-in capital	**9,540**	8,434
Unearned compensation	**(60)**	(13)
Accumulated other comprehensive income	**(1,919)**	(2,194)
Treasury stock, at cost	**(13)**	(6)
Retained earnings	**2,998**	2,937
Total stockholders' equity	**10,551**	9,162
Total liabilities and stockholders' equity	**$24,153**	$24,208

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

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RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions except per share amounts) Years Ended December 31:	**2004**	2003	2002
Net sales	**$20,245**	$18,109	$16,760
Cost of sales	**16,933**	15,000	13,358
Administrative and selling expenses	**1,433**	1,306	1,170
Research and development expenses	**491**	487	449
Total operating expenses	**18,857**	16,793	14,977
Operating income	**1,388**	1,316	1,783
Interest expense	**418**	537	497
Interest income	**(45)**	(50)	(27)
Other expense, net	**436**	67	237
Non-operating expense, net	**809**	554	707
Income from continuing operations before taxes	**579**	762	1,076
Federal and foreign income taxes	**140**	227	320
Income from continuing operations	**439**	535	756
Loss from discontinued operations, net of tax	**(63)**	(170)	(887)
Income (loss) before accounting change	**376**	365	(131)
Cumulative effect of change in accounting principle, net of tax	**41**	—	(509)
Net income (loss)	**$ 417**	$ 365	$ (640)
Earnings per share from continuing operations			
Basic	**$ 1.00**	$ 1.30	$ 1.88
Diluted	**0.99**	1.29	1.85
Earnings (loss) per share			
Basic	**$ 0.95**	$ 0.88	$ (1.59)
Diluted	**0.94**	0.88	(1.57)

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

RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2004, 2003, and 2002 *(In millions except per share amounts)*	Common Stock	Additional Paid-in Capital	Unearned Compensation	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2001	$ 4	$ 7,740	$ (17)	$ (212)	$ (1)	$3,867	$ 11,381
Net loss						(640)	(640)
Other comprehensive income							
Minimum pension liability				(2,002)			(2,002)
Interest rate lock				(2)			(2)
Foreign exchange translation				31			31
Cash flow hedges				5			5
Comprehensive income							(2,608)
Dividends declared—$0.80 per share						(323)	(323)
Issuance of common stock		328					328
Common stock plan activity		101	5				106
Trust preferred security distributions		(11)					(11)
Treasury stock activity					(3)		(3)
Balance at December 31, 2002	4	8,158	(12)	(2,180)	(4)	2,904	8,870
Net income						365	365
Other comprehensive income							
Minimum pension liability				(118)			(118)
Foreign exchange translation				82			82
Cash flow hedges				19			19
Unrealized gains on residual interest securities				2			2
Interest rate lock				1			1
Comprehensive income							351
Dividends declared–$0.80 per share						(332)	(332)
Issuance of common stock		264					264
Common stock plan activity		23	(1)				22
Trust preferred security distributions		(11)					(11)
Treasury stock activity					(2)		(2)
Balance at December 31, 2003	4	8,434	(13)	(2,194)	(6)	2,937	9,162
Net income						**417**	**417**
Other comprehensive income							
Minimum pension liability				**215**			**215**
Foreign exchange translation				**46**			**46**
Cash flow hedges				**15**			**15**
Unrealized losses on residual interest securities				**(1)**			**(1)**
Comprehensive income							**692**
Dividends declared–$0.80 per share						**(356)**	**(356)**
Issuance of common stock	**1**	**939**					**940**
Common stock plan activity		**171**	**(47)**				**124**
Trust preferred security distributions		**(4)**					**(4)**
Treasury stock activity					**(7)**		**(7)**
Balance at December 31, 2004	**$ 5**	**$ 9,540**	**$ (60)**	**$ (1,919)**	**$ (13)**	**$2,998**	**$ 10,551**

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

RAYTHEON COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions) Years Ended December 31:	**2004**	2003	2002
Cash flows from operating activities			
Income from continuing operations	**$ 439**	$ 535	$ 756
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	**434**	393	364
Deferred federal and foreign income taxes	**(5)**	94	264
Net gain on sales of operating units and investments	**(14)**	(82)	(4)
Savings and investment plan activity	**73**	190	181
Decrease (increase) in accounts receivable	**6**	193	(20)
Change in contracts in process and advance payments and billings in excess of costs incurred	**136**	421	100
Decrease in inventories	**179**	110	10
(Increase) decrease in prepaid expenses and other current assets	**(187)**	78	124
Increase (decrease) in accounts payable	**39**	26	(105)
Increase in accrued salaries and wages	**171**	60	137
Increase (decrease) in other accrued expenses	**306**	(180)	189
Origination of financing receivables	**(325)**	(402)	(431)
Collection of financing receivables not sold	**459**	588	156
Sale of financing receivables	**59**	279	263
Buy-out of off balance sheet receivables facility	**–**	–	(1,029)
Repurchase of financing receivables	**–**	–	(347)
Other adjustments, net	**344**	264	239
Net cash provided by operating activities from continuing operations	**2,114**	2,567	847
Net cash used in operating activities from discontinued operations	**(43)**	(533)	(1,196)
Net cash provided by (used in) operating activities	**2,071**	2,034	(349)
Cash flows from investing activities			
Expenditures for property, plant, and equipment	**(363)**	(428)	(458)
Synthetic lease maturity payment	**–**	(125)	–
Proceeds from sales of property, plant, and equipment	**–**	25	11
Capitalized expenditures for internal use software	**(103)**	(98)	(138)
Increase in other assets	**(1)**	(3)	(36)
Proceeds from sales of operating units and investments	**47**	111	1,166
Payment for purchases of acquired companies, net of cash received	**(112)**	(60)	(10)
Space Imaging debt guarantee payment	**–**	(130)	–
Hughes Defense settlement	**–**	–	134
Net cash (used in) provided by investing activities	**(532)**	(708)	669
Cash flows from financing activities			
Dividends	**(349)**	(331)	(321)
Decrease in short-term debt and other notes	**(13)**	–	(163)
Issuance of long-term debt, net of offering costs	**–**	1,113	566
Repayments of long-term debt	**(1,763)**	(2,078)	(1,294)
Repayments of subordinated notes payable	**(478)**	–	–
Issuance of common stock	**867**	74	147
Proceeds under common stock plans	**92**	13	75
Net cash used in financing activities	**(1,644)**	(1,209)	(990)
Net (decrease) increase in cash and cash equivalents	**(105)**	117	(670)
Cash and cash equivalents at beginning of year	**661**	544	1,214
Cash and cash equivalents at end of year	**$ 556**	$ 661	$ 544

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A: ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of Raytheon Company (the “Company”) and all wholly-owned and majority-owned domestic and foreign subsidiaries (except for RC Trust I, as described in Note I, Equity Security Units). All material intercompany transactions have been eliminated. Certain prior year amounts have been reclassified to conform with the current year presentation.

REVENUE RECOGNITION Sales under long-term government contracts are recorded under the percentage of completion method. Incurred costs and estimated gross margins are recorded as sales when work is performed based on the percentage that incurred costs bear to the Company’s estimates of total costs and contract value. Cost estimates include direct and indirect costs such as labor, materials, warranty, and overhead. Some contracts contain incentive provisions based upon performance in relation to established targets, which are included at estimated realizable value. Contract change orders and claims are included when they can be reliably estimated and realization is probable. Since many contracts extend over a long period of time, revisions in cost and contract value estimates during the progress of work have the effect of adjusting earnings applicable to performance in prior periods in the current period. When the current contract estimate indicates a loss, provision is made for the total anticipated loss in the current period.

Revenue from aircraft sales are recognized at the time of physical delivery of the aircraft. Revenue from certain qualifying non-cancelable aircraft lease contracts are accounted for as sales-type leases. The present value of all payments, net of executory costs, are recorded as revenue, and the related costs of the aircraft are charged to cost of sales. Associated interest, using the interest method, is recorded over the term of the lease agreements. All other leases for aircraft are accounted for under the operating method wherein revenue is recorded as earned over the rental period. Service revenue is recognized ratably over contractual periods or as services are performed. Revenue from the sale of fractional shares is recognized over the expected life of the customer relationship.

Revenue from license fees are recognized over the expected life of the continued involvement with the customer.

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 aircraft sales are determined based upon an estimate of costs that may be incurred under warranty programs.

Activity related to aircraft warranty provisions was as follows:

(In millions)	
Balance at December 31, 2001	$ 17
Accruals for aircraft deliveries in 2002	22
Accruals related to prior year aircraft deliveries	10
Warranty services provided in 2002	(27)
Balance at December 31, 2002	22
Accruals for aircraft deliveries in 2003	21
Accruals related to prior year aircraft deliveries	8
Warranty services provided in 2003	(22)
Balance at December 31, 2003	29
Accruals for aircraft deliveries in 2004	**29**
Accruals related to prior year aircraft deliveries	**3**
Warranty services provided in 2004	**(23)**
Balance at December 31, 2004	**$ 38**

Notes to Consolidated Financial Statements (Continued)

LOT ACCOUNTING The Company uses lot accounting for new commercial aircraft introductions at Raytheon Aircraft. Lot accounting involves selecting an initial lot size at the time a new aircraft begins to be delivered and measuring an average cost over the entire lot for each aircraft sold. The costs attributed to aircraft delivered are based on the estimated average cost of all aircraft in the lot and are determined under the learning curve concept, which anticipates a predictable decrease in unit costs from cost reduction initiatives and as tasks and production techniques become more efficient through repetition. Costs incurred on in-process and delivered aircraft in excess of the estimated average cost were included in inventories and totaled $89 million and $91 million on Premier at December 31, 2004 and 2003, respectively, and $90 million on Horizon at December 31, 2004. Once the initial lot has been completed, the use of lot accounting is discontinued. The Company determines lot size based on several factors, including the size of firm backlog, the expected annual production on the aircraft, and experience on similar new aircraft. The size of the initial lot for the Beechcraft Premier I and the Hawker Horizon is 200 and 75 units, respectively.

RESEARCH AND DEVELOPMENT EXPENSES Expenditures for company-sponsored research and development projects are expensed as incurred. Customer-sponsored research and development projects performed under contracts are accounted for as contract costs as the work is performed.

FEDERAL AND FOREIGN INCOME TAXES The Company and its domestic subsidiaries provide for federal income taxes on pretax accounting income at rates in effect under existing tax law. Foreign subsidiaries have recorded provisions for income taxes at applicable foreign tax rates in a similar manner.

CASH AND CASH EQUIVALENTS Cash and cash equivalents consist of cash and short-term, highly liquid investments with original maturities of 90 days or less.

ALLOWANCE FOR DOUBTFUL ACCOUNTS The Company maintains an allowance for doubtful accounts to provide for the estimated amount of accounts receivable that will not be collected. The allowance is based upon an assessment of customer credit-worthiness, historical payment experience, the age of outstanding receivables, and collateral to the extent applicable.

Activity related to the allowance for doubtful accounts was as follows:

(In millions)	
Balance at December 31, 2001	$113
Provisions	2
Utilizations	(42)
Balance at December 31, 2002	73
Provisions	1
Utilizations	(39)
Balance at December 31, 2003	35
Provisions	**8**
Utilizations	**(2)**
Balance at December 31, 2004	**$ 41**

CONTRACTS IN PROCESS Contracts in process are stated at cost plus estimated profit, but not in excess of realizable value.

Notes to Consolidated Financial Statements (Continued)

INVENTORIES Inventories are stated at cost (first-in, first-out or average cost), but not in excess of realizable value. A provision for excess or inactive inventory is recorded based upon an analysis that considers current inventory levels, historical usage patterns, future sales expectations, and salvage value.

PROPERTY, PLANT, AND EQUIPMENT Property, plant, and equipment are stated at cost. Major improvements are capitalized while expenditures for maintenance, repairs, and minor improvements are charged to expense. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income. Gains and losses resulting from the sale of plant and equipment at the defense businesses are included in overhead and reflected in the pricing of products and services to the U.S. government.

Provisions for depreciation are generally computed using a combination of accelerated and straight-line methods. Depreciation provisions are based on estimated useful lives as follows: buildings – 20 to 45 years, machinery and equipment – 3 to 10 years, and equipment leased to others – 5 to 10 years. Leasehold improvements are amortized over the lesser of the remaining life of the lease or the estimated useful life of the improvement.

IMPAIRMENT OF LONG-LIVED ASSETS Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). This accounting standard addresses financial accounting and reporting for goodwill and other intangible assets and requires that periodic tests of goodwill impairment be performed. A two-step impairment test is used to first identify potential goodwill impairment and then measure the amount of goodwill impairment loss, if any.

In 2002, the Company recorded a goodwill impairment charge of $360 million related to its former Aircraft Integration Systems business (AIS) as a cumulative effect of change in accounting principle. The fair value of AIS was determined based upon the proceeds received by the Company in connection with the sale, as described in Note B, Discontinued Operations. Due to the non-deductibility of this goodwill, the Company did not record a tax benefit in connection with this impairment. Also in 2002, the Company completed the transitional review for potential goodwill impairment in accordance with SFAS No. 142 and recorded a goodwill impairment charge of $185 million pretax or $149 million after-tax, which represented all of the goodwill at Raytheon Aircraft, as a cumulative effect of change in accounting principle. The fair value of Raytheon Aircraft was determined using a discounted cash flow approach. The total goodwill impairment charge in 2002 was $545 million pretax, $509 million after-tax, $1.27 per basic share, or $1.25 per diluted share. The Company performs the annual impairment test in the fourth quarter of each year. There was no goodwill impairment associated with the annual impairment test performed in the fourth quarter of 2004, 2003 and 2002.

The amount of goodwill by segment at December 31, 2004 was $755 million for Integrated Defense Systems, $1,349 million for Intelligence and Information Systems, $3,438 million for Missile Systems, $2,306 million for Network Centric Systems, $2,674 million for Space and Airborne Systems, $867 million for Technical Services, and $127 million for Other. Information about additions to goodwill is included in Note C, Acquisitions and Divestitures. The amount of goodwill by segment at December 31, 2003 was $752 million for Integrated Defense Systems, $1,349 million for Intelligence and Information Systems, $3,438 million for Missile Systems, $2,306 million for Network Centric Systems, $2,639 million for Space and Airborne Systems, $868 million for Technical Services, and $127 million for Other.

Intangible assets subject to amortization consisted primarily of drawings and intellectual property totaling $74 million (net of $52 million of accumulated amortization) at December 31, 2004 and $59 million (net of $38 million

Notes to Consolidated Financial Statements (Continued)

of accumulated amortization) at December 31, 2003. Amortization expense is expected to approximate $9 million for each of the next five years.

In 2002, the Company adopted Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Accordingly, upon indication of possible impairment, the Company evaluates the recoverability of held-for-use long-lived assets by measuring the carrying amount of the assets against the related estimated undiscounted future cash flows. When an evaluation indicates that the future undiscounted cash flows are not sufficient to recover the carrying value of the asset, the asset is adjusted to its estimated fair value. In order for long-lived assets to be considered held-for-disposal, the Company must have committed to a plan to dispose of the assets.

COMPUTER SOFTWARE Internal use computer software, which consists primarily of an integrated financial package, is stated at cost less accumulated amortization and is amortized using the straight-line method over its estimated useful life, generally 10 years.

INVESTMENTS Investments, which are included in other assets, include equity ownership of 20 percent to 50 percent in unconsolidated affiliates and of less than 20 percent in other companies. Investments in unconsolidated affiliates are accounted for under the equity method. Investments in other companies with readily determinable market prices are stated at estimated fair value with unrealized gains and losses included in other comprehensive income. Other investments are stated at cost.

ADVANCE PAYMENTS AND BILLINGS IN EXCESS OF COSTS INCURRED The Company receives advances, performance-based payments, and progress payments from customers which may exceed costs incurred on certain contracts. These advances and payments are shown net of accumulated costs of $1,046 million and $1,071 million at December 31, 2004 and 2003, respectively. In 2004, the Company began classifying billings in excess of costs with advance payments. The Company reclassified $642 million of billings in excess of costs incurred from contracts in process to advance payments and billings in excess of costs incurred at December 31, 2003 to conform with the current year presentation.

COMPREHENSIVE INCOME Comprehensive income and its components are presented in the statement of stockholders' equity.

Accumulated other comprehensive income consisted of the following at December 31:

(In millions)	**2004**	2003
Minimum pension liability	**$(2,025)**	$(2,240)
Unrealized losses on interest-only strips	**(3)**	(2)
Interest rate lock	**(1)**	(1)
Foreign exchange translation	**70**	24
Cash flow hedges	**39**	24
Unrealized gains on investments	**1**	1
Total	**$(1,919)**	$(2,194)

The minimum pension liability adjustment is shown net of tax benefits of $1,089 million and $1,195 million at December 31, 2004 and 2003, respectively. The unrealized losses on interest-only strips are shown net of tax benefits of $1 million at December 31, 2004 and 2003. The interest rate lock is shown net of tax benefits of $1 million at December 31, 2004 and 2003. The cash flow hedges are shown net of tax liabilities of $21 million and $13 million at December 31, 2004 and 2003, respectively.

TRANSLATION OF FOREIGN CURRENCIES Assets and liabilities of foreign subsidiaries are translated at current exchange rates and the effects of these translation adjustments are reported as a component of accumulated other

Notes to Consolidated Financial Statements (Continued)

comprehensive income in stockholders' equity. Deferred taxes are not recognized for translation-related temporary differences of foreign subsidiaries as their undistributed earnings are considered to be permanently invested. Income and expenses in foreign currencies are translated at the weighted-average exchange rate during the period. Foreign exchange transaction gains and losses in 2004, 2003, and 2002 were not material.

PENSION COSTS The Company has several pension and retirement plans covering the majority of employees, including certain employees in foreign countries. Annual charges to income are made for the cost of the plans, including current service costs, interest on projected benefit obligations, and net amortization and deferrals, increased or reduced by the return on assets. Unfunded accumulated benefit obligations are included in accrued retiree benefits and other long-term liabilities. 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.

INTEREST RATE AND FOREIGN CURRENCY CONTRACTS 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 or interest rate locks with commercial and investment banks 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 specific commitments and payments to international vendors and the value of foreign currency denominated receipts. The hedges used by the Company are transaction driven and are directly related to a particular asset, liability, or transaction for which a commitment is in place. These instruments are executed with credit-worthy institutions and the majority of the foreign currencies are denominated in currencies of major industrial countries. The Company does not hold or issue financial instruments for trading or speculative purposes.

FAIR VALUE OF FINANCIAL INSTRUMENTS The estimated fair value of certain financial instruments, including cash, cash equivalents, and short-term debt approximates the carrying value due to their short maturities and varying interest rates. The estimated fair value of notes receivable approximates the carrying value based principally on the underlying interest rates and terms, maturities, collateral, and credit status of the receivables. The estimated fair value of investments, other than those accounted for under the cost or equity method, are based on quoted market prices. The estimated fair value of long-term debt of approximately $5.5 billion at December 31, 2004 was based on quoted market prices.

Estimated fair values for financial instruments are based on pricing models using current market information. The amounts realized upon settlement of these financial instruments will depend on actual market conditions during the remaining life of the instruments.

MINORITY INTEREST The Company's minority interest primarily relates to its investment in Thales-Raytheon Systems Co. Ltd., described in Note G, Other Assets, and is included in other expense, net.

EMPLOYEE STOCK PLANS 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 fair value at the date of award of restricted stock is credited to common stock at par value and the excess is credited to additional paid-in capital. The fair value is charged to income as compensation expense over the vesting period.

In 2004, the Company established the Long-term Performance Plan (LTPP) under the 2001 Stock Plan 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 Company recognizes compensation expense for variable award plans over the performance period based upon the then-current market values of the underlying stock as well as the expected achievement of performance levels.

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 related to the issuance of stock options. Proceeds from the exercise of stock options under employee stock plans are credited to common stock at par value and the excess is credited to additional paid-in capital. Income tax benefits arising from employees' premature disposition of stock option shares and exercise of nonqualified stock options are credited to additional paid-in capital.

Had compensation expense for the Company's stock option awards been determined based on the fair value at the grant date consistent with the methodology prescribed under 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:

(In millions except per share amounts)	**2004**	2003	2002
Reported net income (loss)	**$ 417**	$ 365	$ (640)
Stock-based compensation expense included in reported net income (loss), net of tax	**16**	5	4
Compensation expense determined under the fair value method for all stock-based awards, net of tax	**(71)**	(73)	(63)
Pro forma net income (loss)	**$ 362**	$ 297	$ (699)
Reported basic earnings (loss) per share	**$0.95**	$0.88	$(1.59)
Reported diluted earnings (loss) per share	**0.94**	0.88	(1.57)
Pro forma basic earnings (loss) per share	**$0.83**	$0.72	$(1.74)
Pro forma diluted earnings (loss) per share	**0.82**	0.72	(1.71)

The weighted-average fair value of each stock option granted in 2004, 2003, and 2002 was estimated as $8.70, $8.57, and $13.46, respectively, on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2004	2003	2002
Expected life	**4 years**	4 years	4 years
Assumed annual dividend growth rate	**5%**	–	–
Expected volatility	**30%**	40%	40%
Assumed annual forfeiture rate	**8%**	8%	12%

The risk free interest rate (month-end yields on 4-year treasury strips equivalent zero coupon) ranged from 2.4% to 3.6% in 2004, 2.0% to 3.0% in 2003, and 2.5% to 4.7% in 2002.

RECLASSIFICATION OF FINANCIAL STATEMENTS Based upon recent public guidance provided by the staff of the Securities and Exchange Commission, the Company has determined that certain transactions of Raytheon Aircraft should be reclassified in the statement of cash flows from investing activities to operating activities.

Those transactions are as follows. The Company provides long-term financing to its aircraft customers. When the Company sells a plane to a customer and provides long-term financing, no cash is received by the Company. Origination of financing receivables was $325 million in 2004, $402 million in 2003, and $431 million in 2002. The Company received proceeds of $59 million in 2004 and $279 million in 2003 related to the sale of certain general

Notes to Consolidated Financial Statements (Continued)

aviation finance receivables. The Company also maintained a program under which it sold general aviation and commuter aircraft long-term receivables under a receivables purchase facility through the end of 2002. In connection with this program in 2002, the sale of financing receivables was $263 million and the repurchase of financing receivables was $347 million. The Company bought out the receivables that remained in the facility in 2002 for $1,029 million, brought the related assets onto the Company's books, and eliminated the associated $1.4 billion receivables purchase facility.

The Company's statement of cash flows has been adjusted to reflect the fact that there was no cash received upon the initial sale of aircraft, and to classify cash receipts from the sale of inventory as operating activities, which resulted in the following changes to previously reported amounts:

(In millions)	2003	
	Previously Reported	As Reclassified
Net cash provided by operating activities from continuing operations	$ 2,102	$ 2,567
Net cash provided by operating activities	1,569	2,034
Net cash used in investing activities	(243)	(708)

(In millions)	2002	
	Previously Reported	As Reclassified
Net cash provided by operating activities from continuing operations	$ 2,235	$ 847
Net cash provided by (used in) operating activities	1,039	(349)
Net cash (used in) provided by investing activities	(719)	669

ACCOUNTING STANDARDS In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payments (SFAS No. 123R). This accounting standard, which is effective for interim and annual periods beginning after June 15, 2005, requires the recognition of compensation expense related to stock options under SFAS No. 123, Accounting for Stock-Based Compensation. The Company plans to adopt SFAS No. 123R prospectively in the third quarter of 2005 with an anticipated impact to earnings per share of less than $0.02 per share in 2005 and 2006.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, an amendment of ARB No. 43, Chapter 4, Inventory Costs (SFAS No. 151). This accounting standard, which is effective for annual periods beginning after June 15, 2005, requires that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. The adoption of SFAS No. 151 is not expected to have a material effect on the Company's financial position or results or operations.

RISKS AND UNCERTAINTIES The Company is engaged in supplying defense-related equipment to the U.S. and foreign governments, and is subject to certain business risks specific to that industry. Sales to the government may be affected by changes in procurement policies, budget considerations, changing concepts of national defense, political developments abroad, and other factors.

The highly competitive market for business and special mission aircraft is also subject to certain business risks. These risks include timely development and certification of new product offerings, the current state of the general aviation and commuter aircraft markets, and government regulations affecting commuter aircraft.

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.

NOTE B: DISCONTINUED OPERATIONS

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 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 closeout efforts which includes warranty obligations, commercial close out, 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 these projects. In meeting its obligations under the remaining Support Agreements, the Company has various risks and exposures, including delays, equipment and subcontractor performance, warranty close out, 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.

In 2004, 2003, and 2002, the pretax loss from discontinued operations related to RE&C was $42 million, $231 million, and $966 million, respectively. In 2004, the Company recorded a $24 million after-tax charge 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. Included in 2003 and 2002 were charges of $176 million and $796 million, respectively, related to two construction projects, the Mystic Station facility in Everett, MA and the Fore River facility in Weymouth, MA. Following WGI's abandonment of these projects in 2001, the Company undertook construction efforts and subsequently delivered care, custody, and control of these projects to their owners in 2003 and closed on a settlement agreement with the project owners and other interested parties in 2004. The charges resulted from delays, labor and material cost growth, productivity issues, equipment and subcontractor performance, schedule liquidated damages, inaccurate estimates of field engineered materials, and disputed changes. In 2002, the Company allocated $79 million of interest expense to RE&C based upon actual cash outflows since the date of disposition. Since the projects were nearing completion, the Company did not allocate interest expense to RE&C after 2002.

The loss from discontinued operations, net of tax, related to RE&C was $48 million, $151 million, and $645 million in 2004, 2003, and 2002, respectively.

Liabilities from discontinued operations included net current liabilities for RE&C of $17 million and $37 million at December 31, 2004 and 2003, respectively.

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

Notes to Consolidated Financial Statements (Continued)

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. There was no pretax gain or loss on the sale of AIS, however, due to the non-deductible goodwill associated with AIS, the company recorded a tax provision of $212 million, resulting in a $212 million after-tax loss on the sale of AIS. 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, which is now essentially complete.

In 2004, 2003, and 2002, the pretax loss from discontinued operations related to AIS was $23 million, $30 million and $47 million, respectively, primarily related to the completion of the BBJ program.

The income (loss) from discontinued operations related to AIS, including the $212 million after-tax loss on the sale, was as follows:

(In millions)	**2004**	2003	2002
Net sales	**$ –**	$ –	$ 202
Operating expenses	**–**	–	196
Income before taxes	**–**	–	6
Federal and foreign income taxes	**–**	–	2
Income (loss) from discontinued operations	**–**	–	4
Loss on disposal of discontinued operations, net of tax	**–**	–	(212)
Adjustments, net of tax	**(15)**	(19)	(34)
Total	**$(15)**	$(19)	$(242)

Assets and liabilities related to AIS included net current assets of $19 million and $59 million and net current liabilities of $7 million and $6 million as of December 31, 2004 and 2003, respectively.

In 2004, the total loss from discontinued operations was $65 million pretax, $63 million after-tax, or $0.14 per basic and diluted share versus $261 million pretax, $170 million after-tax, or $0.41 per basic and diluted share in 2003 and $1,013 million pretax, $887 million after-tax, or $2.21 per basic share and $2.17 per diluted share in 2002.

NOTE C: ACQUISITIONS AND DIVESTITURES

In 2004, the Company acquired Photon Research Associates Inc. for $42 million, net of cash received. In addition, the Company may be required to make certain performance-based incentive payments. Assets acquired included $5 million of contracts in process, $1 million of property, plant and equipment, and $1 million of other assets. Liabilities assumed included $2 million of accrued salaries and wages and $3 million of other accrued liabilities. The Company also recorded $5 million of intangible assets and $35 million of goodwill (at Space and Airborne Systems) in connection with this acquisition.

In 2004, the Company sold its commercial infrared business for $43 million and recorded a pretax gain of $10 million which is included in other income.

In 2003, the Company acquired Solipsys Corporation for $170 million, net of cash received, to be paid over two years. The Company paid $70 million in cash in 2004 and $40 million, net, in cash in 2003 and intends to make the final cash payment, which has been accrued, in the first quarter of 2005. In addition, the Company may be required to make certain performance-based incentive payments. Assets acquired included $7 million of contracts in process. Liabilities assumed included $2 million of accounts payable and $3 million of accrued salaries and wages.

The Company also recorded $8 million of intangible assets and $160 million of goodwill (at Integrated Defense Systems) in connection with this acquisition.

In 2003, the Company acquired the Aerospace and Defence Services business unit of Honeywell International Inc. for $20 million in cash. Assets acquired included $4 million of contracts in process. Liabilities assumed included $1 million of accounts payable and $2 million of other accrued expenses. The Company also recorded $8 million of intangible assets and $11 million of goodwill (at Technical Services) in connection with this acquisition.

In 2002, the Company acquired JPS Communications, Inc. for $10 million in cash. Assets acquired included $2 million of accounts receivable and $2 million of inventories. The Company also recorded $4 million of goodwill (at Network Centric Systems) and $2 million of intangible assets in connection with this acquisition.

Pro forma financial information has not been provided for these acquisitions as they are not material either individually or in the aggregate. In addition, the Company has entered into other acquisition and divestiture agreements in the normal course of business that have not been separately disclosed as they are not material.

In 2002, the Company formed a joint venture with Flight Options, Inc. whereby the Company contributed its Raytheon Travel Air fractional ownership business and loaned the new entity $20 million. In June 2003, the Company participated in a financial recapitalization of Flight Options LLC (FO) and exchanged certain FO debt for equity. The Company now owns approximately 65 percent of FO and is consolidating FO’s results in its financial statements. The Company is recording 100 percent of FO’s losses since the Company has been meeting all FO’s financing requirements. FO’s customers, in certain instances, have the contractual ability to require FO to buy back their fractional share based on its current fair market value. The estimated value of this potential obligation was approximately $575 million at December 31, 2004. Assets acquired included $83 million of inventories and $27 million of other current assets. Liabilities assumed included $97 million of notes payable and long-term debt, $90 million of advance payments, and $76 million of accounts payable and accrued expenses. The Company also recorded $26 million of intangible assets and $127 million of goodwill (at the Other Segment) in connection with this recapitalization.

In 2004, FO issued 7.4 million restricted common FO shares to certain key employees, representing 5.6 percent of the total outstanding common shares of FO at December 31, 2004. In 2004, the restrictions on 6.8 million restricted common shares lapsed. Also in 2004, FO issued 6.4 million stock options with an exercise price of $0.01 per share. In 2004, 1.5 million stock options expired and 0.1 million stock options were exercised, therefore, there were 4.8 million stock options outstanding at December 31, 2004.

The Company merged with the defense business of Hughes Electronics Corporation (Hughes Defense) in December 1997. In October 2001, the Company and Hughes Electronics agreed to a settlement regarding the purchase price adjustment related to the Company’s merger with Hughes Defense. Under the terms of the merger agreement, Hughes Electronics agreed to reimburse the Company approximately $635 million of its purchase price over time, with the final payment received in 2002.

Notes to Consolidated Financial Statements (Continued)

NOTE D: CONTRACTS IN PROCESS

Contracts in process consisted of the following at December 31, 2004:

(In millions)	Cost Type	Fixed Price	Total
U.S. government end-use contracts			
Billed	**$ 393**	**$ 295**	**$ 688**
Unbilled	**845**	**4,253**	**5,098**
Less progress payments	**–**	**(3,326)**	**(3,326)**
	1,238	**1,222**	**2,460**
Other customers			
Billed	**19**	**226**	**245**
Unbilled	**11**	**1,285**	**1,296**
Less progress payments	**–**	**(487)**	**(487)**
	30	**1,024**	**1,054**
Total	**$1,268**	**$ 2,246**	**$ 3,514**

Contracts in process consisted of the following at December 31, 2003:

(In millions)	Cost Type	Fixed Price	Total
U.S. government end-use contracts			
Billed	$ 427	$ 277	$ 704
Unbilled	637	4,018	4,655
Less progress payments	–	(3,004)	(3,004)
	1,064	1,291	2,355
Other customers			
Billed	13	298	311
Unbilled	11	997	1,008
Less progress payments	–	(372)	(372)
	24	923	947
Total	$1,088	$ 2,214	$ 3,302

The U.S. government has title to the assets related to unbilled amounts on contracts that provide for progress payments. Unbilled amounts are recorded under the percentage of completion method and are recoverable from the customer upon shipment of the product, presentation of billings, or completion of the contract.

Included in contracts in process at December 31, 2004 and 2003 was $66 million and $77 million, respectively, related to claims on contracts, which were recorded at their estimated realizable value. The Company believes that it has a legal basis for pursuing recovery of these claims and that collection is probable. The settlement of these amounts depends on individual circumstances and negotiations with the counterparty, therefore, the timing of the collection will vary and approximately $9 million of collections are expected to extend beyond one year.

Billed and unbilled contracts in process include retentions arising from contractual provisions. At December 31, 2004, retentions amounted to $48 million and are anticipated to be collected as follows: $43 million in 2005, $2 million in 2006, and the balance thereafter.

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Notes to Consolidated Financial Statements (Continued)

NOTE E: INVENTORIES

Inventories consisted of the following at December 31:

(In millions)	**2004**	2003
Finished goods	**$ 553**	$ 669
Work in process	**938**	1,023
Materials and purchased parts	**254**	306
Total	**$1,745**	$1,998

Inventories at Raytheon Aircraft, Flight Options, and Raytheon Airline Aviation Services totaled $1,420 million at December 31, 2004 (consisting of $537 million of finished goods, $681 million of work in process, and $202 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).

NOTE F: PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following at December 31:

(In millions)	**2004**	2003
Land	**$ 89**	$ 90
Buildings and leasehold improvements	**1,885**	1,769
Machinery and equipment	**3,775**	3,463
Equipment leased to others	**172**	189
	5,921	5,511
Less accumulated depreciation and amortization	**(3,183)**	(2,800)
Total	**$ 2,738**	$ 2,711

Depreciation expense was $361 million, $333 million, and $305 million in 2004, 2003, and 2002, respectively. Accumulated depreciation of equipment leased to others was $29 million and $25 million at December 31, 2004 and 2003, respectively.

General and program specific manufacturing equipment and tooling at Raytheon Aircraft are included in property, plant, and equipment. There was $205 million and $209 million of program specific manufacturing equipment and tooling related to Premier and Horizon at December 31, 2004 and 2003, respectively.

Future minimum lease payments from non-cancelable aircraft operating leases, which extend to 2017, amounted to $87 million at December 31, 2004 and were due as follows:

(In millions)	
2005	$21
2006	19
2007	16
2008	14
2009	9
Thereafter	8

Notes to Consolidated Financial Statements (Continued)

NOTE G: OTHER ASSETS

Other assets, net consisted of the following at December 31:

(In millions)	**2004**	2003
Long-term receivables		
Due from customers in installments to 2015	**$ 315**	$ 464
Other, principally due through 2007	**70**	40
Sales-type leases, due in installments to 2011	**86**	50
Computer software, net	**479**	456
Pension-related intangible asset	**186**	199
Investments	**149**	146
Other noncurrent assets	**705**	498
Total	**$1,990**	$1,853

The Company provides long-term financing to its aircraft customers. The underlying aircraft serve as collateral for general aviation and commuter aircraft receivables. The Company maintains reserves for estimated uncollectible aircraft-related long-term receivables. The balance of these reserves was $28 million and $60 million at December 31, 2004 and 2003, respectively. The reserves for estimated uncollectible aircraft-related long-term receivables represent the Company’s current estimate of future losses. The Company established these reserves based on an overall evaluation of identified risks. As a part of that evaluation, the Company evaluated certain specific receivables and considered factors including extended delinquency and requests for restructuring, among other things. Long-term receivables included commuter aircraft receivables of $281 million and $363 million at December 31, 2004 and 2003, respectively.

The Company accrues interest on aircraft-related long-term receivables in accordance with the terms of the underlying notes. When an aircraft-related long-term receivable is over 90 days past due, the Company generally stops accruing interest. At December 31, 2004 and 2003, there were $27 million and $37 million, respectively, of aircraft-related long-term receivables on which the Company was not accruing interest. Interest payments related to these receivables are credited to income when received. Once a past-due receivable has been brought current, the Company begins to accrue interest again. Interest deemed to be uncollectible is written off at the time the determination is made.

In 2004, the Company entered into an agreement to sell certain general aviation finance receivables, with the buyer assuming all servicing responsibilities. As part of the agreement, the Company retained a first loss deficiency guarantee of 7.5% of the receivable amount sold. In 2004, $37 million of receivables were sold under the agreement, with no associated gain or loss. Also in 2004, the Company sold $22 million of general aviation finance receivables without any continuing involvement.

In 2003, the Company sold an undivided interest in $337 million of general aviation finance receivables, received proceeds of $279 million, retained a subordinated interest in and servicing rights to the receivables, and recognized a gain of $2 million. In connection with the sale, the Company formed a qualifying special purpose entity (QSPE) for the sole purpose of buying these receivables. The Company irrevocably, and without recourse, transferred the receivables to the QSPE which in turn, issued beneficial interests in these receivables to a commercial paper conduit. The transaction involves a third party guarantee of the conduit investment. The assets of the QSPE are not available to pay the claims of the Company or any other entity. The Company retained a subordinated interest in the receivables sold of approximately 17 percent. The conduit obtained the funds to purchase the interest in the receivables, other than the retained interest, by selling commercial paper to third-party investors. The Company retained responsibility for the collection and administration of receivables. The Company continues to service the sold receivables and charges the third party conduit a monthly servicing fee at market rates.

The Company accounted for the sale under Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. The gain was determined at the date of transfer based upon the relative fair value of the assets sold and the interests retained. The Company estimated the fair value at the date of transfer and at December 31, 2004 and 2003 based on the present value of future expected cash flows using certain key assumptions, including collection period and a discount rate of 5.0%, 5.6%, and 5.0%, respectively. At December 31, 2004 a 10 and 20 percent adverse change in the collection period and discount rate would not have a material effect on the Company's financial position or results of operations.

At December 31, 2004 and 2003, the outstanding balance of securitized accounts receivable held by the third party conduit totaled $204 million and $320 million, respectively, of which the Company's subordinated retained interest was $58 million and the fair value of the servicing asset was $4 million and $6 million, respectively.

The Company also maintained a program under which it sold general aviation and commuter aircraft long-term receivables under a receivables purchase facility through the end of 2002. The Company bought out the receivables that remained in the facility in 2002 for $1,029 million and brought the related assets onto the Company's books. The loss resulting from the sale of receivables into this facility in 2002 was $6 million.

In connection with the buyback of the off balance sheet receivables, the Company recorded the long-term receivables at estimated fair value, which included an assessment of the value of the underlying aircraft. As a result of this assessment, the Company adjusted the value of certain underlying aircraft, including both commuter and Starship aircraft, some of which were written down to scrap value. There was no net income statement impact as a result of this activity.

The increase in computer software in 2004 was due to the Company's conversion of significant portions of its existing financial systems to a new integrated financial package. Computer software amortization expense was $64 million, $52 million, and $54 million in 2004, 2003 and 2002, respectively. Accumulated amortization of computer software was $261 million and $241 million at December 31, 2004 and 2003, respectively.

Investments, which are included in other assets, consisted of the following at December 31:

(In millions)	2004 Ownership %	**2004**	2003
Equity method investments:			
Thales-Raytheon Systems Co. Ltd.	50.0	**$ 87**	$ 78
HRL Laboratories, LLC	33.3	**30**	30
Indra ATM S.L.	49.0	**12**	12
TelASIC Communications	23.5	**3**	7
Other	n/a	**7**	9
		139	136
Other investments		**10**	10
Total		**$149**	$146

In 2001, the Company formed a joint venture, Thales-Raytheon Systems (TRS) that has two major operating subsidiaries, one of which the Company controls and consolidates. TRS is a system of systems integrator and

Notes to Consolidated Financial Statements (Continued)

provides fully customized solutions through the integration of command and control centers, radars, and communication networks. HRL Laboratories is a scientific research facility whose staff engages in the areas of space and defense technologies. Indra develops flight data processors for air traffic control automation systems. TelASIC Communications delivers high performance, cost-effective radio frequency (RF), analog mixed signal, and digital solutions for both the commercial and defense electronics markets.

In addition, the Company has entered into joint ventures formed specifically to facilitate a teaming arrangement between two contractors for the benefit of the customer, generally the U.S. government, whereby the Company receives a subcontract from the joint venture in the joint venture's capacity as prime contractor. Accordingly, the Company records the work it performs for the joint venture as operating activity.

Certain joint ventures and equity and cost method investments are not listed separately in the table above as the Company's investment in these entities is less than $5 million. Information for these joint ventures and investments has not been separately disclosed since they are not material either individually on in the aggregate.

NOTE H: NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt consisted of the following at December 31:

(In millions)	**2004**	2003
Notes payable at a weighted-average interest rate of 5.63% and 6.25% for December 31, 2004 and 2003	**$ 36**	$ 15
Current portion of long-term debt	**480**	–
Notes payable and current portion of long-term debt	**516**	15
Notes due 2005, floating rate, 1.64% at December 31, 2003	**–**	200
Notes due 2006, 8.20%	**–**	191
Notes due 2005, 6.30%, not redeemable prior to maturity	**123**	123
Notes due 2005, 6.50%, not redeemable prior to maturity	**357**	689
Notes due 2007, 4.50%, redeemable at any time	**118**	224
Notes due 2007, 6.75%, redeemable at any time	**560**	924
Notes due 2008, 6.15%, redeemable at any time	**309**	542
Notes due 2010, 6.00%, redeemable at any time	**86**	222
Notes due 2010, 6.55%, redeemable at any time	**243**	244
Notes due 2010, 8.30%, redeemable at any time	**398**	398
Notes due 2011, 4.85%, redeemable at any time	**449**	496
Notes due 2012, 5.50%, redeemable at any time	**329**	346
Notes due 2013, 5.375%, redeemable at any time	**341**	419
Debentures due 2018, 6.40%, redeemable at any time	**337**	372
Debentures due 2018, 6.75%, redeemable at any time	**249**	249
Debentures due 2025, 7.375%, redeemable after 2005	**192**	205
Debentures due 2027, 7.20%, redeemable at any time	**360**	359
Debentures due 2028, 7.00%, redeemable at any time	**184**	184
Other notes with varying interest rates	**74**	130
Less installments due within one year	**(480)**	–
Long-term debt	**4,229**	6,517
Subordinated notes payable	**408**	859
Total debt issued and outstanding	**$5,153**	$7,391

Notes to Consolidated Financial Statements (Continued)

The debentures due in 2025 are redeemable at the option of the Company on or after July 15, 2005 at redemption prices no greater than 103 percent of par. The notes and debentures redeemable at any time are at redemption prices equal to the present value of remaining principal and interest payments. Information about the subordinated notes payable is included in Note I, Equity Security Units.

In 2004, the Company repurchased long-term debt with a par value of $1,773 million at a loss of $100 million pretax, which was included in other expense. The Company enters 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 remained outstanding at December 31, 2004 effectively converted that portion of the Company's total debt to variable rate debt. The Company has on file a shelf registration with the Securities and Exchange Commission for the issuance of up to $3.0 billion in debt securities, common or preferred stock, warrants to purchase any of the aforementioned securities, and/or stock purchase contracts, under which $1.3 billion remained outstanding at December 31, 2004.

In 2001, the Company entered into various interest rate swaps that corresponded to a portion of the Company's fixed rate debt in order to effectively hedge interest rate risk. In 2002, the Company closed out these interest rate swaps and received proceeds of $95 million which will be amortized over the remaining life of the debt as a reduction of interest expense. The unamortized balance was $14 million and $45 million at December 31, 2004 and 2003, respectively.

In 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. Also in 2003, the Company issued $500 million of long-term debt and $200 million of floating rate notes. The proceeds were used to partially fund the repurchase of long-term debt with a par value of $924 million at a loss of $77 million pretax, which was included in other expense, $50 million after-tax, or $0.12 per diluted share.

In 2002, the Company issued $575 million of long-term debt to reduce the amounts outstanding under the Company's lines of credit. Also in 2002, the Company repurchased debt with a par value of $96 million at a gain of $2 million pretax, which was included in other income, or $1 million after-tax.

The principal amounts of long-term debt were reduced by debt issue discounts of $81 million and $102 million at December 31, 2004 and 2003, respectively and interest rate hedging costs of $54 million and $105 million, at December 31, 2004 and 2003, respectively, on the date of issuance, and are reflected as follows at December 31:

(In millions)	**2004**	2003
Principal	**$4,765**	$6,593
Unamortized issue discounts	**(30)**	(41)
Unamortized interest rate hedging costs	**(26)**	(35)
Installments due within one year	**(480)**	–
Total	**$4,229**	$6,517

Notes to Consolidated Financial Statements (Continued)

The aggregate amounts of installments due on long-term debt and subordinated notes payable for the next five years are:

(In millions)	
2005	$516
2006	418
2007	679
2008	310
2009	1

The Company's most restrictive 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. In July 2003, the covenant was amended to exclude pretax charges of $100 million related to RE&C and in October 2003 the covenant was further amended to exclude $226 million of pretax charges related to Network Centric Systems and Technical Services, and $78 million of pretax charges related to RE&C. The Company was in compliance with the interest coverage ratio covenant, as amended, during 2004.

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 December 31, 2004, consisting of $1.0 billion which matures in May 2005 and $1.3 billion which matures in 2006. The lines of credit were $2.7 billion at December 31, 2003. There were no borrowings under the lines of credit at December 31, 2004, however, the Company had approximately $100 million of outstanding letters of credit which effectively reduced the Company's borrowing capacity under the lines of credit to $2.2 billion. There were no borrowings under the lines of credit at December 31, 2003.

Uncommitted credit lines with banks are also maintained by certain foreign subsidiaries to provide them with a limited amount of short-term liquidity. These lines of credit were $91 million and $99 million at December 31, 2004 and 2003, respectively. There were no amounts outstanding under these lines of credit at December 31, 2004. There was $1 million outstanding under these lines of credit at December 31, 2003. Compensating balance arrangements are not material.

Total cash paid for interest on notes payable and long-term debt was $396 million, $515 million, and $522 million in 2004, 2003, and 2002, respectively, including amounts classified as discontinued operations.

NOTE I: EQUITY SECURITY UNITS

In 2001, the Company issued 17,250,000, 8.25%, $50 par value equity security units. Each equity security unit consisted of a contract to purchase shares of the Company's common stock on May 15, 2004 and a mandatorily redeemable equity security with a stated liquidation amount of $50 due on May 15, 2006.

In 2004, in accordance with the terms of the equity security units, the Company received proceeds of $863 million and issued 27.0 million shares of common stock. The contract required a quarterly distribution, which was recorded as a reduction to additional paid-in capital, of 1.25% per year of the stated amount of $50 per purchase contract. Cash paid for the quarterly distribution on the contract was $4 million in 2004 and $11 million in 2003 and 2002. The mandatorily redeemable equity security represents preferred stock of RC Trust I (RCTI), a 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 and represent an undivided interest in the assets of RCTI, a Delaware business trust formed for the purpose of issuing these securities

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and whose assets consist solely of subordinated notes receivable issued by the Company. RCTI is considered to be a variable interest entity and because the preferred stock was a part of the equity security units issued by the Company, the Company is not considered the primary beneficiary of RCTI. As a result, RCTI is not consolidated by the Company. The Company has a $27 million investment in RCTI which represents all of the common stock of RCTI and is included in other noncurrent assets. The Company owes $27 million to RCTI (included in subordinated notes payable) in connection with this investment.

The subordinated notes payable paid a quarterly distribution, which was included in interest expense, of 7.0% per year. The terms of the equity security units required that the mandatorily redeemable equity securities be remarketed. On February 11, 2004, the mandatorily redeemable equity securities were remarketed and the quarterly distribution rate on the mandatorily redeemable equity securities and the subordinated notes payable were reset at 7.0%. Neither the Company nor RCTI received any proceeds from the remarketing. The proceeds were pledged to collateralize the holders' obligations under the contract to purchase the Company's common stock on May 15, 2004.

In 2004, subordinated notes payable with a par value of $481 million were repurchased at a loss of $32 million pretax, which was included in other expense.

Cash paid for the quarterly distribution on the subordinated notes payable was $47 million in 2004 and $60 million in 2003 and 2002.

NOTE J: STOCKHOLDERS' EQUITY

The changes in shares of common stock outstanding were as follows:

(In thousands)	
Balance at December 31, 2001	395,432
Issuance of common stock	9,218
Common stock plan activity	3,638
Treasury stock activity	(79)
Balance at December 31, 2002	408,209
Issuance of common stock	8,977
Common stock plan activity	1,021
Treasury stock activity	(71)
Balance at December 31, 2003	418,136
Issuance of common stock	**29,472**
Common stock plan activity	**5,715**
Treasury stock activity	**(227)**
Balance at December 31, 2004	**453,096**

The Company issued 2,325,000; 6,486,000; and 5,100,000 shares of common stock in 2004, 2003, and 2002 respectively, to fund the Company Match and Company Contributions, as described in Note N, Pension and Other Employee Benefits. In addition, employee-directed 401(k) plan purchases (Employee Contributions) of the Company stock fund were funded through the issuance of 134,000; 2,491,000; and 4,118,000 shares of common stock in 2004, 2003, and 2002, respectively.

Basic earnings per share (EPS) is computed by dividing net income by the weighted-average shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

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Notes to Consolidated Financial Statements (Continued)

The weighted-average shares outstanding for basic and diluted EPS were as follows:

(In thousands)	**2004**	2003	2002
Average common shares outstanding for basic EPS	**438,149**	412,686	401,444
Dilutive effect of stock options, restricted stock, LTPP, and equity security units	**4,052**	2,743	6,587
Shares for diluted EPS	**442,201**	415,429	408,031

Stock options to purchase 18.7 million, 30.6 million, and 23.7 million shares of common stock outstanding at December 31, 2004, 2003, and 2002, respectively, did not affect the computation of diluted EPS. The exercise prices for these options were greater than the average market price of the Company's common stock during the respective years.

Stock options to purchase 19.5 million, 15.3 million, and 17.9 million shares of common stock outstanding at December 31, 2004, 2003, and 2002, 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 and restricted stock in the table above.

In November 2004, the Board of Directors authorized the repurchase, between January 1, 2005 and December 31, 2006, of up to $700 million of the Company's common stock. Purchases may take place from time to time at the Company's discretion depending on market conditions. There were no shares repurchased under this program during 2004.

The Board of Directors is authorized to issue up to 200,000,000 shares of preferred stock, $0.01 par value per share, in multiple series with terms as determined by the Board of Directors.

NOTE K: FEDERAL AND FOREIGN INCOME TAXES

The provision for federal and foreign income taxes consisted of the following:

(In millions)	**2004**	2003	2002
Current income tax expense			
Federal	**$138**	$130	$ 51
Foreign	**7**	3	5
Deferred income tax (benefit) expense			
Federal	**(5)**	94	243
Foreign	**–**	–	21
Total	**$140**	$227	$320

The provision (benefit) for state income taxes of $6 million, $(1) million, and $15 million in 2004, 2003, and 2002, respectively, was included in administrative and selling expenses as these costs can generally be recovered through the pricing of products and services to the U.S. government in the period for which the tax is payable. Accordingly, the deferred state income tax provision (benefit), which is not material, will be allocated to contracts in future periods as they are realized.

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

	2004	2003	2002
Statutory tax rate	**35.0%**	35.0%	35.0%
Foreign tax credit benefit	**(5.5)**	–	–
Extraterritorial income exclusion/foreign sales corporation tax benefit	**(3.4)**	(3.1)	(3.5)
ESOP dividend deduction benefit	**(2.3)**	(1.7)	(1.1)
Research and development tax credit	**(0.9)**	(0.8)	(1.0)
Other, net	**1.3**	0.4	0.3
Effective tax rate	**24.2%**	29.8%	29.7%

In 2004, 2003, and 2002, domestic income (loss) before taxes was $559 million, $493 million, and $(12) million, respectively, and foreign income before taxes was $20 million, $8 million, and $75 million, respectively. Income reported for federal and foreign tax purposes differs from pretax accounting income due to differences between U.S. Internal Revenue Code or foreign tax law requirements and the Company's accounting practices. No provision has been made for deferred taxes on undistributed earnings of non-U.S. subsidiaries as these earnings have been indefinitely reinvested. Determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable. Net cash (payments) refunds were $(5) million, $(13) million, and $145 million in 2004, 2003, and 2002, respectively.

The American Jobs Creation Act of 2004, (the "Act") was enacted on October 22, 2004. The Act repealed and provided transitional relief for the exclusion of extraterritorial income for transactions after December 31, 2004. The Act also provides a deduction for income derived from qualifying domestic production activities; the deduction is phased in over a 5 year period at rates of 3% in years 2005 and 2006, 6% in years 2007, 2008, and 2009 and 9% thereafter. The Company anticipates a significant tax benefit from this provision. The Act also extended the carryover period for foreign tax credits from 5 to 10 years and reinstated the research and development tax credit. The Company recorded a tax benefit of $42 million in 2004 related to the extension of the carryover period.

Deferred federal and foreign income taxes consisted of the following at December 31:

(In millions)	**2004**	2003
Current deferred tax assets		
Other accrued expenses	**$ 299**	$ 289
Accrued salaries and wages	**122**	105
Contracts in process and inventories	**48**	72
Deferred federal and foreign income taxes–current	**$ 469**	$ 466
Noncurrent deferred tax assets (liabilities)		
Net operating loss and foreign tax credit carryforwards	**$ 428**	$ 631
Pension benefits	**427**	310
Other retiree benefits	**123**	226
Depreciation and amortization	**(880)**	(703)
Revenue on leases and other	**(27)**	(127)
Deferred federal and foreign income taxes-noncurrent	**$ 71**	$ 337

There were $3 million and $12 million of taxes refundable included in prepaid expenses and other current assets at December 31, 2004 and 2003, respectively. Federal tax (expenses) benefits related to discontinued operations were $(20) million and $91 million at December 31, 2004 and 2003, respectively, and were included in deferred federal and foreign income taxes in the table above.

At December 31, 2004, the Company had net operating loss carryforwards of $835 million that expire in 2020 through 2023, foreign tax credit carryforwards of $108 million that expire in 2009 through 2014, and research tax credit carryforwards of $31 million that expire in 2018 to 2024. The Company believes it will be able to utilize all of these carryforwards over the next 4 to 5 years.

NOTE L: COMMITMENTS AND CONTINGENCIES

At December 31, 2004, the Company had commitments under long-term leases requiring annual rentals on a net lease basis as follows:

(In millions)	
2005	$340
2006	263
2007	207
2008	159
2009	107
Thereafter	283

Rent expense in 2004, 2003, and 2002 was $236 million, $223 million, and $245 million, respectively. In the normal course of business, the Company leases equipment, office buildings, and other facilities under leases that include standard escalation clauses for adjusting rent payments to reflect changes in price indices, as well as renewal options.

At December 31, 2004, the Company had commitments under an agreement to outsource a significant portion of its information technology function requiring minimum annual payments as follows:

(In millions)	
2005	$71
2006	68
2007	68
2008	68
2009	68
Thereafter	–

In connection with certain aircraft sales, the Company has offered trade-in incentives whereby the customer will receive a pre-determined trade-in value if they purchase another aircraft from the Company. The difference between the value of these trade-in incentives, the majority of which expire by the end of 2006, and the current estimated fair value of the underlying aircraft was approximately $4 million at December 31, 2004. There is a high degree of uncertainty inherent in the assessment of the likelihood and value of trade-in commitments.

The Company self-insures for losses and expenses for aircraft product liability up to a maximum of $10 million per occurrence and $50 million annually. Insurance is purchased from third parties to cover excess aggregate liability exposure from $50 million to $1.25 billion. This coverage also includes the excess of liability over $10 million per occurrence. The aircraft product liability reserve was $38 million and $33 million at December 31, 2004 and 2003, respectively.

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 $130 million. Discounted at a weighted-average risk-free rate of 5.8 percent, the Company estimates the liability to be $92 million before U.S. government recovery and had this amount accrued at December 31, 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 $59 million at December 31, 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.

Environmental remediation costs expected to be incurred are:

(In millions)	
2005	$34
2006	14
2007	10
2008	9
2009	8
Thereafter	55

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, advance payment, and certain financial obligations. Approximately $294 million, $827 million, and $250 million of these guarantees, letters of credit, and surety bonds, for which there were stated values, were outstanding at December 31, 2004, respectively and $354 million, $890 million, and $389 million were outstanding at December 31, 2003, respectively. These instruments expire on various dates through 2015. At December 31, 2004, the amount of guarantees, letters of credit, and surety bonds, for which there were stated values, that remained outstanding was $94 million, $9 million, and $234 million, respectively, related to discontinued operations and are included in the numbers above compared to $99 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.

At December 31, 2004, RAC had unconditional purchase obligations of $40 million primarily related to component parts for the Horizon aircraft with varying purchase quantities for up to 200 aircraft. In addition, the Company's defense businesses may enter into purchase commitments which can generally be recovered through the pricing of products and services to the U.S. government. These unconditional purchase obligations are not included in the table above.

In 2001, the Company formed a joint venture, Thales-Raytheon Systems (TRS), described in Note G, Other Assets. The Company has guaranteed TRS-related borrowings of up to $34 million under which $12 million was outstanding at December 31, 2004. The Company has also entered into other joint ventures, also described in Note G, Other Assets. TRS and the other joint ventures, in the normal course of business, have banks issue letters of credit and guarantees related to project performance and other contractual obligations. While the Company expects these joint ventures to satisfy their loan, project performance, and other contractual obligations, their failure to do so may result in a future obligation for the Company.

Notes to Consolidated Financial Statements (Continued)

In 1997, the Company provided a first loss guarantee of $133 million on $1.3 billion of U.S. Export-Import Bank loans (maturing in 2015) to the Brazilian government related to the System for the Vigilance of the Amazon (SIVAM) program being performed by the Company's Network Centric Systems segment.

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.

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 May 2004, without admitting any liability or wrongdoing, the Company reached an agreement to settle a securities class action lawsuit originally filed in 1999 on behalf of the Company and all individual defendants. The terms of the settlement 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 which is expected to occur in 2005. In December 2004, the court approved the settlement, resolving 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 2004, the Company paid $210 million into escrow in connection with the settlement.

In July 2004, without admitting any liability or wrongdoing, the Company and the individual defendants reached a tentative agreement to settle a derivative action related to the class action lawsuit described above. 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. In September 2002, the defendants filed an answer to the amended complaint and discovery is proceeding. In April 2003, the court conditionally certified the class and defined the class period as that between April 17, 2000 and March 2, 2001, inclusive.

In July 2001, the Company was named as a nominal defendant and all of its directors at the time were 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. In March 2004, the defendants filed a motion to dismiss the Consolidated Amended Derivative Complaint. In November 2004, without admitting any liability or wrongdoing, the individual defendants and the Company 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 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. Other than the matters noted above as to which tentative settlements have been reached, 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.

NOTE M: EMPLOYEE STOCK PLANS

The 2001 Stock Plan and 1995 Stock Option Plan provide for the grant of both incentive and nonqualified stock options at an exercise price which is not less than 100 percent of the fair value on the date of grant. The 1991 Stock Plan provided for the grant of incentive stock options at an exercise price which was 100 percent of the fair value on the date of grant and nonqualified stock options at an exercise price which may have been less than the fair value on the date of grant. The 1976 Stock Option Plan provided for the grant of both incentive and nonqualified stock options at an exercise price which was 100 percent of the fair value on the date of grant. No further grants are allowed under the 1991 Stock Plan and 1976 Stock Option Plan. All of these plans were approved by the Company’s stockholders.

The plans also provide that all stock options may generally be exercised in their entirety from 1 to 6 years after the date of grant. Incentive stock options terminate 10 years from the date of grant, and those stock options granted after December 31, 1986 become exercisable to a maximum of $100,000 per year. Nonqualified stock options terminate 11 years from the date of grant, 10 years and a day if issued in connection with the 1995 Stock Option Plan, or as determined by the Management Development and Compensation Committee of the Board of Directors (MDCC) if issued under the 2001 Stock Plan.

Any awards of common stock under the Company's LTPP will be made from the 2001 Stock Plan. The 2004 through 2006 LTPP 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 December 31, 2004. The amount of compensation expense recorded was $8 million in 2004.

The 2001 Stock Plan also provides for the award of restricted stock and restricted units. The 2001 Stock Plan also provides for the award of stock appreciation rights. The 1997 Nonemployee Directors Restricted Stock Plan provides for the award of restricted stock to nonemployee directors. Restricted stock, restricted unit, and stock appreciation rights awards are determined by the MDCC and are compensatory in nature. Restricted stock, restricted units, and stock appreciation rights vest over a specified period of time as determined by the MDCC, generally 4 years. Restricted stock awards entitle the recipient to full dividend and voting rights. Unvested shares are restricted as to disposition and subject to forfeiture under certain circumstances.

No further grants are allowed under the 2001 Stock Plan, 1997 Nonemployee Directors Restricted Stock Plan, and 1995 Stock Option Plan after January 31, 2011, November 25, 2006, and March 21, 2005, respectively.

Awards of 1,875,600; 314,800; and 201,800 shares of restricted stock were made to employees and directors at a weighted-average fair value at the grant date of $35.08, $30.02, and $32.62 in 2004, 2003, and 2002, respectively. The required conditions for 446,100; 200,100; and 428,600 shares of restricted stock and restricted units were satisfied during 2004, 2003, and 2002, respectively. There were 122,900; 13,000; and 183,500 shares of restricted stock forfeited during 2004, 2003, and 2002, respectively. There were 2,247,300; 940,600; and 837,600 shares of restricted stock and restricted units outstanding at December 31, 2004, 2003, and 2002, respectively. The amount of compensation expense recorded was $16 million, $8 million, and $7 million in 2004, 2003, and 2002, respectively.

There were 46.6 million, 53.2 million, and 59.2 million additional shares of common stock (including shares held in treasury) authorized for stock option, restricted stock, and restricted unit awards at December 31, 2004, 2003, and 2002, respectively.

Notes to Consolidated Financial Statements (Continued)

Stock option information for 2004, 2003, and 2002 follows:

(Share amounts in thousands)	Shares	Weighted-Average Option Price
Outstanding at December 31, 2001	39,197	$ 39.38
Granted	10,049	42.04
Exercised	(3,575)	22.89
Expired	(3,527)	44.35
Outstanding at December 31, 2002	42,144	40.99
Granted	7,256	31.01
Exercised	(675)	30.96
Expired	(2,639)	46.19
Outstanding at December 31, 2003	46,086	39.27
Granted	**609**	**33.71**
Exercised	**(3,825)**	**34.77**
Expired	**(4,726)**	**39.46**
Outstanding at December 31, 2004	**38,144**	**$ 39.61**

The following tables summarize information about stock options outstanding and exercisable at December 31, 2004:

(Share amounts in thousands)	Options Outstanding		
Exercise Price Range	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$18.19 to $29.92	**12,172**	**6.1 years**	**$ 25.79**
$30.00 to $39.21	**8,750**	**7.4 years**	**$ 32.71**
$40.13 to $48.97	**7,961**	**7.1 years**	**$ 44.63**
$51.06 to $59.44	**5,579**	**2.9 years**	**$ 54.33**
$67.66 to $73.78	**3,682**	**4.5 years**	**$ 68.50**
Total	**38,144**		

(Share amounts in thousands)	Options Exercisable	
Exercise Price Range	Shares	Weighted-Average Exercise Price
$18.19 to $29.92	**11,213**	**$ 25.49**
$30.00 to $39.21	**3,880**	**$ 33.70**
$40.13 to $48.97	**5,638**	**$ 44.72**
$51.06 to $59.44	**5,579**	**$ 54.33**
$67.66 to $73.78	**3,682**	**$ 68.50**
Total	**29,992**	

Shares exercisable at the corresponding weighted-average exercise price at December 31, 2004, 2003, and 2002, were 30.0 million at $40.81, 30.1 million at $41.49, and 24.8 million at $45.06, respectively.

Notes to Consolidated Financial Statements (Continued)

NOTE N: PENSION AND OTHER EMPLOYEE BENEFITS

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). Substantially all of the Company's U.S. employees may become eligible for the Other Benefits. Effective January 1, 2004, the Company changed the measurement date for its Pension Benefits and Other Benefits 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 Benefits. Using the Company's year end as the measurement date for Pension Benefits and Other Benefit plans more appropriately reflects the plans' financial status for the years then ended. In 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:

(In millions, except per share amounts}	**2004**	2003	2002
Reported income from continuing operations	**$ 439**	$ 535	$ 756
Change in accounting principle, net of tax	**–**	(68)	7
Adjusted income from continuing operations	**$ 439**	$ 467	$ 763
Reported basic EPS from continuing operations	**$ 1.00**	$ 1.30	$ 1.88
Change in accounting principle, net of tax	**–**	(0.17)	0.02
Adjusted basic EPS from continuing operations	**$ 1.00**	$ 1.13	$ 1.90
Reported diluted EPS from continuing operations	**$ 0.99**	$ 1.29	$ 1.85
Change in accounting principle, net of tax	**–**	(0.17)	0.02
Adjusted diluted EPS from continuing operations	**$ 0.99**	$ 1.12	$ 1.87

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:

(In millions, except per share amounts)	**2004**	2003	2002
Reported net income (loss)	**$ 417**	$ 365	$ (640)
Change in accounting principle, net of tax	**(41)**	(68)	7
Adjusted net income (loss)	**$ 376**	$ 297	$ (633)
Reported basic EPS	**$ 0.95**	$ 0.88	$(1.59)
Change in accounting principle, net of tax	**(0.09)**	(0.16)	0.02
Adjusted basic EPS	**$ 0.86**	$ 0.72	$(1.57)
Reported diluted EPS	**$ 0.94**	$ 0.88	$(1.57)
Change in accounting principle, net of tax	**(0.09)**	(0.16)	0.02
Adjusted diluted EPS	**$ 0.85**	$ 0.72	$(1.55)

The strategic asset allocation of the Company's domestic Pension Benefits and Other Benefits plans is diversified with an average and moderate level of risk consisting of investments in equity securities (including domestic and international equities and the Company's common stock), debt securities, real estate, and other areas such as private equity and cash. The Company seeks to produce a return on investment over the long-term commensurate with levels of investment risk which are prudent and reasonable given the prevailing capital market expectations. Policy range allocations are 50 to 76 percent for equity securities, 20 to 40 percent for debt securities, 2 to 7 percent for real estate, and 2 to 17 percent for other areas. The long-term return on asset assumption for the Company's domestic Pension Benefits and Other Benefits plans for 2005 is 8.75%. The long-term return on asset assumption for the Company's domestic Pension Benefits plans was 8.75% in 2004 and 2003 and 9.50% in 2002. The long-term return on asset assumption for the Company's Other Benefits plans was 7.75% in 2004 and 2003 and 8.50% in 2002. To develop the expected long-term rate of return on asset assumptions, the Company considered the current level of expected returns on risk free investments, the historical level of the risk premium associated with the other asset classes in which the Company has invested domestic Pension Benefits and Other Benefits plan assets, and the expectations for future returns of each asset class. Since the Company's investment policy is to employ active management strategies in all asset classes, the potential exists to outperform the broader markets, therefore, the expected returns were adjusted upward. The expected return for each asset class was then weighted based on the target asset allocation to develop the long-term return on asset assumptions.

The long-term return on asset assumptions for foreign Pension Benefits plans are based on the asset allocations and the economic environment prevailing in the locations where the Pension Benefits plans reside. Foreign pension assets do not make up a significant portion of the total assets for all of the Company's Pension Benefits plans.

The tables below detail assets by category for the Company's domestic and foreign Pension Benefits and Other Benefits plans. These assets consist primarily of publicly-traded equity securities and publicly-traded fixed income securities.

Pension Benefits Asset Information

	Percent of Plan Assets at	
Asset categories	**December 31, 2004**	October 31, 2003
Equity securities	**68%**	66%
Debt securities	**23**	27
Real estate	**4**	3
Other	**5**	4
Total	**100%**	100%

Other Benefits Asset Information

	Percent of Plan Assets at	
Asset categories	**December 31, 2004**	October 31, 2003
Equity securities	**68%**	45%
Debt securities	**27**	41
Real estate	**1**	1
Other	**4**	13
Total	**100%**	100%

Notes to Consolidated Financial Statements (Continued)

The tables below provide a reconciliation of benefit obligations, plan assets, funded status, and related actuarial assumptions of the Company's domestic and foreign Pension Benefits and Other Benefits plans.

Change in Benefit Obligation

	Pension Benefits		Other Benefits	
(In millions)	**2004**	2003	**2004**	2003
Benefit obligation at beginning of year	**$13,496**	$12,023	**$1,657**	$1,579
Service cost	**341**	271	**16**	15
Interest cost	**815**	799	**93**	106
Plan participants' contributions	**28**	29	**–**	–
Amendments	**7**	6	**(125)**	(46)
Actuarial loss	**1,074**	1,225	**(200)**	122
Divestitures/transfers	**(14)**	–	**(1)**	–
Foreign exchange	**55**	52	–	–
Benefits paid	**(892)**	(909)	**(95)**	(119)
Benefit obligation at end of year	**$14,910**	$13,496	**$1,345**	$1,657

Change in Plan Assets

	Pension Benefits		Other Benefits	
(In millions)	**2004**	2003	**2004**	2003
Fair value of plan assets at beginning of year	**$ 9,986**	$9,156	**$400**	$ 353
Actual return on plan assets	**1,716**	1,629	**32**	25
Divestitures/transfers	**(16)**	(20)	**–**	8
Company contributions	**415**	69	**102**	133
Plan participants' contributions	**28**	29	**–**	–
Foreign exchange	**36**	32	**–**	–
Benefits paid	**(892)**	(909)	**(95)**	(119)
Fair value of plan assets at end of year	**$11,273**	$9,986	**$439**	$ 400

The fair value of plan assets for the Company's domestic and foreign Pension Benefits plans was $10,873 million and $400 million, respectively at December 31, 2004 and $9,661 million and $325 million, respectively, at December 31, 2003.

Funded Status–unrecognized components

	Pension Benefits		Other Benefits	
(In millions) December 31:	**2004**	2003	**2004**	2003
Funded status	**$(3,637)**	$(3,510)	**$(906)**	$(1,257)
Unrecognized actuarial loss	**5,126**	5,265	**556**	797
Unrecognized transition obligation	**–**	–	**48**	160
Unrecognized prior service cost	**158**	170	**(328)**	(348)
Prepaid (accrued) benefit cost	**$ 1,647**	$ 1,925	**$(630)**	$ (648)

The table above reconciles the difference between the benefit obligation and the fair value of plan assets to the amounts recorded on the Company's balance sheet due to certain items that are amortized over future periods rather than recognized in the current period.

Notes to Consolidated Financial Statements (Continued)

Funded Status – amounts recognized on the Balance Sheet

(In millions) December 31:	Pension Benefits 2004	2003	Other Benefits 2004	2003
Prepaid benefit cost	**$ 664**	$ 669	**$ 50**	$ 34
Accrued benefit liability	**(2,317)**	(2,378)	**(680)**	(682)
Intangible asset	**186**	199	**–**	–
Accumulated other comprehensive income	**3,114**	3,435	**–**	–
Prepaid (accrued) benefit cost	**$ 1,647**	$ 1,925	**$(630)**	$(648)

Weighted-Average Year-End Benefit Obligation Assumptions

December 31:	Pension Benefits 2004	2003	Other Benefits 2004	2003
Discount rate	**5.74%**	6.22%	**5.75%**	6.25%
Rate of compensation increase	**4.49%**	4.49%	**4.50%**	4.50%
Health care trend rate in the next year			**12.50%**	13.50%
Gradually declining to an ultimate trend rate of			**5.00%**	5.75%
Year that the rate reaches the ultimate trend rate			**2015**	2014

The Company's foreign Pension Benefits plan assumptions have been included in the table above.

The tables below outline the components of net periodic benefit cost and related actuarial assumptions of the Company's domestic and foreign Pension Benefits and Other Benefits plans.

Components of Net Periodic Benefit Cost

(In millions)	Pension Benefits 2004	2003	2002
Service cost	**$ 341**	$ 271	$ 279
Interest cost	**815**	799	792
Expected return on plan assets	**(862)**	(970)	(1,194)
Amortization of transition asset	**–**	–	(4)
Amortization of prior service cost	**19**	19	20
Recognized net actuarial loss	**425**	196	20
Loss due to curtailments/settlements	**–**	–	9
Net periodic benefit cost (income)	**$ 738**	$ 315	$ (78)

Net periodic benefit cost (income) also includes expense from foreign Pension Benefits plans of $32 million in 2004, $20 million in 2003, and $11 million in 2002. Net periodic benefit costs (income) includes expense from discontinued operations, including curtailments, of $9 million in 2002.

Components of Net Periodic Benefit Cost

(In millions)	Other Benefits 2004	2003	2002
Service cost	**$ 16**	$ 15	$ 21
Interest cost	**93**	106	105
Expected return on plan assets	**(30)**	(26)	(30)
Amortization of transition obligation	**18**	25	25
Amortization of prior service cost	**(51)**	(45)	–
Recognized net actuarial loss	**48**	41	9
Gain due to curtailments/settlements	**–**	–	(47)
Net periodic benefit cost	**$ 94**	$116	$ 83

Notes to Consolidated Financial Statements (Continued)

Net periodic benefit cost includes income from discontinued operations, including curtailments, of $47 million in 2002.

Weighted-Average Net Periodic Benefit Cost Assumptions	Pension Benefits		
	2004	2003	2002
Discount rate	**6.22%**	6.95%	7.21%
Expected return on plan assets	**8.67%**	8.67%	9.43%
Rate of compensation increase	**4.49%**	4.46%	4.47%

Weighted-Average Net Periodic Benefit Cost Assumptions	Other Benefits		
	2004	2003	2002
Discount rate	**6.25%**	7.00%	7.25%
Expected return on plan assets	**7.75%**	7.75%	8.50%
Rate of compensation increase	**4.50%**	4.50%	4.50%
Health care trend rate in the next year	**13.50%**	13.50%	11.00%
Gradually declining to an ultimate trend rate of	**5.75%**	5.75%	5.00%
Year that the rate reaches ultimate trend rate	**2014**	2013	2010

The effect of a one percent increase or (decrease) in the assumed health care trend rate for each future year for the aggregate of service cost and interest cost is $8 million or $(7) million, respectively, and for the accumulated postretirement benefit obligation is $55 million or $(48) million, respectively.

The projected benefit obligation and fair value of plan assets for Pension Benefits plans with projected benefit obligations in excess of plan assets were $13,763 million and $9,900 million, respectively, at December 31, 2004, and $12,409 million and $8,749 million, respectively, at December 31, 2003.

The accumulated benefit obligation and fair value of plan assets for Pension Benefits plans with accumulated benefit obligations in excess of plan assets were $12,198 million and $9,878 million, respectively, at December 31, 2004 and $11,118 million and $8,731 million, respectively, at December 31, 2003. The accumulated benefit obligation for all Pension Benefits plans was $13,314 million and $12,184 million at December 31, 2004 and 2003, respectively.

The Company expects total contributions (required and discretionary) to the Pension Benefits and Other Benefits plans to be approximately $515 million and $105 million, respectively, in 2005.

The table below reflects the total Pension Benefits expected to be paid from the plans or from the Company's assets, including both the Company's share of the benefit cost and the participants' share of the cost, which is funded by participant contributions. Other Benefits payments reflect the Company's portion only.

	Pension Benefits	Other Benefits
2005	$ 863	$ 111
2006	850	97
2007	861	98
2008	876	98
2009	876	100
2010-2014	4,512	514

The Company also maintains additional contractual pension benefits agreements for its top executive officers. The Company's benefit obligation of $22 million at December 31, 2004 has been accrued.

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 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 was a $15 million decrease in 2004. The reduction in the accumulated postretirement benefit obligation as a result of the plan amendment was $125 million.

The Company maintains an employee stock ownership plan (ESOP) which includes the Company's 401(k) plan (defined contribution plan), under which covered employees are allowed to contribute up to a specific percentage of their pay. The Company matches the employee's contribution, up to a maximum of generally between three and four percent of the employee's pay, by making a contribution to the Company stock fund (Company Match). Total expense for the Company Match was $180 million, $159 million, and $166 million in 2004, 2003, and 2002, respectively, including expense from discontinued operations of $2 million in 2002. Effective January 1, 2005, the Company Match will be invested in the same way as employee contributions.

The Company also makes an annual contribution to the Company stock fund of approximately one-half of one percent of salaries and wages, subject to certain limitations, of most U.S. salaried and hourly employees (Company Contributions). Total expense for the Company Contributions was $25 million, $25 million, and $26 million and the number of shares allocated to participant accounts was 813,000, 884,000, and 640,000 in 2004, 2003, and 2002, respectively. Effective January 1, 2005, the Company will no longer make this contribution. The contribution for 2004 is expected to be made in March 2005.

The Company funded a portion of the Company Match and Company Contributions in 2004, 2003, and 2002 through the issuance of common stock.

At December 31, 2004, there was a total of $8.8 billion invested in the Company's defined contribution plan. At December 31, 2004, there was a total of $1.9 billion invested in the Company stock fund consisting of $638 million of Company Match which must remain invested in the Company stock fund for five years from the year in which the contribution was made or the year in which the employee reaches age 55, whichever is earlier; $279 million of Company Contributions which must remain invested in the Company stock fund until the employee reaches age 55 and completes 10 years of service; and $964 million over which there are no restrictions.

NOTE O: BUSINESS SEGMENT REPORTING

Reportable segments have been determined based upon product lines and include the following: Integrated Defense Systems, Intelligence and Information Systems, Missile Systems, Network Centric Systems, Space and Airborne Systems, Technical Services, Aircraft, and Other which is comprised of Flight Options LLC, Raytheon Airline Aviation Services LLC, and Raytheon Professional Services LLC.

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Integrated Defense Systems provides mission systems integration for the air, surface, and subsurface battlespace.

Intelligence and Information Systems provides signal and image processing, geospatial intelligence, airborne and spaceborne command and control, ground engineering support, and weather and environmental management.

Missile Systems provides air-to-air, precision strike, surface Navy air defense, and land combat missiles, guided projectiles, kinetic kill vehicles, and directed energy weapons.

Network Centric Systems provides network centric solutions to integrate sensors, communications, and command and control to manage the battlespace.

Space and Airborne Systems provides electro-optical/infrared sensors, airborne radars, solid state high energy lasers, precision guidance systems, electronic warfare systems, and space-qualified systems for civil and military applications.

Technical Services provides technical, scientific, and professional services for defense, federal, and commercial customers worldwide.

Raytheon Aircraft Company designs, manufactures, markets, and supports business jets, turboprops, and piston-powered aircraft for the world's commercial, fractional ownership, and military aircraft markets.

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 include Company-wide accruals and over/under applied overhead that have not been attributed to a particular segment and intersegment sales and profit eliminations.

Segment financial results were as follows:

Net Sales *(In millions)*	**2004**	2003	2002
Integrated Defense Systems	**$ 3,456**	$ 2,864	$ 2,366
Intelligence and Information Systems	**2,215**	2,045	1,887
Missile Systems	**3,844**	3,538	3,038
Network Centric Systems	**3,113**	2,809	3,091
Space and Airborne Systems	**4,068**	3,677	3,243
Technical Services	**2,075**	1,963	2,133
Aircraft	**2,421**	2,088	2,040
Other	**675**	573	210
Corporate and Eliminations	**(1,622)**	(1,448)	(1,248)
Total	**$20,245**	$18,109	$16,760

Intersegment sales in 2004, 2003, and 2002, respectively, were $133 million, $140 million, and $103 million for Integrated Defense Systems, $38 million, $52 million, and $35 million for Intelligence and Information Systems, $16 million, $7 million, and $1 million for Missile Systems, $444 million, $316 million, and $218 million for Network Centric Systems, $428 million, $402 million, and $298 million for Space and Airborne Systems, $562 million, $529 million, and $590 million for Technical Services, and $1 million, $2 million, and $3 million for Aircraft. Aircraft net sales did not include Intersegment aircraft, parts, and service sales to Flight Options of $151 million and $106 million in 2004 and 2003, respectively.

Operating Income *(In millions)*	**2004**	2003	2002
Integrated Defense Systems	**$ 417**	$ 331	$ 289
Intelligence and Information Systems	**198**	194	180
Missile Systems	**436**	424	373
Network Centric Systems	**274**	19	278
Space and Airborne Systems	**568**	492	428
Technical Services	**151**	107	116
Aircraft	**63**	2	(39)
Other	**(40)**	(34)	(12)
FAS/CAS Pension Adjustment	**(474)**	(109)	210
Corporate and Eliminations	**(205)**	(110)	(40)
Total	**$1,388**	$1,316	$1,783

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

Free Cash Flow *(In millions)*	**2004**	2003	2002
Integrated Defense Systems	**$ 399**	$ 318	$ 194
Intelligence and Information Systems	**152**	88	121
Missile Systems	**285**	244	176
Network Centric Systems	**240**	115	88
Space and Airborne Systems	**237**	365	153
Technical Services	**69**	104	174
Aircraft	**134**	20	24
Other	**(83)**	(55)	(61)
Corporate	**22**	377	770
Total	**$1,455**	$1,576	$1,639

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.

Capital Expenditures *(In millions)*	**2004**	2003	2002
Integrated Defense Systems	**$ 61**	$ 67	$ 71
Intelligence and Information Systems	**29**	25	30
Missile Systems	**47**	76	44
Network Centric Systems	**61**	55	76
Space and Airborne Systems	**77**	106	116
Technical Services	**16**	12	20
Aircraft	**46**	57	81
Other	**20**	1	–
Corporate	**6**	29	20
Total	**$363**	$428	$458

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Notes to Consolidated Financial Statements (Continued)

Depreciation and Amortization *(In millions)*	**2004**	2003	2002
Integrated Defense Systems	**$ 57**	$ 53	$ 47
Intelligence and Information Systems	**28**	29	27
Missile Systems	**46**	48	47
Network Centric Systems	**62**	62	62
Space and Airborne Systems	**81**	68	66
Technical Services	**12**	11	10
Aircraft	**85**	91	88
Other	**22**	16	12
Corporate	**41**	15	5
Total	**$434**	$393	$364

Identifiable Assets *(In millions) December 31:*	**2004**	2003
Integrated Defense Systems	**$ 1,756**	$ 1,814
Intelligence and Information Systems	**1,881**	1,922
Missile Systems	**4,598**	4,486
Network Centric Systems	**3,764**	3,832
Space and Airborne Systems	**4,223**	4,074
Technical Services	**1,405**	1,359
Aircraft	**2,327**	2,710
Other	**1,235**	935
Corporate	**2,945**	3,017
Discontinued Operations	**19**	59
Total	**$24,153**	$24,208

Operations by Geographic Areas *(In millions)*	United States	Outside United States (Principally Europe)	Total
Net sales			
2004	**$17,925**	**$ 2,320**	**$20,245**
2003	15,718	2,391	18,109
2002	14,155	2,605	16,760
Long-lived assets at			
December 31, 2004	**$ 5,195**	**$ 318**	**$ 5,513**
December 31, 2003	5,381	223	5,604

The country of destination was used to attribute sales to either United States or Outside United States (excluding foreign military sales). Sales to major customers in 2004, 2003, and 2002 were: U.S. government, including foreign military sales, $14,973 million, $13,436 million, and $12,255 million, respectively, including U.S. Department of Defense, $13,616 million, $11,766 million, and $10,406 million, respectively.

The following table reconciles free cash flow to net cash provided by operating activities from continuing operations:

(In millions)	**2004**	2003	2002
Free cash flow	**$1,455**	$1,576	$ 1,639
Plus (less): Expenditures for property, plant, and equipment	**363**	428	458
Capitalized expenditures for internal use software	**103**	98	138
Financing receivables activity at Aircraft	**193**	465	(1,388)
Net cash provided by operating activities from continuing operations	**$2,114**	$2,567	$ 847

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Notes to Consolidated Financial Statements (Continued)

NOTE P: QUARTERLY OPERATING RESULTS (UNAUDITED)

(In millions except per share amounts and stock prices)

2004	First	Second	Third	Fourth
Net sales	**$4,676**	**$4,929**	**$4,936**	**$5,704**
Gross margin	**692**	**824**	**819**	**977**
Income (loss) from continuing operations	**101**	**(94)**	**186**	**246**
Income (loss) before accounting change	**87**	**(108)**	**152**	**245**
Net income (loss)	**128**	**(108)**	**152**	**245**
Earnings (loss) per share from continuing operations				
Basic	**$ 0.24**	**$ (0.22)**	**$ 0.41**	**$ 0.55**
Diluted	**0.24**	**(0.22)**	**0.41**	**0.54**
Earnings (loss) per share before accounting change				
Basic	**0.21**	**(0.25)**	**0.34**	**0.54**
Diluted	**0.21**	**(0.25)**	**0.34**	**0.54**
Earnings (loss) per share				
Basic	**0.31**	**(0.25)**	**0.34**	**0.54**
Diluted	**0.30**	**(0.25)**	**0.34**	**0.54**
Cash dividends per share				
Declared	**0.20**	**0.20**	**0.20**	**0.20**
Paid	**0.20**	**0.20**	**0.20**	**0.20**
Common stock prices				
High	**$32.35**	**$35.48**	**$37.17**	**$41.89**
Low	**29.28**	**30.73**	**31.91**	**34.84**

2003	First	Second	Third	Fourth
Net sales	$4,201	$4,429	$4,378	$5,101
Gross margin	721	859	602	927
Income from continuing operations	111	186	21	217
Net income (loss)	95	100	(35)	205
Earnings per share from continuing operations				
Basic	$ 0.27	$ 0.45	$ 0.05	$ 0.52
Diluted	0.27	0.45	0.05	0.52
Earnings (loss) per share				
Basic	0.23	0.24	(0.08)	0.49
Diluted	0.23	0.24	(0.08)	0.49
Cash dividends per share				
Declared	0.20	0.20	0.20	0.20
Paid	0.20	0.20	0.20	0.20
Common stock prices				
High	$32.09	$33.69	$33.97	$30.24
Low	24.31	27.15	27.74	25.45

Note: Earnings per share are computed independently for each of the quarters presented, therefore, the sum of the quarterly earnings per share may not equal the total computed for the year.

NOTE Q: FINANCIAL INSTRUMENTS

At December 31, 2004, the Company recorded forward exchange contracts designated as cash flow hedges at their fair value. Unrealized gains of $106 million were included in noncurrent assets and unrealized losses of $50 million were included in current liabilities. The offset was included in other comprehensive income, net of tax, of which approximately $14 million of net unrealized gains are expected to be reclassified to earnings over the next twelve months as the underlying transactions mature. Gains and losses resulting from these cash flow hedges offset the foreign exchange gains and losses on the underlying assets or liabilities being hedged. The maturity dates of the forward exchange contracts outstanding at December 31, 2004 extend through 2013. Certain immaterial contracts were not designated as effective hedges and therefore were included in other expense. The amount charged to other expense related to these contracts was less than $1 million in 2004, 2003, and 2002.

The Company enters into interest rate swaps, as described in Note H, Notes Payable and Long-term Debt. These interest rate swaps were designated as fair value hedges. There was no hedge ineffectiveness in 2004, 2003, or 2002.

Major currencies and the approximate amounts associated with foreign exchange contracts consisted of the following at December 31:

	2004		2003	
(In millions)	**Buy**	**Sell**	Buy	Sell
British Pounds	**$566**	**$354**	$485	$210
Canadian Dollars	**117**	**31**	95	38
European Euros	**77**	**36**	47	31
Australian Dollars	**35**	**13**	14	9
Norwegian Kroner	**21**	**10**	4	1
Arab Emirates Dirham	**9**	**31**	20	45
Swiss Francs	**2**	**18**	4	44
All other	**4**	**2**	1	–
Total	**$831**	**$495**	$670	$378

Buy amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies and sell amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies. Foreign exchange contracts that do not involve U.S. dollars have been converted to U.S. dollars for disclosure purposes.

Foreign currency forward contracts, used to fix the dollar value of specific commitments and payments to international vendors and the value of foreign currency denominated receipts, have maturities at various dates through 2013 as follows: $879 million in 2005, $257 million in 2006, $83 million in 2007, $86 million in 2008, and $21 million thereafter.

Notes to Consolidated Financial Statements (Continued)

NOTE R: OTHER INCOME AND EXPENSE

The components of other expense, net were as follows:

(In millions)	**2004**	2003	2002
Securities class action lawsuit settlement	**$325**	–	–
Loss (gain) on repurchases of long-term debt and subordinated notes payable	**132**	$ 77	$ (2)
Gain on sale of commercial infrared business	**(10)**	–	–
Gain on sale of aviation support business	**(4)**	(82)	–
Equity losses related to Flight Options	**–**	20	16
Loss (gain) on sale of investments	**–**	7	(4)
Space Imaging charge	**–**	–	175
Other	**(7)**	45	52
Total	**$436**	$ 67	$237

In 1995, through the acquisition of E-Systems, Inc., the Company invested in Space Imaging and currently has a 31 percent equity investment in Space Imaging LLC. In 2002, the Company recorded a $175 million charge to write-off the Company’s investment in Space Imaging and accrue for payment under the Company’s guarantee of a Space Imaging credit facility that matured in March 2003. In the first quarter of 2003, the Company paid $130 million related to the credit facility guarantee. In exchange for this payment, the Company received a note from Space Imaging for this amount that the Company has valued at zero.

In 2003, the Company sold the remaining interest in its former aviation support business (Raytheon Aerospace) for $97 million and recorded a gain of $82 million. In 2004, the Company resolved a dispute related to the sale and received an additional $4 million. The Company had sold a majority interest in Raytheon Aerospace in 2001 and retained a 26 percent ownership interest that was recorded at zero because the new entity was highly-leveraged.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure 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 December 31, 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 providing reasonable assurance that information required to be disclosed in the reports the Company files and submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required.

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.

Management's Report on Internal Control Over Financial Reporting – Management's Report on Internal Control Over Financial Reporting is set forth in Part II, Item 8 of this Annual Report on Form 10-K.

Attestation Report of the Independent Registered Public Accounting Firm – Management's assessment of the effectiveness of Raytheon's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is set forth in Part II, Item 8 of this Annual Report on Form 10-K.

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

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding the directors of the Company is contained in the Company's definitive proxy statement for the 2005 Annual Meeting of Stockholders under the captions "The Board of Directors and Board Committees" and "Election of Directors" and is incorporated herein by reference. Information regarding the executive officers of the Company is contained in Part I, Item 4(A) of this Form 10-K. Information regarding Section 16(a) compliance is contained in the Company's definitive proxy statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference. Information regarding the Company's Audit Committee Financial Expert is contained in the Company's definitive proxy statement under the caption "The Board of Directors and Board Committees" and is incorporated herein by reference.

The Company has adopted a code of ethics that applies to all its directors, officers, employees and representatives. Information regarding the Company's code of ethics is contained in the Company's definitive proxy statement for the 2005 Meeting of Stockholders under the caption "Corporate Governance – Code of Ethics and Conflicts of Interest" and is incorporated herein by reference.

Item 11. Executive Compensation

This information is contained in the Company's definitive proxy statement for the 2005 Annual Meeting of Stockholders under the captions "Executive Compensation," "Pension Plans" and "Executive Employment Agreements" and that information, except for the information required by Item 402(k) and 402(l) of Regulation S-K, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and for directors and executive officers is contained in the Company's definitive proxy statement for the 2005 Annual Meeting of Stockholders under the caption "Stock Ownership" and is incorporated herein by reference.

Information regarding shares of the Company's common stock that may be issued under the Company's existing equity compensation plans is contained in the Company's definitive proxy statement for the 2005 Annual Meeting of Stockholders under the caption "Equity Compensation Plan Information" and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

This information is contained in the Company's definitive proxy statement for the 2005 Annual Meeting of Stockholders under the caption "Certain Relationships and Related Transactions" and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

This information is contained in the Company’s definitive proxy statement for the 2005 Annual Meeting of Stockholders under the caption “Independent Auditor: Audit and Non-Audit Fees” and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements and Schedules

(1) The following financial statements of Raytheon Company, supplemental information, and report of independent registered public accounting firm are included in this Form 10-K:

Consolidated Balance Sheets at December 31, 2004 and 2003

Consolidated Statements of Operations for the Years Ended December 31, 2004, 2003 and 2002

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2004, 2003 and 2002

Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003 and 2002

Notes to Consolidated Financial Statements for the Year Ended December 31, 2004

Five Year Statistical Summary (Unaudited)

Report of PricewaterhouseCoopers LLP dated March 15, 2005 on the Company's financial statements filed as a part hereof for the fiscal years ended December 31, 2004, 2003 and 2002 and on the Company's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 is included in Item 8 of this Form 10-K. The independent registered public accounting firm's consent with respect to this report appears in Exhibit 23 to this report on Form 10-K.

(2) List of financial statement schedules:

All schedules have been omitted because they are not required, not applicable or the information is otherwise included.

(b) Exhibits:

The following list of exhibits includes exhibits submitted with this Form 10-K as filed with the SEC and those incorporated by reference to other filings.

3.1 Raytheon Company Restated Certificate of Incorporation, restated as of April 2, 2002 filed as an exhibit to Raytheon's Registration Statement on Form S-3, File No. 333-85648, is hereby incorporated by reference.

3.2 Raytheon Company Amended and Restated By-Laws, as amended through June 25, 2003 filed as an exhibit to Raytheon's Quarterly Report on Form 10-Q for the quarter ended September 28, 2003, is hereby incorporated by reference.

4.1 Indenture relating to Senior Debt Securities dated as of July 3,1995 between Raytheon Company and The Bank of New York, Trustee, filed as an exhibit to Former Raytheon's Registration Statement on Form S-3, File No. 33-59241, is hereby incorporated by reference.

4.2 Indenture relating to Subordinated Debt Securities dated as of July 3, 1995 between Raytheon Company and The Bank of New York, Trustee, filed as an exhibit to Former Raytheon's Registration Statement on Form S-3, File No. 33-59241, is hereby incorporated by reference.

4.3 Supplemental Indenture dated as of December 17, 1997 between Raytheon Company and The Bank of New York, Trustee filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 1997, is hereby incorporated by reference.

4.4 Second Supplemental Indenture, dated as of May 9, 2001, between Raytheon Company and the Bank of New York, filed as an exhibit to Raytheon's Form 8-K, dated May 10, 2001, is hereby incorporated by reference.

4.5 Form of Senior Debt Securities filed as an exhibit to Raytheon's Registration Statement on Form S-3, File No. 333-58474, is hereby incorporated by reference.

4.6 Form of Subordinated Debt Securities filed as an exhibit to Raytheon's Registration Statement on Form S-3, File No. 333-58474, is hereby incorporated by reference.

4.7 Certificate of Trust of RC Trust I filed as an exhibit to Raytheon's Registration Statement on Form S-3, File No. 333-58474, is hereby incorporated by reference.

4.8 Amended and Restated Declaration of Trust of RC Trust I, dated as of May 9, 2001, among Raytheon Company, The Bank of New York as initial Property Trustee, The Bank of New York (Delaware) as initial Delaware Trustee, and the Regular Trustee including the Form of Preferred Security Attached as Exhibit A, filed as an exhibit to Raytheon's Form 8-K, dated May 10, 2001, is hereby incorporated by reference.

4.9 Certificate of Trust of RC Trust II filed as an exhibit to Raytheon's Registration Statement on Form S-3, File No. 333-58474, is hereby incorporated by reference.

4.10 Declaration of Trust of RC Trust II filed as an exhibit to Raytheon's Registration Statement on Form S-3, File No. 333-58474, is hereby incorporated by reference.

No other instruments defining the rights of holders of long-term debt are filed since the total amount of securities authorized under any such instrument does not exceed 10 percent of the total assets of the Company on a consolidated basis. The Company agrees to furnish a copy of such instruments to the SEC upon request.

10.1 Raytheon Company 1976 Stock Option Plan, as amended, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.

10.2 Raytheon Company 1991 Stock Plan, as amended, filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended July 4, 1999, is hereby incorporated by reference.

10.3 Raytheon Company 1995 Stock Option Plan, as amended, filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the Quarter ended July 4, 1999, is hereby incorporated by reference.

10.4 Raytheon Company 2001 Stock Plan, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-52535, is hereby incorporated by reference.

10.5 Plan for Granting Stock Options in Substitution for Stock Options Granted by Texas Instruments Incorporated, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.

10.6 Plan for Granting Stock Options in Substitution for Stock Options Granted by Hughes Electronics Corporation filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.

10.7 Raytheon Company 1997 Nonemployee Directors Restricted Stock Plan, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.

10.8 Raytheon Company Deferral Plan for Directors, filed as an exhibit to Former Raytheon's Registration Statement on Form S-8, File No. 333-22969, is hereby incorporated by reference.

10.9 Raytheon Excess Savings Plan, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-56117, as amended by Post-Effective Amendment No. 1, File No. 333-52536, is hereby incorporated by reference.

10.10 Raytheon Excess Pension Plan.*

10.11 Raytheon Supplemental Executive Retirement Plan (Revised Appendix A – Participant List).*

10.12 Raytheon Deferred Compensation Plan, filed as an exhibit to Post-Effective Amendment No. 1 to the Company's Registration Statement on Form S-8, File No. 333-56117, as amended by Post-Effective Amendment No. 1, File No. 333-52536, is hereby incorporated by reference.

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10.13	Form of Raytheon Company Nonqualified Stock Option Agreement under the Raytheon Company 1995 Stock Option Plan, filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 2004, is hereby incorporated by reference.
10.14	Form of Raytheon Company Incentive Stock Option Agreement under the Raytheon Company 1995 Stock Option Plan, filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 2004, is hereby incorporated by reference.
10.15	Form of Raytheon Company Incentive Stock Option Agreement under the Raytheon Company 2001 Stock Plan, filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 2004, is hereby incorporated by reference.
10.16	Form of Raytheon Company Nonqualified Stock Option Agreement under the Raytheon Company 2001 Stock Plan, filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 2004, is hereby incorporated by reference.
10.17	Form of Raytheon Company Restricted Stock Award Agreement under the Raytheon Company 2001 Stock Plan, filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 2004, is hereby incorporated by reference.
10.18	Form of Performance Share Award Agreement under the Raytheon Company 2001 Stock Plan, filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 2004, is hereby incorporated by reference.
10.19	Form of Executive Change in Control Severance Agreement between the Company and each of the following executives (providing for benefits in the event of a qualified termination upon a change in control of three times base salary and bonus): Keith J. Peden, James E. Schuster, Jay B. Stephens, Thomas M. Culligan, Bryan J. Even, Louise L. Francesconi, Michael D. Keebaugh, Jack R. Kelble, Colin Schottlaender, Edward S. Pliner and Daniel L. Smith.*
10.20	Form of Executive Change in Control Severance Agreement between the Company and each of the following executives (providing for benefits in the event of a qualified termination upon a change in control of two times base salary and bonus): Charles E. Franklin, Richard A. Goglia, Rebecca R. Rhoads, Gregory S. Shelton, John D. Harris and Biggs C. Porter.*
10.21	Form of Executive Change in Control Severance Agreement between the Company and William H. Swanson filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, is hereby incorporated by reference.
10.22	Amendment to Change in Control Severance Agreement between the Company and William H. Swanson filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 1999, is hereby incorporated by reference.
10.23	Letter Agreement between Raytheon Company and William H. Swanson, filed as an exhibit to Raytheon's Current Report on Form 8-K dated April 24, 2003, is hereby incorporated by reference.
10.24	Transition Agreement between Raytheon Company and Daniel P. Burnham, filed as an exhibit to Raytheon's Current Report on Form 8-K dated April 24, 2003, is hereby incorporated by reference.
10.25	Employment Agreement between Raytheon Company and Edward S. Pliner, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated by reference.
10.26	Employment Agreement between Raytheon Company and Keith J. Peden, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated by reference.
10.27	Transition Agreement between Raytheon Company and Francis M. Marchilena dated September 3, 2002, filed as an exhibit to Raytheon's Quarterly Report on Form 10-Q for the quarter ended September 29, 2002, is hereby incorporated by reference.

10.28	Amendment dated October 22, 2003 to the Transition Agreement between Raytheon Company and Francis M. Marchilena dated September 3, 2002, filed an exhibit to Raytheon's Quarterly Report on Form 10-Q for the quarter ended September 28, 2003, is hereby incorporated by reference.
10.29	Employment Agreement between Raytheon Company and Thomas M. Culligan, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2002.
10.30	Employment Agreement between Raytheon Company and Jay B. Stephens, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2002.
10.31	Amendment dated November 18, 2002 to Employment Agreement between Raytheon Company and Jay B. Stephens.*
10.32	Amendment to Employment Agreement between Raytheon Company and Jay B. Stephens, filed as an exhibit to Raytheon's Quarterly Report on Form 10-Q for the quarter ended September 28, 2003, is hereby incorporated by reference.
10.33	Transition Agreement between Raytheon Company and Neal E. Minahan dated, December 20, 2002, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2002.
10.34	Raytheon Company 2004 Summary of Executive Severance and Executive Perquisites Policy.*
10.35	364 Day Competitive Advance and Revolving Credit Facility dated as of November 24, 2003, among Raytheon Company, as Borrower, Raytheon Technical Services Company and Raytheon Aircraft Company, as Guarantors, the lenders named therein, and J.P. Morgan Chase Bank as Administrative Agent for the lenders; filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2003, is hereby incorporated by reference.
10.36	First Amendment to 364 Day Competitive Advance and Revolving Credit Facility dated as of June 4, 2004, among Raytheon Company, as Borrower, Raytheon Technical Services Company and Raytheon Aircraft Company, as Guarantors, the lenders named therein, and J.P. Morgan Chase Bank as Administrative Agent for the lenders filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 27, 2004, is hereby incorporated by reference.
10.37	Second Amendment to 364 Day Competitive Advance and Revolving Credit Facility dated as of August 13, 2004, among Raytheon Company, as Borrower, Raytheon Technical Services Company and Raytheon Aircraft Company, as Guarantors, the lenders named therein, and J.P. Morgan Chase Bank as Administrative Agent for the lenders.*
10.38	Five-Year Competitive Advance and Revolving Credit Facility dated as of November 28, 2001, among Raytheon Company, as Borrower, Raytheon Technical Services Company and Raytheon Aircraft Company, as Guarantors, the lenders named therein, and J.P. Morgan Chase Bank as Administrative Agent for the lenders, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated by reference.
10.39	First Amendment to the Five-Year Competitive Advance and Revolving Credit Facility dated as of November 28, 2001, among Raytheon Company, as Borrower, Raytheon Technical Services Company and Raytheon Aircraft Company, as Guarantors, the lenders named therein, and J.P. Morgan Chase Bank as Administrative Agent for the lenders, filed as an exhibit to Raytheon's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, is hereby incorporated by reference.
10.40	Second Amendment to the Five-Year Competitive Advance and Revolving Credit Facility dated as of November 25, 2002, among Raytheon Company, as Borrower, Raytheon Technical Services Company and Raytheon Aircraft Company, as Guarantors, the lenders named therein, and J.P. Morgan Chase Bank as Administrative Agent for the lenders, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2002, is hereby incorporated by reference.

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10.41	Third Amendment to the Five-Year Competitive Advance and Revolving Credit Facility dated as of July 18, 2003, among Raytheon Company, as Borrower, Raytheon Technical Services Company and Raytheon Aircraft Company, as Guarantors, the lenders named therein, and J.P. Morgan Chase Bank as Administrative Agent for the lenders, filed as an exhibit to Raytheon's Quarterly Report on Form 10-Q for the quarter ended June 29, 2003, is hereby incorporated by reference.
10.42	Fourth Amendment to the Five Year Competitive Advance and Revolving Credit Facility dated as of November 7, 2003, among Raytheon Company, as Borrower, Raytheon Technical Services Company and Raytheon Aircraft Company, as Guarantors, the lenders named therein, and J.P. Morgan Chase Bank as Administrative Agent for the lenders, filed as an exhibit to Raytheon's Quarterly Report on Form 10-Q for the quarter ended September 28, 2003, is hereby incorporated by reference.
10.43	Fifth Amendment to the Five Year Competitive Advance and Revolving Credit Facility dated as of June 4, 2004, among Raytheon Company, as Borrower, Raytheon Technical Services Company and Raytheon Aircraft Company, as Guarantors, the lenders named therein, and J.P. Morgan Chase Bank as Administrative Agent for the lenders, filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 27, 2004, is hereby incorporated by reference.
10.44	Guarantee Agreement, dated as of May 9, 2001, between Raytheon Company and The Bank of New York as initial Guarantee Trustee, filed as an exhibit to Raytheon's Form 8-K, dated May 10, 2001, is hereby incorporated by reference.
10.45	Settlement Agreement between Raytheon Company, Raytheon Engineers and Constructors International, Inc. and Washington Group International, Inc. dated January 23, 2002, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2002, is hereby incorporated by reference.
10.46	Fifth Amended and Restated Purchase and Sale Agreement between General Aviation Receivables Corporation, Raytheon Aircraft Receivables Corporation, Raytheon Aircraft Credit Corporation, Receivables Capital Corporation and Bank of America, N.A., dated September 1, 2003, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2003, is hereby incorporated by reference.
12	Statement regarding Computation of Ratio of Earnings to Combined Fixed Charges for the year ended December 31, 2004.*
21	Subsidiaries of Raytheon Company.*
23	Consent of Independent Registered Public Accounting Firm.*
24	Power of Attorney.*
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	Certificate of William H. Swanson pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	Certificate of Edward S. Pliner pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

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

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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

/S/ BIGGS C. PORTER

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

Dated: March 15, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURES	TITLE	DATE
/S/ WILLIAM H. SWANSON **William H. Swanson**	Chairman and Chief Executive Officer (Principal Executive Officer)	March 15, 2005
/S/ EDWARD S. PLINER **Edward S. Pliner**	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 15, 2005
/S/ BIGGS C. PORTER **Biggs C. Porter**	Vice President and Corporate Controller (Principal Accounting Officer)	March 15, 2005
/S/ BARBARA M. BARRETT **Barbara M. Barrett**	Director	March 15, 2005
/S/ FERDINAND COLLOREDO-MANSFELD **Ferdinand Colloredo-Mansfeld**	Director	March 15, 2005
/S/ JOHN M. DEUTCH **John M. Deutch**	Director	March 15, 2005
/S/ THOMAS E. EVERHART **Thomas E. Everhart**	Director	March 15, 2005
/S/ FREDERIC M. POSES **Frederic M. Poses**	Director	March 15, 2005
/S/ WARREN B. RUDMAN **Warren B. Rudman**	Director	March 15, 2005
/S/ MICHAEL C. RUETTGERS **Michael C. Ruettgers**	Director	March 15, 2005
/S/ RONALD L. SKATES **Ronald L. Skates**	Director	March 15, 2005
/S/ WILLIAM R. SPIVEY **William R. Spivey**	Director	March 15, 2005
/S/ LINDA G. STUNTZ **Linda G. Stuntz**	Director	March 15, 2005
/S/ JOHN H. TILELLI, JR. **John H. Tilelli, Jr.**	Director	March 15, 2005

RAYTHEON EXCESS PENSION PLAN

ARTICLE I
NAME, PURPOSE, AND EFFECTIVE DATE

The Raytheon Excess Pension Plan (“Plan”) is hereby established effective January 1, 1999. The Plan is both an excess benefit plan as defined in Section 3(36) of ERISA and a nonqualified, unfunded plan designed to provide supplemental retirement benefits to a select group of management or highly compensated employees within the meaning of Section 201(2) of ERISA. The Plan is a new plan that replaces and supercedes all other excess benefit plans established by Raytheon Company and any of its affiliates with respect to any Retirement Plans. In no event shall a Participant be entitled to duplicate excess benefits with respect to his or her participation in any of the Retirement Plans.

ARTICLE II
DEFINITIONS

When used herein, the following terms shall have the following meanings unless a different meaning is clearly required by the context of the Plan.

2.1 ***Affiliate***. A trade or business that, together with Raytheon Company, is a member of (i) a controlled group of corporations within the meaning of Section 414(b) of the Code; (ii) a group of trades or businesses (whether or not incorporated) under common control as defined in Section 414(c) of the Code, or (iii) an affiliated service group as defined in Section 414(m) of the Code, or which is an entity otherwise required to be aggregated with Raytheon Company pursuant to Section 414(o) of the Code.

2.2 ***Beneficiary***. “Beneficiary” shall mean the person or persons (including a trust or trusts) who are entitled to receive benefits under the Retirement Plans in the event of the Participant’s death (whether or not such person or persons are expressly so designated by the Participant).

2.3 ***Code***. The “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time.

2.4 ***Company***. “Company” shall mean Raytheon Company and its Affiliates. The participating Companies shall act with respect to the Plan through the officers of

Raytheon Company or their delegates and not through the Board of Directors of Raytheon Company or its Executive Committee.

2.5 ***Deferred Bonuses and Compensation***. "Deferred Bonuses and Compensation" shall mean amounts that are excluded from the definition of compensation under the Retirement Plan and attributable to either (i) salary deferrals under nonqualified deferred compensation arrangements other than this Plan; or (ii) bonuses (whether paid or deferred) awarded under Raytheon's Results Based Incentive Plan, Strategic Information Technology Implementation Program Incentive Plan, Performance Sharing Program and Achievement Award Policy.

2.6 ***Eligible Executive***. "Eligible Executive" shall mean an Employee who is a member of the select group of management or highly compensated employees as provided in Section 201(2) of ERISA and who is selected in writing to participate in the Plan by the Plan Administrator. An Employee's selection as an Eligible Executive shall be determined annually by the Plan Administrator and may be changed for any future Plan Year. An Employee who is not designated in writing as an Eligible Executive for a particular Plan Year shall not be considered an Eligible Executive for such Plan Year, even if the Employee was designated as an Eligible Executive in a prior Plan Year.

2.7 ***Employee***. "Employee" shall mean any person employed by a Company, who is expressly so designated as an employee on the books and records of the Company, and who is treated as such by the Company for federal employment tax purposes. Any person who, after the close of a Plan Year, is retroactively treated by a Company, or any other party as an Employee for such prior Plan Year, shall not, for purposes of the Plan, be considered an Employee for such prior Plan Year unless expressly so treated as such by the Company.

2.8 ***ERISA***. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.9 ***Participant***. "Participant" shall mean any Employee eligible to receive benefits under this Plan.

2.10 ***Plan Administrator***. "Plan Administrator" shall mean Raytheon Company (or any successor corporation which continues the Plan) acting through its officers or their delegates and not through its Board of Directors or its Executive Committee.

2.11 ***Plan Year***. "Plan Year" shall mean the twelve (12) consecutive month period commencing January 1.

2.12 ***Retirement Plan***. "Retirement Plan" shall mean all defined benefit pension plans maintained by the Company that are designed to satisfy the qualification requirements under Section 401(a) of the Code.

ARTICLE III
ELIGIBILITY

3.1 ***Eligibility***. Subject to the condition of Section 3.2, all Employees who participate in one or more Retirement Plans and whose benefits from such Retirement Plans are limited by the provisions of Section 415 of the Code and/or who are Eligible Executives eligible to receive benefits from one or more Retirement Plans and their Beneficiaries shall be eligible to receive benefits under this Plan in accordance with Section 4.1.

3.2 ***Salary Reduction***. If a Retirement Plan requires mandatory employee contributions, as a condition to the receipt of an Excess Retirement Plan Benefit in accordance with Section 4.1 with respect to such Retirement Plan, Participants shall irrevocably agree at the time of their initial eligibility to have their salary reduced on a pre-tax basis by the amount of contributions which would have been required under such Retirement Plan to provide such benefit. For purposes of determining the portion of a Participant's Excess Retirement Plan Benefit attributable to salary reduction contributions, the Plan Administrator shall maintain a "participant contributions account," which shall be credited with interest in accordance with the terms of the applicable Retirement Plan.

ARTICLE IV
BENEFITS

4.1 ***Excess Retirement Plan Benefit***. The monthly benefit that would be payable to or on behalf of a Participant under the Retirement Plan in which such Participant is entitled to accrue benefits without application of (i) the limitations on contributions and benefits imposed by Section 415 of the Code, (ii) the limitation on compensation imposed by Section 401(a)(17) of the Code, and (iii) the exclusion of Deferred Bonuses and Compensation from the definition of compensation under the Retirement Plan; reduced by the monthly benefit actually payable to or on behalf of the Participant from such Retirement Plan. In the event a Participant participates in more than one Retirement Plan while employed by the Company, the Excess Retirement Plan Benefit prescribed in this Section 4.1 shall be determined separately with respect to each such Retirement Plan, unless the benefits under two or more of such Retirement Plans are determined on a coordinated basis; in which case, the Excess Retirement Plan Benefit shall be determined on a coordinated basis in the same manner as the Retirement Plans. In no event shall a Participant be entitled to duplicate Excess Retirement Plan Benefits under this Plan with respect to the same item of compensation.

4.2 ***Vesting***. Except as set forth in Sections 4.4 and 4.5, a Participant shall vest in his or her Excess Retirement Plan Benefit to the same extent as under the Retirement Plan to which such Excess Retirement Plan Benefit relates.

4.3 ***Payment of Benefits***. Except as otherwise provided herein, a Participant's Excess Retirement Plan Benefit shall be paid at the same time and in the same form as his or her benefits under the Retirement Plan to which such Excess Retirement Plan Benefit relates. A Participant who participated in the Raytheon Excess Benefit Plan II immediately before January 1, 1999, and who selected distribution options in his or her initial salary deferral election under such plan, may, at the time of his initial eligibility under this Plan, elect to have his or her Excess Retirement Plan Benefit payable at the time and in the form selected under the Raytheon Excess Benefit Plan II. Once made, this election shall be irrevocable, with the exception that a Participant may change such election one (1) time to provide that the Participant's Excess Retirement Plan Benefit shall be paid at the same time and in the same form as his or her benefits under the Retirement Plan to which such Excess Retirement Plan related; provided the new election is communicated in writing to the Plan Administrator no less than six (6) months prior to the commencement of payments. Notwithstanding any prior elections to the contrary, all benefits under the plan, with the exception of a lump sum payment, shall be payable monthly.

4.4 ***Benefits Unfunded***. The benefits payable under the Plan shall be paid solely out of the general assets of the participating Company that is the employer of the Participant (or was the most recent employer) at the time benefits first become payable and shall not be otherwise specifically funded in any manner. For this purpose, the Plan Administrator shall maintain separate books and records for each participating Company and its respective Employees who are Participants. Nothing herein contained shall preclude the creation of a bookkeeping or other reserve for benefits payable hereunder.

4.5 ***ERISA Unwind Provision***. Notwithstanding anything to the contrary contained herein, if a judicial or administrative determination is made or the Plan Administrator has reason to believe that an Employee does not qualify as a Eligible Executive, if required hereunder, the Employee shall cease to be a Participant under this Plan and the Plan Administrator shall pay to such Employee all benefits due him or her from this Plan, if any, as soon as administratively feasible.

ARTICLE V
ADMINISTRATION

5.1 ***Plan Administration***. The Plan shall be administered by the Plan Administrator in accordance with its terms and purposes. The Plan Administrator shall determine the amount and manner of payment of the benefits due to or on behalf of each Participant from the Plan and shall cause the benefits to be paid in cash by the appropriate participating Company accordingly.

5.2 ***Finality of Decisions***. Except as otherwise provided in Section 5.3, the Plan Administrator shall have full discretionary authority to determine eligibility for benefits and to construe the terms of the Plan, including all questions of fact and law. In addition, the decisions made by and the actions taken by the Plan Administrator in the administration of the Plan shall be final and conclusive on all persons, and the Plan Administrator shall not be subject to any liability whatsoever with respect to the administration of the Plan.

5.3 ***Claims Procedures***. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a “Claimant”) may deliver to the Plan Administrator a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. Any such determination by the Administrator shall be made pursuant to the following procedures, which shall be conducted in a manner designed to comply with Section 503 of ERISA:

(a) Step 1. Claims for a benefit should be filed by a Claimant as soon as practicable after the Claimant knows or should know that a dispute has arisen with respect to the benefit, but at least thirty (30) days prior to the Claimant’s actual retirement date or, if applicable, within sixty (60) days after the death, disability or termination of employment of the Participant whose benefit is at issue, by mailing a copy of the claim to the Benefits and Services Department, Raytheon Company, 141 Spring Street, Lexington, Massachusetts 02421.

(b) Step 2. In the event that a claim is wholly or partially denied by the Plan Administrator, the Plan Administrator shall, within ninety (90) days following receipt of the claim, so advise the Claimant in writing setting forth: the specific reason or reasons for the denial; specific reference to pertinent Plan provisions on which the denial is based; a description of any additional material or information necessary for the Claimant to perfect the claim; an explanation as to why such material or information is necessary; and an explanation of the Plan’s claim review procedures.

(c) Step 3. Within sixty (60) days following receipt of the denial of a claim for a benefit, a Claimant desiring to have the denial appealed shall file a request for review by an officer of Raytheon Company or a review committee, as designated by Raytheon Company, by mailing a copy thereof to the address shown in Section 5.3(a); provided, however, that such officer or any member of such review committee, as applicable, may not be the person who made the initial adverse benefit determination nor a subordinate of such person.

(d) Step 4. Within thirty (30) days following receipt of a request for review, the designated officer or review committee shall provide the Claimant a further opportunity to present his or her position. At the designated officer or review committee’s discretion, such presentation may be through an oral or written presentation. Prior to such presentation, the Claimant shall be permitted the opportunity to review pertinent documents and to submit issues and comments in writing. Within a reasonable time following presentation of the Claimant’s position, which usually should not exceed thirty (30) days, the designated officer or review committee shall inform the

Claimant in writing of the decision on review setting forth the reasons for such decision and citing pertinent provisions in the Plan.

ARTICLE VI
AMENDMENT AND TERMINATION OF PLAN

6.1 ***Amendment and Termination***. While Raytheon Company intends to maintain the Plan in conjunction with the Retirement Plans for as long as necessary, Raytheon Company reserves the right to amend and/or fully or partially terminate the Plan at any time for whatever reasons it may deem appropriate, provided that no amendment or termination of the Plan shall affect any participating Company's obligation to pay the benefits due to the Participants hereunder but only to the extent of the value of such benefits which have accrued up to the date of the amendment or termination.

ARTICLE VII
MISCELLANEOUS

7.1 ***No Enlargement of Employee Rights***. Nothing contained in the Plan shall be construed as a contract of employment between any Company and an Employee or as a right of any Employee to be continued in the employment of any Company, or as a limitation of the right of any Company to discharge any Employee at any time, with or without notice and with or without cause.

7.2 ***Assignment***. The benefits payable under this Plan may not be assigned, alienated, transferred, pledged or otherwise encumbered.

7.3 ***Governing Law***. To the extent not preempted by ERISA, this Plan shall be governed by the laws of the Commonwealth of Massachusetts.

Appendix A

Raytheon Excess Pension Plan

This Appendix A to the Raytheon Excess Pension Plan ("Plan") prescribes special provisions applicable to certain former participants in the Raytheon Excess Benefit Plan II ("EBP II"), which was replaced by the Plan.

Section I
Definitions

When used herein, the following terms shall have the following meanings unless a different meaning is clearly required by the context of this Appendix A. Any capitalized terms which are not defined herein shall have the meanings specified in the Plan.

1.1 ***Affected Participant***. A former participant in EBP II entitled to Excess Retirement Plan Benefits under the Plan: (i) to whom Reclassified Payments are to be made on or after August 1, 1998, (ii) who received 1998 Excess Payments, and/or (iii) who made Required IRA Withdrawals.

1.2 ***Compliance Statement***. The compliance statement issued by the Internal Revenue Service on January 28, 1998 under the Voluntary Compliance Resolution Program with respect to the Hughes Non-Bargaining Retirement Plan, from which the Raytheon Non-Bargaining Retirement Plan was spun-off.

1.3 ***1998 Excess Payments***. Retirement benefits paid by the Raytheon Non-Bargaining Retirement Plan (or its predecessor) to an Affected Participant in 1998 which were in excess of the maximum benefit described in the Compliance Statement.

1.4 ***Reclassified Payments***. The portion of an Affected Participant's Excess Retirement Plan Benefit that was originally scheduled for payment under the Raytheon Non-Bargaining Retirement Plan (or its predecessor) at the time of an Affected Participant's initial request for retirement benefits, but which is scheduled to be paid under the Plan in accordance with the Compliance Statement.

1.5 ***Required IRA Withdrawals***. Retirement benefits paid by the Raytheon Non-Bargaining Retirement Plan (or its predecessor) which an Affected Participant rolled over to an Individual Retirement Account ("IRA") and which must be withdrawn in accordance with the Compliance Statement.

1.6 ***Substitute Benefit Account***. The bookkeeping account established for each Affected Participant who elects the Substitute Benefit to reflect his or her Substitute Benefit in accordance with Section 2.2 of this Appendix A.

1.7 ***Suspended Payments***. Reclassified Payments initially scheduled to be paid between January 1, 1998 and July 1, 1998, but which were suspended.

Section II
Substitute Benefit

2.1 **Substitute Benefit**. In lieu of receiving the Reclassified Payments in accordance with the general terms of the Plan, an Affected Participant can elect to receive a Substitute Benefit, which, if so elected, shall equal the Affected Participant's Substitute Benefit Account, as determined in accordance with Section 2.2 of this Appendix A. The remaining portion of an Affected Participant's Excess Retirement Plan Benefit (i.e., net of the Reclassified Payments) shall, regardless of the Affected Participant's election hereunder, be paid in accordance with the general terms of the Plan.

2.2 **Substitute Benefit Account**. An Affected Participant's Substitute Benefit shall equal the sum of the following amounts credited to the Affected Participant's Substitute Benefit Account:

(a) the amount, if any, of an Affected Participant's Suspended Payments, plus interest on the Affected Participant's Suspended Payments at the rate of one-half percent (0.5%) per month from the date each such Suspended Payment would have been paid but for the short-term deferral through July 31, 1998;

(b) the amount equal to the greater of:

(1) ten percent (10%) of the Reclassified Payments (including Suspended Payments, if any) originally scheduled for payment under the Plan on or prior to July 1, 1999; or

(2) the sum of (i) an Affected Participant's Required IRA Withdrawals, if any, and (ii) an Affected Participant's 1998 Excess Payments, if any, times the following applicable percentage, determined based on the date elected by the Affected Participant for payment of the Substitute Benefit pursuant to Section 3.3 of this Appendix A:

Payment Date	Percentage
Year One	5%
Year Two	10%
Year Three	15%
Year Four	20%
Year Five	25%
Year Six	28%
Year Seven	31%
Year Eight	34%
Year Nine	37%
Year Ten	40%
Year Eleven	43%
Year Twelve	46%
Year Thirteen	49%
Year Fourteen	52%
Year Fifteen	55%

(c) as of each month, the amount of the Reclassified Payments that would have been made to the Affected Participant on and after August 1, 1998, but for the election of the Substitute Benefit;

(d) as of the last day of each month, the unpaid amount of the Substitute Benefit Account shall be increased by interest at a monthly rate of 0.7591% (an equivalent annual rate of 9-1/2% compounded monthly), which credit shall continue until the last day of the month immediately preceding the month for which the final payment of the Substitute Benefit is made; except with respect to an Affected Participant who elects to receive payment of his or her Substitute Benefit in five annual installments commencing on or after the twelfth anniversary of the Affected Participant's deferral start date under Section 3.3 of this Appendix A, in which case the interest credit provided herein shall continue only through the last day of the month immediately preceding the month for which the initial installment payment commences; and

(e) the amount, if any, elected by an Affected Participant who received Reclassified Payments during January through March, 1998, which amount shall not exceed, as determined in the sole discretion of the Company, the amount by which such Reclassified Payments increased the Affected Participant's taxable income for 1998 and which amount shall correspondingly reduce future payments of the Affected Participant's remaining portion of his or her Excess Retirement Plan Benefit (i.e., net of the Reclassified Payments).

2.3 **Substitute Benefit Election**. As a condition to the election of the Substitute Benefit, an Affected Participant must execute and deliver to the Company a written release in the form and manner acceptable to the Company. Once made, the election of the Substitute Benefit is irrevocable. If an Affected Participant does not elect the Substitute Benefit, the Participant's remaining Reclassified Payments, if any, shall be paid to the Participant pursuant to the general terms of the Plan.

Section III
Payment of Substitute Benefit

3.1 **Distribution Election**. Each Affected Participant shall designate at the time he or she elects the Substitute Benefit the manner in which the Substitute Benefit shall be payable from the choices available under Sections 3.2 - 3.4 of this Appendix A. Such designations shall be irrevocable and shall apply to all amounts payable under this Appendix A.

3.2 **Distribution Options**. The Substitute Benefit shall be payable in one of the following forms:

(a) in a lump-sum payment;

(b) in two (2) annual installments, the first at the end of the deferral period and the second in January of the following year; or

(c) in five (5) annual installments, the first at the end of the deferral period and one on each of the first four anniversaries of the end of the deferral period.

3.3 **Commencement of Distributions**. An Affected Participant can elect to commence the distribution of his or her Substitute Benefit on any date which is the first through fifteenth anniversary of August 1, 1998, or if later, the day the initial Reclassified Payment would have been scheduled for payment to the Affected Participant.

3.4 **Distributions Following Affected Participant's Death**. The unpaid balance of an Affected Participant's Substitute Benefit Account shall be paid to the Affected Participant's Beneficiary in two installments, one-half of the unpaid balance of the Substitute Benefit Account as soon as administratively feasible following the Affected Participant's death and the remaining balance of the Substitute Benefit Account in January of the following year; unless, at the time the Affected Participant elects to receive the Substitute Benefit, the Affected Participant designates that the benefit payable to the Beneficiary following the death of the Affected Participant shall be made at the time and in the manner payment would have been made to the Affected Participant during the Affected Participant's life. If Reclassified Payments remain unpaid following payment of the Substitute Benefit Account to the Beneficiary, then the Reclassified Payments shall be paid to the Beneficiary at the time the Reclassified Payments would have been paid but for the election of the Substitute Benefit.

Notwithstanding any other provision herein to the contrary, an Affected Participant may designate a “Beneficiary” for purposes of this Appendix A that is different from the beneficiary otherwise designated under the Plan.

This Appendix A is hereby adopted and made part of the Plan in accordance with Section 6.1 of the Plan.

Exhibit 10.11

RAYTHEON
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

ARTICLE I
NAME, PURPOSE, AND EFFECTIVE DATE

The Raytheon Supplemental Executive Retirement Plan ("Plan") is hereby established effective August 1, 2001. The Plan is a nonqualified, unfunded plan designed to provide supplemental retirement benefits to a select group of management or highly compensated employees within the meaning of Section 201(2) of ERISA.

ARTICLE II
DEFINITIONS

When used herein, the following terms shall have the following meanings unless a different meaning is clearly required by the context of the Plan.

2.1 ***Affiliate.*** "Affiliate" shall mean a trade or business that, together with Raytheon Company, is a member of (i) a controlled group of corporations within the meaning of Section 414(b) of the Code; (ii) a group of trades or businesses (whether or not incorporated) under common control as defined in Section 414(c) of the Code, or (iii) an affiliated service group as defined in Section 414(m) of the Code, or which is an entity otherwise required to be aggregated with Raytheon Company pursuant to Section 414(o) of the Code.

2.2 ***Applicable Retirement Plan.*** "Applicable Retirement Plan" shall mean the qualified defined benefit pension plan maintained by the Employer in which a Participant is accruing benefits at the time he or she terminates employment with the Company and all Affiliates. If a Participant is accruing benefits under more than one qualified defined benefit pension plan at such time, the Applicable Retirement Plan shall be the plan in which the Participant is entitled to the greatest benefit (comparing single life annuities commencing at normal retirement age as computed under the terms of the respective plans).

2.3 ***Code.*** The "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

2.4 ***Company***. “Company” shall mean Raytheon Company and any successor thereto by merger, consolidation or reorganization whose board of directors adopts this Plan.

2.5 ***Earliest Accrual Date.*** “Earliest Accrual Date” shall mean the first day of the month coincident with or immediately following the date an Eligible Executive both attains at least age *55* and completes at least 10 Years of Service, provided the Eligible Executive is an Employee on such date or terminated employment no more than one month before such date.

2.6 ***Eligible Executive***. “Eligible Executive” shall mean an Employee who is a member of the select group of management or highly compensated employees as provided in Section 201(2) of ERISA, who is selected to participate in the Plan by the Plan Administrator and who is listed as an Eligible Executive in Appendix A to this Plan.

2.7 ***Employee***. “Employee” shall mean any person employed by an Employer, who is expressly so designated as an employee on the books and records of the Employer, and who is treated as such by the Employer for federal employment tax purposes. Any person who, after the close of a Plan Year, is retroactively treated by an Employer, or any other party as an Employee for such prior Plan Year, shall not, for purposes of the Plan, be considered an Employee for such prior Plan Year unless expressly so treated as such by the Employer.

2.8 ***Employer***. “Employer” shall mean the Company and any Affiliate or division of the Employer or an Affiliate which adopts this Plan with the consent of the Company.

2.9 ***ERISA***. “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.10 ***Estimated Primary Social Security Benefit***. “Estimated Primary Social Security Benefit” shall mean the Estimated Primary Social Security Benefit as determined under the Raytheon Company Pension Plan for Salaried Employees. If benefit payments commence under this Plan before a Participant is first eligible to receive unreduced Social Security Benefits, the Estimated Primary Social Security Benefit described in the preceding sentence shall be reduced to the Social Security Benefit the Participant would be entitled to receive if he or she elected to receive Social Security Benefits on the first date that he or she could elect to receive reduced Social Security Benefits on or after the date benefits commence under this Plan.

2.11 ***Final Average Earnings***. “Final Average Earnings” shall mean the final average earnings that are taken into account for purposes of computing the retirement benefit of a Participant under the Applicable Retirement Plan, determined without application of the limitation on compensation imposed by Section 401(a)(17) of the Code. If an Applicable Retirement Plan does not use final average earnings to determine retirement benefits, Final Average Earnings shall mean the final average earnings as defined under the Raytheon Company Pension Plan for Salaried Employees, determined without application of the limitation on compensation imposed by Section 401(a)(17) of the Code.

2.12 ***Participant***. "Participant" shall mean any Employee eligible to receive benefits under this Plan.

2.13 ***Plan Administrator***. "Plan Administrator" shall mean the Board of Directors of the Company or its delegate.

2.14 ***Plan Year***. "Plan Year" shall mean the twelve (12) consecutive month period commencing January 1 and ending December 31, with the exception that the first Plan Year shall be the short year commencing August 1, 2001 and ending December 31, 2001.

2.15 ***Service***. "Service" shall mean, except as otherwise provided in Appendix A to this Plan, the period of time beginning on the date an Eligible Employee is first credited with an hour of service with the Company or any Affiliate (and any predecessors thereto) and ending on the date an Eligible Employee terminates employment with the Company and all Affiliates. Except as otherwise provided in Appendix A to this Plan, if an Eligible Employee terminates employment with the Company and all Affiliates before he or she reaches the Earliest Accrual Date, the Service completed before the termination of employment shall not be taken into account under this Plan if he or she is subsequently re-employed by an Employer unless such Employee is re-designated by the Plan Administrator as an Eligible Employee following re-employment; in which case, the Service completed before the termination of employment shall be taken into account (and no Service shall be credited for the period of non-employment).

2.16 ***Year of Service***. "Year of Service" shall mean twelve (12) months of Service.

ARTICLE III
ELIGIBILITY

3.1 ***Eligibility***. Subject to the conditions of Section 3.2, an Employee shall be eligible to participate in this Plan only if he or she is designated by the Plan Administrator in writing as an Eligible Employee.

3.2 ***Retirement Benefit Information***. As a condition precedent to receiving benefits under this Plan, an Eligible Employee must provide the Plan Administrator or its delegate with all of the information reasonably requested to determine the amount of the Eligible Employee's retirement benefits from all defined benefit pension plans, including both qualified and nonqualified arrangements, maintained by the Company and all Affiliates and all other employers, and the retirement benefits to which the Eligible Employee will be eligible to receive under Social Security. If such information is not fully provided, an Eligible Employee will not be entitled to any benefits under this Plan. If, after the commencement of benefit payments under this Plan, the Plan Administrator determines that the information provided was not complete or accurate, the Plan Administrator may take all appropriate actions, including, but not limited to, discontinuing benefit payments, adjusting future benefit payments and/or seeking to recover prior benefit payments.

ARTICLE IV
BENEFITS

4.1 ***Supplemental Retirement Benefit***. An Eligible Executive shall be entitled to a Supplemental Retirement Benefit on his or her Earliest Accrual Date; provided the Eligible Executive is an Employee on such date or terminated employment no more than one month before such date. The Supplemental Retirement Benefit shall be an amount equal to the "Initial Retirement Benefit" reduced by the "Offset Amount."

(a) Initial Retirement Benefit: The Initial Retirement Benefit as of an Eligible Executive's Earliest Accrual Date shall be a single life annuity equal to thirty-five percent (35%) of his or her Final Average Earnings. For each month of Service performed after an Eligible Employee both (i) attains age 55 and (ii) completes at least ten Years of Service, the Initial Retirement Benefit shall be increased by one quarter of one percent (0.25%) (or three percent 3% for each such Year of Service), up to a maximum Initial Retirement Benefit of fifty percent (50%) of Final Average Earnings (for a maximum additional benefit of up to fifteen percent (15%)).

(b) Offset Amount: The Offset Amount is the amount of retirement benefits the Eligible Executive is entitled to receive or previously received from all defined benefit pension plans, including both qualified and nonqualified arrangements, maintained by the Company and all Affiliates, and all other employers, plus the Estimated Primary Social Security Benefit (collectively, "all other defined benefit pension plans"). For purposes of determining the Offset Amount, the benefits provided by all other defined benefit pension plans shall be converted to an actuarially equivalent single life annuity commencing on the date benefits under this Plan commence using the actuarial assumptions prescribed in the Applicable Retirement Plan. Notwithstanding the other provisions of this subsection (b), if a Participant commences benefits under this

Plan before he or she is first eligible to receive Social Security Benefits, the Supplemental Retirement Benefit shall not be reduced by the Estimated Primary Social Security Benefit until the Participant first becomes eligible to receive Social Security Benefits.

4.2 ***Payment of Benefits***. A Participant's Supplemental Retirement Benefit shall be paid at the same time and in the same form as his or her retirement benefits under the Applicable Retirement Plan. If the required form of payment is other than a single life annuity, the Supplemental Retirement Benefit shall be converted into an actuarially equivalent form using the actuarial assumptions and other conversion factors prescribed in the Applicable Retirement Plan for converting a single life annuity into the required form of payment.

4.3 ***Benefits Unfunded***. The benefits payable under the Plan shall be paid solely out of the general assets of the participating Employer that is the employer of the Participant (or was the most recent employer) at the time benefits first become payable and shall not be otherwise specifically funded in any manner. For this purpose, the Plan Administrator shall maintain separate books and records for each participating Employer and its respective Employees who are Participants. Nothing herein contained shall preclude the creation of a bookkeeping or other reserve for benefits payable hereunder.

4.4 ***ERISA Unwind Provision***. Notwithstanding anything to the contrary contained herein, if a judicial or administrative determination is made or the Plan Administrator has reason to believe that an Employee does not qualify as a Eligible Executive, if required hereunder, the Employee shall cease to be a Participant under this Plan and the Plan Administrator shall pay to such Employee all benefits due him or her from this Plan, if any, as soon as administratively feasible.

ARTICLE V
ADMINISTRATION

5.1 ***Plan Administration***. The Plan shall be administered by the Plan Administrator in accordance with its terms and purposes. The Plan Administrator shall determine the amount and manner of payment of the benefits due to or on behalf of each Participant from the Plan and shall cause the benefits to be paid in cash by the appropriate participating Employer accordingly.

5.2 ***Finality of Decisions***. Except as otherwise provided in Section 5.3, the Plan Administrator shall have full discretionary authority to determine eligibility for benefits and to construe the terms of the Plan, including all questions of fact and law. In addition, the decisions made by and the actions taken by the Plan Administrator in the administration of the Plan shall be final and conclusive on all persons, and the Plan

Administrator shall not be subject to any liability whatsoever with respect to the administration of the Plan.

5.3 ***Claims Procedures***. Any Eligible Employee (such Eligible Employee being referred to below as a “Claimant”) may deliver to the Plan Administrator a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. Any such determination by the Plan Administrator shall be made pursuant to the following procedures, which shall be conducted in a manner designed to comply with Section 503 of ERISA:

(a) Step 1. Claims for a benefit should be filed by a Claimant as soon as practicable after the Claimant knows or should know that a dispute has arisen with respect to the benefit, but at least thirty (30) days prior to the Claimant’s actual retirement date or, if applicable, within sixty (60) days after the termination of employment of the Eligible Employee, by mailing a copy of the claim to the Benefits and Services Department, Raytheon Company, 141 Spring Street, Lexington, Massachusetts 02421.

(b) Step 2. In the event that a claim is wholly or partially denied by the Plan Administrator, the Plan Administrator shall, within ninety (90) days following receipt of the claim, so advise the Claimant in writing setting forth: the specific reason or reasons for the denial; specific reference to pertinent Plan provisions on which the denial is based; a description of any additional material or information necessary for the Claimant to perfect the claim; an explanation as to why such material or information is necessary; and an explanation of the Plan’s claim review procedures.

(c) Step 3. Within sixty (60) days following receipt of the denial of a claim for a benefit, a Claimant desiring to have the denial appealed shall file a request for review by an officer of Raytheon Company or a review committee, as designated by Raytheon Company, by mailing a copy thereof to the address shown in Section 5.3(a); provided, however, that such officer or any member of such review committee, as applicable, may not be the person who made the initial adverse benefit determination nor a subordinate of such person.

(d) Step 4. Within thirty (30) days following receipt of a request for review, the designated officer or review committee shall provide the Claimant a further opportunity to present his or her position. At the designated officer or review committee’s discretion, such presentation may be through an oral or written presentation. Prior to such presentation, the Claimant shall be permitted the opportunity to review pertinent documents and to submit issues and comments in writing. Within a reasonable time following presentation of the Claimant’s position, which usually should not exceed thirty (30) days, the designated officer or review committee shall inform the Claimant in writing of the decision on review setting forth the reasons for such decision and citing pertinent provisions in the Plan.

ARTICLE VI
AMENDMENT AND TERMINATION OF PLAN

6.1 ***Amendment and Termination***. While Raytheon Company intends to maintain the Plan in conjunction with the Applicable Retirement Plans for as long as necessary, Raytheon Company reserves the right to amend and/or fully or partially terminate the Plan at any time for whatever reasons it may deem appropriate, provided that no amendment or termination of the Plan shall affect any participating Employer's obligation to pay the benefits due to the Participants hereunder but only to the extent of the value of such benefits which have accrued up to the date of the amendment or termination.

ARTICLE VII
MISCELLANEOUS

7.1 ***No Enlargement of Employee Rights***. Nothing contained in the Plan shall be construed as a contract of employment between any Employer and an Employee or as a right of any Employee to be continued in the employment of any Employer, or as a limitation of the right of any Employer to discharge any Employee at any time, with or without notice and with or without cause.

7.2 ***Assignment***. The benefits payable under this Plan may not be assigned, alienated, transferred, pledged or otherwise encumbered.

7.3 ***Governing Law***. To the extent not preempted by ERISA, this Plan shall be governed by the laws of the Commonwealth of Massachusetts.

Executed in Massachusetts this 5th day of March, 2002.

RAYTHEON COMPANY

By:

Title

RAYTHEON COMPANY

Amendment To The
Raytheon Supplemental Executive Retirement Plan

In accordance with the authority vested in the Senior Vice President, Human Resources of Raytheon Company by a Vote of the Board of Directors and delegated to the Vice President Performance Development and Benefits, to amend the defined benefit and defined contribution plans sponsored by Raytheon Company, the Raytheon Supplemental Executive Retirement Plan (“Plan”) is hereby amended in the following respects:

Appendix A is revised, as shown on the attachment hereto, to include additional Participants; to list employment termination dates of certain Participants; and to specify the special service rules applicable to Plan Participants.

This amendment shall be effective as of July 1, 2003.

Diane D. Avellar
Vice President, Performance
Development and Benefits

Dated at Waltham,
Massachusetts

January 27, 2004

Supplemental Executive Retirement Plan
Appendix A

List of Designated Executives (Plan Section 2.6)

Designated Executive	Termination Date	Special Service Rules (if applicable)
Daniel P. Burnham		
Franklyn A. Caine	3/8/05*	
Philip W. Cheney	12/31/01	
Thomas M. Culligan		
Robert W. Drewes	3/11/02	
Bryan J. Even		
Richard J. Foley	12/31/03	
Louise L. Francesconi		
Charles E. Franklin		
John D. Harris II		
Michael D. Keebaugh		
Jack R. Kelble		
Philip T. LePore	8/4/03*	
Francis S. Marchilena	9/30/05*	
Neal E. Minahan	3/31/03	
Keith J. Peden		
Phyllis J. Piano		
Edward S. Pliner		
Rebecca R. Rhoads		
Donald M. Ronchi		
Colin Schottlaender		
James E. Schuster		
Gregory S. Shelton		
Daniel L. Smith		
Jay B. Stephens		Upon completion of 5 years of service with Raytheon, will receive an additional 5 years of pension credit. In the case of involuntary termination, change-in-control, death or disability, Mr. Stephens would be viewed as having 10 years of service with Raytheon.
William H. Swanson		
Jon E. Wohler	2/28/03	

* End of negotiated transition period. Service and benefit credit continues through the transition period.

Raytheon Company
Change In Control Severance Agreement

Agreement by and between Raytheon Company, a Delaware corporation (the "Company"), and __________ ("Executive") dated as of __________, 200_.

The Board of Directors of Company believes it is in the best interests of the Company and its stockholders to have the continued dedication of Executive notwithstanding the possibility, threat or occurrence of a Change in Control (as defined in Section 1.5); to diminish the inevitable distraction of Executive due to personal uncertainties and risks created by a threatened or pending Change in Control; and to provide Executive with compensation and benefits arrangements upon a Change in Control which are competitive with those offered by other corporations.

Therefore, the Board of Directors has caused the Company to enter into this Agreement, and the Company and Executive agree as follows:

1 DEFINITIONS

For purposes of this Agreement, the following terms have the following meanings.

1.1 "<u>Affiliated Company</u>" means an affiliated company as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

1.2 "<u>Base Salary</u>" means Executive's annual base salary paid or payable (including any base salary which has been earned but deferred) to Executive by the Company or an affiliated company immediately preceding the date of a Change in Control.

1.3 "<u>Board</u>" means the Board of Directors of the Company.

1.4 "<u>Cause</u>" means Executive's:

(i) willful and continued failure to perform substantially Executive's duties with the Company or one of its affiliates as such duties are constituted as of a Change in Control after the Company delivers to Executive written demand for substantial performance specifically identifying the manner in which Executive has not substantially performed Executive's duties;

(ii) conviction for a felony; or

(iii) willfully engaging in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

For purposes of this Section 1.4, no act or omission by Executive shall be considered “willful” unless it is done or omitted in bad faith or without reasonable belief that Executive’s action or omission was in the best interests of the Company. Any act or failure to act based upon (a) authority given pursuant to a resolution duly adopted by the Board, (b) instructions of the Chief Executive Officer or a senior officer of the Company, or (c) advice of counsel for the Company shall be conclusively presumed to be done or omitted to be done by Executive in good faith and in the best interests of the Company. For purposes of subsections (i) and (iii) above, Executive shall not be deemed to be terminated for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of the Board at a meeting called and held for such purpose (after reasonable notice is provided to Executive and Executive is given an opportunity, together with counsel, to be heard before the Board) finding that in the good faith opinion of the Board Executive is guilty of the conduct described in subsection (i) or (iii) above and specifying the particulars thereof in detail.

1.5 “<u>Change in Control</u>” of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

(i) Any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Person”), other than those Persons in control of the Company as of the date hereof or a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, become the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company’s then outstanding securities; or

(ii) A change in the Board such that individuals who as of the date hereof constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; *provided, however,* that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company’s stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board; or

(iii) The stockholders of the Company approve: (a) a plan of complete liquidation of the Company; (b) an agreement for the sale or disposition of all or substantially all of the Company's assets; (c) a merger, consolidation or reorganization of the Company with or involving any other corporation, other than a merger, consolidation or reorganization that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger, consolidation or reorganization.

However, in no event shall a Change in Control be deemed to have occurred for purposes of this Agreement if Executive is included in a Person that consummates the Change in Control. Executive shall not be deemed to be included in a Person by reason of ownership of (i) less than 3% of the equity in the Person or (ii) an equity interest in the Person which is otherwise not significant as determined prior to the Change of Control by a majority of the non-employee continuing directors of the Company.

1.6 "Code" means the Internal Revenue Code of 1986, as amended.

1.7 "Good Reason" means any of the following acts or omissions by the Company without Executive's express written consent:

(i) assigning to Executive duties materially inconsistent with Executive's position (including status, offices, titles and reporting requirements), authority or responsibilities immediately prior to a Change in Control or any other action by the Company which results in a material diminution of Executive's position, authority, duties or responsibilities as constituted immediately prior to a Change in Control;

(ii) requiring Executive (a) to be based at any office or location in excess of 50 miles from Executive's office or location immediately prior to a Change in Control or (b) to travel on Company business to a substantially greater extent than required immediately prior to a Change in Control;

(iii) reducing Executive's Base Salary;

(iv) materially reducing in the aggregate Executive's incentive opportunities under the Company's or an affiliated company's short- and long-term incentive programs as such opportunities exist immediately prior to a Change in Control;

(v) materially reducing Executive's targeted annualized award opportunities and/or the degree of probability of attainment of such annualized award opportunities as such opportunities exist immediately prior to a Change in Control;

(vi) failing to maintain Executive's amount of benefits under or relative level of participation in the Company's or an affiliated Company's employee benefit or retirement plans, policies, practices or arrangements in which the Executive participates immediately prior to a Change in Control;

(vii) purportedly terminating Executive's employment otherwise than as expressly permitted by this Agreement; or

(viii) failing to comply with and satisfy Section 8.3 hereof by requiring any successor to the Company to assume and agree to perform the Company's obligations hereunder.

1.8 "Qualifying Termination" means the occurrence of any of the following events within twenty-four (24) calendar months after a Change in Control:

(i) the Company terminates the employment of Executive for any reason other than for Cause including, without limitation, forcing Executive to retire on any date not of Executive's choosing;

(ii) Executive terminates employment with the Company for Good Reason;

(iii) the Company fails to require a successor to assume, or a successor refuses to assume, the Company's obligations as required by Section 8 hereof; or

(iv) the Company or any successor breaches any of the provisions hereof.

1.9 "Severance Benefits" means:

(i) an amount equal to the product of Executive's Base Salary multiplied by three (3);

(ii) an amount equal to Executive's unpaid Base Salary through a Qualifying Termination;

(iii) an amount equal to the product of the greater of (a) Executive's annual bonus earned for the fiscal year immediately prior to a Change in Control and (b) Executive's target annual bonus established for the plan year in which a Qualifying Termination occurs multiplied by three (3);

(iv) an amount equal to the product of Executive's unpaid targeted annual bonus established for the plan year in which a Change in Control occurs multiplied by a fraction the numerator of which is the number of days elapsed in the current fiscal year to the Qualifying Termination and the denominator of which is 365;

(v) an amount equal to the dollar value of Executive's accrued vacation through a Qualifying Termination;

(vi) an amount equal to all compensation deferred by Executive together with all interest thereon;

(vii) an amount equal to the actuarial present value of the aggregate benefits accrued by Executive as of a Qualifying Termination under the Company's supplemental retirement plan calculated assuming that Executive's employment continued for two years following a Qualifying Termination; *provided, however,* that for purposes of determining Executive's final average pay under the supplemental retirement plan, Executive's actual pay history as of the Qualifying Termination shall be used; and

(viii) fringe benefits pursuant to all welfare, benefit and retirement plans under which Executive and Executive's family are eligible to receive benefits or coverage as of a Change in Control, including but not limited to life insurance, hospitalization, disability, medical, dental, pension and thrift plans.

2 QUALIFYING TERMINATION

2.1 Severance Benefits. Following a Qualifying Termination Executive shall be entitled to all Severance Benefits, conditioned upon receipt of a written release by the Executive of any claims against the Company or its subsidiaries, except those claims arising under this Agreement or any other written plan or agreement, which shall be specifically noted in such release.

2.2 Payment of Benefits. The Severance Benefits described in Sections 1.9 (i) through 1.9(vii) shall be paid in cash within 30 days of a Qualifying Termination.

2.3 Duration of Benefits. The Severance Benefits described in Section 1.9(viii) shall be provided to Executive at the same premium cost as in effect immediately prior to the Qualifying Termination. The welfare Severance Benefits described in Section 1.9(viii) shall be provided following the Qualifying Termination until the earlier of (i) the second anniversary of the Qualifying Termination or (ii) the date Executive receives substantially equivalent welfare benefits from a subsequent employer.

3 NON-QUALIFYING TERMINATIONS

3.1 Voluntary; for Cause; Death. Following a Change in Control, if Executive's employment is terminated (i) voluntarily by Executive without Good Reason, (ii) involuntarily by the Company for Cause or (iii) due to death, Executive shall be entitled to Base Salary and benefits accrued through the date of termination and Executive's entitlement to all other benefits shall be determined in accordance with the Company's retirement, insurance and other applicable plans, policies, practices and arrangements. Thereafter, the Company shall have no further obligations to Executive hereunder.

4 NOTICE OF TERMINATION

4.1 Notice by Executive or Company. Any termination by Executive for Good Reason or by the Company for Cause shall be communicated by written notice given to the other in accordance with Section 9.2 hereof and which:

(i) indicates the specific termination provision in this Agreement relied upon;

(ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision indicated to the extent possible; and

(iii) specifies the termination date (which date shall not be more than 30 days after the giving of such notice).

4.2 Failure to Give Notice. The failure by Executive or the Company to set forth in the notice of termination required by Section 4.1 any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of Executive or the Company, respectively, hereunder or preclude Executive or the Company, respectively, from asserting such fact or circumstance in enforcing Executive's or the Company's rights hereunder.

5 TAX PAYMENTS

5.1 Excise Tax Payments. (i) Anything in this Agreement to the contrary notwithstanding and except as set forth below, if it is determined that any payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 5) (a “Payment”) would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the “Excise Tax”), then Executive shall be entitled to receive an additional payment (a “Gross-Up Payment”) in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Subsection 5(i), if it is determined that Executive is entitled to a Gross-Up Payment, but that Executive, after taking into account the Payments and the Gross-Up Payment, would not receive a net after-tax benefit of at least $50,000 (taking into account both income taxes and any Excise Tax) as compared to the net after-tax proceeds to Executive resulting from an elimination of the Gross-Up Payment and a reduction of the Payments, in the aggregate, to an amount (the “Reduced Amount”) such that the receipt of Payments would not give rise to any Excise Tax, then no Gross-Up Payment shall be made to Executive and the Payments, in the aggregate, shall be reduced to the Reduced Amount.

(ii) Subject to the provisions of Subsection 5(iii), all determinations required to be made under this Section 5, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by PricewaterhouseCoopers or such other certified public accounting firm as may be designated by Executive (the “Accounting Firm”) which shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the Company. If the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 5, shall be paid by the Company to Executive within five days of the receipt of the Accounting Firm’s determination. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. If the Company exhausts its remedies pursuant to Subsection 5(iii) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

(iii) Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(a) give the Company any information reasonable requested by the Company relating to such claim,

(b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(c) cooperate with the Company in good faith in order effectively to contest such claim, and

(d) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Subsection 5(iii), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or to contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided, however*, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis, and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and *further provided* that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(iv) If, after the receipt by Executive of an amount advanced by the Company pursuant to Subsection 5(iii), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Subsection 5(iii) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If after the receipt by Executive of an amount advanced by the Company pursuant to Subsection 5(iii), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

5.2 Tax Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

6 EXTENT OF COMPANY'S OBLIGATIONS

6.1 No Set-Off, Etc. The Company's obligation to make the payments and perform it obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against Executive or others. All payments by the Company hereunder shall be final, and the Company shall not seek to recover from Executive any part of any payment for any reason whatsoever.

6.2 No Mitigation. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any provision hereof, and such amounts shall not be reduced whether or not Executive obtains other employment except to the extent contemplated by Section 2.3 hereof.

6.3 Payment of Legal Fees and Costs. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by Executive about the amount of payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code.

6.4 Arbitration. Executive shall have the right to have settled by arbitration any dispute or controversy arising in connection herewith. Such arbitration shall be conducted in accordance with the rules of the American Arbitration Association before a panel of three arbitrators sitting in a location selected by Executive. Judgment may be entered on the award of the arbitrators in any court having proper jurisdiction. All expenses of such arbitration shall be borne by the Company in accordance with Section 6.3 hereof.

7 TERM

7.1 Initial Term. The term of this Agreement shall be two years from the date hereof.

7.2 Renewal. The terms of this Agreement automatically shall be extended for successive one-year terms unless canceled by the Company by written notice to Executive not less than six months prior to the end of any term.

7.3 Effect of Change in Control. Notwithstanding Sections 7.1 and 7.2 to the contrary, the Company may not cancel this Agreement following a Change in Control.

8 SUCCESSORS

8.1 This Agreement is personal to Executive and without the prior written consent of the Company shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement shall be inure to the benefit of and be enforceable by Executive’s legal representatives. Executive may from time to time designate in writing one or more persons or entities as primary and/or contingent beneficiaries of any Severance Benefit owing to Executive hereunder.

8.2 This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

8.3 The Company shall require any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. For purposes hereof, “Company” means the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise.

9 MISCELLANEOUS

9.1 Heading. The headings are not part of the provisions hereof and shall have no force or effect.

9.2 Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery or by registered or certified mail, return receipt required, postage prepaid, addressed as follows:

if to the Company: Raytheon Company
870 Winter Street
Waltham, Massachusetts 02451
Attention: General Counsel

if to Executive:

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received.

9.3 Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision hereof.

9.4 Compliance; Waiver. Executive’s or the Company’s failure to insist upon strict compliance with any provision hereof or failure to assert any right hereunder, including without limitation the right of Executive to terminate employment for Good Reason pursuant to Section 2.1 hereof, shall not be deemed to be a waiver of such provision or right or any other provision or right hereof.

9.5 Employment Status. Executive and Company acknowledge that except as may otherwise be provided under any other written agreement between Executive and the Company, the employment of Executive by the Company is “at will” and prior to a Change in Control may be terminated at any time by Executive or the Company.

Following a Change in Control, the provisions of this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

Raytheon Company

By: ______________________________	______________________________
Keith J. Peden Senior Vice President, Human Resources	Executive

Exhibit 10.20

Raytheon Company
Change In Control Severance Agreement

Agreement by and between Raytheon Company, a Delaware corporation (the "Company"), and __________ ("Executive") dated as of __________, 200_.

The Board of Directors of Company believes it is in the best interests of the Company and its stockholders to have the continued dedication of Executive notwithstanding the possibility, threat or occurrence of a Change in Control (as defined in Section 1.5); to diminish the inevitable distraction of Executive due to personal uncertainties and risks created by a threatened or pending Change in Control; and to provide Executive with compensation and benefits arrangements upon a Change in Control which are competitive with those offered by other corporations.

Therefore, the Board of Directors has caused the Company to enter into this Agreement, and the Company and Executive agree as follows:

1 DEFINITIONS

For purposes of this Agreement, the following terms have the following meanings.

1.1 "Affiliated Company" means an affiliated company as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

1.2 "Base Salary" means Executive's annual base salary paid or payable (including any base salary which has been earned but deferred) to Executive by the Company or an affiliated company immediately preceding the date of a Change in Control.

1.3 "Board" means the Board of Directors of the Company.

1.4 "Cause" means Executive's:

(i) willful and continued failure to perform substantially Executive's duties with the Company or one of its affiliates as such duties are constituted as of a Change in Control after the Company delivers to Executive written demand for substantial performance specifically identifying the manner in which Executive has not substantially performed Executive's duties;

(ii) conviction for a felony; or

(iii) willfully engaging in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

For purposes of this Section 1.4, no act or omission by Executive shall be considered "willful" unless it is done or omitted in bad faith or without reasonable belief that Executive's action or omission was in the best interests of the Company. Any act or failure to act based upon (a) authority given pursuant to a resolution duly adopted by the Board, (b) instructions of the Chief Executive Officer or a senior officer of the Company, or (c) advice of counsel for the Company shall be conclusively presumed to be done or omitted to be done by Executive in good faith and in the best interests of the Company. For purposes of subsections (i) and (iii) above, Executive shall not be deemed to be terminated for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of the Board at a meeting called and held for such purpose (after reasonable notice is provided to Executive and Executive is given an opportunity, together with counsel, to be heard before the Board) finding that in the good faith opinion of the Board Executive is guilty of the conduct described in subsection (i) or (iii) above and specifying the particulars thereof in detail.

1.5 "<u>Change in Control</u>" of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

(i) Any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person"), other than those Persons in control of the Company as of the date hereof or a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, become the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities; or

(ii) A change in the Board such that individuals who as of the date hereof constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; *provided, however,* that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board; or

(iii) The stockholders of the Company approve: (a) a plan of complete liquidation of the Company; (b) an agreement for the sale or disposition of all or substantially all of the Company's assets; (c) a merger, consolidation or reorganization of the Company with or involving any other corporation, other than a merger, consolidation or reorganization that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger, consolidation or reorganization.

However, in no event shall a Change in Control be deemed to have occurred for purposes of this Agreement if Executive is included in a Person that consummates the Change in Control. Executive shall not be deemed to be included in a Person by reason of ownership of (i) less than 3% of the equity in the Person or (ii) an equity interest in the Person which is otherwise not significant as determined prior to the Change of Control by a majority of the non-employee continuing directors of the Company.

1.6 "Code" means the Internal Revenue Code of 1986, as amended.

1.7 "Good Reason" means any of the following acts or omissions by the Company without Executive's express written consent:

(i) assigning to Executive duties materially inconsistent with Executive's position (including status, offices, titles and reporting requirements), authority or responsibilities immediately prior to a Change in Control or any other action by the Company which results in a material diminution of Executive's position, authority, duties or responsibilities as constituted immediately prior to a Change in Control;

(ii) requiring Executive (a) to be based at any office or location in excess of 50 miles from Executive's office or location immediately prior to a Change in Control or (b) to travel on Company business to a substantially greater extent than required immediately prior to a Change in Control;

(iii) reducing Executive's Base Salary;

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(viii) failing to comply with and satisfy Section 8.3 hereof by requiring any successor to the Company to assume and agree to perform the Company's obligations hereunder.

1.8 "<u>Qualifying Termination</u>" means the occurrence of any of the following events within twenty-four (24) calendar months after a Change in Control:

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(iii) the Company fails to require a successor to assume, or a successor refuses to assume, the Company's obligations as required by Section 8 hereof; or

(iv) the Company or any successor breaches any of the provisions hereof.

1.9 "<u>Severance Benefits</u>" means:

(i) an amount equal to the product of Executive's Base Salary multiplied by two (2);

(ii) an amount equal to Executive's unpaid Base Salary through a Qualifying Termination;

(iii) an amount equal to the product of the greater of (a) Executive’s annual bonus earned for the fiscal year immediately prior to a Change in Control and (b) Executive’s target annual bonus established for the plan year in which a Qualifying Termination occurs multiplied by two (2);

(iv) an amount equal to the product of Executive’s unpaid targeted annual bonus established for the plan year in which a Change in Control occurs multiplied by a fraction the numerator of which is the number of days elapsed in the current fiscal year to the Qualifying Termination and the denominator of which is 365;

(v) an amount equal to the dollar value of Executive’s accrued vacation through a Qualifying Termination;

(vi) an amount equal to all compensation deferred by Executive together with all interest thereon;

(vii) an amount equal to the actuarial present value of the aggregate benefits accrued by Executive as of a Qualifying Termination under the Company’s supplemental retirement plan calculated assuming that Executive’s employment continued for two years following a Qualifying Termination; *provided, however*, that for purposes of determining Executive’s final average pay under the supplemental retirement plan, Executive’s actual pay history as of the Qualifying Termination shall be used; and

(viii) fringe benefits pursuant to all welfare, benefit and retirement plans under which Executive and Executive’s family are eligible to receive benefits or coverage as of a Change in Control, including but not limited to life insurance, hospitalization, disability, medical, dental, pension and thrift plans.

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2.1 Severance Benefits. Following a Qualifying Termination Executive shall be entitled to all Severance Benefits, conditioned upon receipt of a written release by the Executive of any claims against the Company or its subsidiaries, except those claims arising under this Agreement or any other written plan or agreement, which shall be specifically noted in such release.

2.2 Payment of Benefits. The Severance Benefits described in Sections 1.9 (i) through 1.9(vii) shall be paid in cash within 30 days of a Qualifying Termination.

2.3 Duration of Benefits. The Severance Benefits described in Section 1.9(viii) shall be provided to Executive at the same premium cost as in effect immediately prior to the Qualifying Termination. The welfare Severance Benefits described in Section 1.9(viii) shall be provided following the Qualifying Termination until the earlier of (i) the second anniversary of the Qualifying Termination or (ii) the date Executive receives substantially equivalent welfare benefits from a subsequent employer.

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4 NOTICE OF TERMINATION

4.1 Notice by Executive or Company. Any termination by Executive for Good Reason or by the Company for Cause shall be communicated by written notice given to the other in accordance with Section 9.2 hereof and which:

(i) indicates the specific termination provision in this Agreement relied upon;

(ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision indicated to the extent possible; and

(iii) specifies the termination date (which date shall not be more than 30 days after the giving of such notice).

4.2 Failure to Give Notice. The failure by Executive or the Company to set forth in the notice of termination required by Section 4.1 any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of Executive or the Company, respectively, hereunder or preclude Executive or the Company, respectively, from asserting such fact or circumstance in enforcing Executive's or the Company's rights hereunder.

5 TAX PAYMENTS

5.1 Excise Tax Payments. (i) Anything in this Agreement to the contrary notwithstanding and except as set forth below, if it is determined that any payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 5) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Subsection 5(i), if it is determined that Executive is entitled to a Gross-Up Payment, but that Executive, after taking into account the Payments and the Gross-Up Payment, would not receive a net after-tax benefit of at least $50,000 (taking into account both income taxes and any Excise Tax) as compared to the net after-tax proceeds to Executive resulting from an elimination of the Gross-Up Payment and a reduction of the Payments, in the aggregate, to an amount (the "Reduced Amount") such that the receipt of Payments would not give rise to any Excise Tax, then no Gross-Up Payment shall be made to Executive and the Payments, in the aggregate, shall be reduced to the Reduced Amount.

(ii) Subject to the provisions of Subsection 5(iii), all determinations required to be made under this Section 5, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by PricewaterhouseCoopers or such other certified public accounting firm as may be designated by Executive (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the Company. If the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 5, shall be paid by the Company to Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (“Underpayment”), consistent with the calculations required to be made hereunder. If the Company exhausts its remedies pursuant to Subsection 5(iii) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

(iii) Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(a) give the Company any information reasonable requested by the Company relating to such claim,

(b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(c) cooperate with the Company in good faith in order effectively to contest such claim, and

(d) permit the Company to participate in any proceedings relating to such claim;

provided, *however*, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Subsection 5(iii), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or to contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided, however*, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis, and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and *further provided* that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(iv) If, after the receipt by Executive of an amount advanced by the Company pursuant to Subsection 5(iii), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Subsection 5(iii) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If after the receipt by Executive of an amount advanced by the Company pursuant to Subsection 5(iii), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

5.2 Tax Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

6 EXTENT OF COMPANY'S OBLIGATIONS

6.1 No Set-Off, Etc**.** The Company's obligation to make the payments and perform it obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against Executive or others. All payments by the Company hereunder shall be final, and the Company shall not seek to recover from Executive any part of any payment for any reason whatsoever.

6.2 No Mitigation. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any provision hereof, and such amounts shall not be reduced whether or not Executive obtains other employment except to the extent contemplated by Section 2.3 hereof.

6.3 Payment of Legal Fees and Costs. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by Executive about the amount of payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code.

6.4 Arbitration. Executive shall have the right to have settled by arbitration any dispute or controversy arising in connection herewith. Such arbitration shall be conducted in accordance with the rules of the American Arbitration Association before a panel of three arbitrators sitting in a location selected by Executive. Judgment may be entered on the award of the arbitrators in any court having proper jurisdiction. All expenses of such arbitration shall be borne by the Company in accordance with Section 6.3 hereof.

7 TERM

7.1 Initial Term. The term of this Agreement shall be two years from the date hereof.

7.2 Renewal. The terms of this Agreement automatically shall be extended for successive one-year terms unless canceled by the Company by written notice to Executive not less than six months prior to the end of any term.

7.3 Effect of Change in Control. Notwithstanding Sections 7.1 and 7.2 to the contrary, the Company may not cancel this Agreement following a Change in Control.

8 SUCCESSORS

8.1 This Agreement is personal to Executive and without the prior written consent of the Company shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement shall be inure to the benefit of and be enforceable by Executive’s legal representatives. Executive may from time to time designate in writing one or more persons or entities as primary and/or contingent beneficiaries of any Severance Benefit owing to Executive hereunder.

8.2 This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

8.3 The Company shall require any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. For purposes hereof, "Company" means the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise.

9 MISCELLANEOUS

9.1 Heading. The headings are not part of the provisions hereof and shall have no force or effect.

9.2 Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery or by registered or certified mail, return receipt required, postage prepaid, addressed as follows:

if to the Company: Raytheon Company
870 Winter Street
Waltham, Massachusetts 02451
Attention: General Counsel

if to Executive:

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received.

9.3 Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision hereof.

9.4 Compliance; Waiver. Executive's or the Company's failure to insist upon strict compliance with any provision hereof or failure to assert any right hereunder, including without limitation the right of Executive to terminate employment for Good Reason pursuant to Section 2.1 hereof, shall not be deemed to be a waiver of such provision or right or any other provision or right hereof.

9.5 Employment Status. Executive and Company acknowledge that except as may otherwise be provided under any other written agreement between Executive and the Company, the employment of Executive by the Company is “at will” and prior to a Change in Control may be terminated at any time by Executive or the Company. Following a Change in Control, the provisions of this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

Raytheon Company

By: ______________________________	______________________________
Keith J. Peden Senior Vice President, Human Resources	Executive

Raytheon

Organization	RAYTHEON COMPANY Corporate Human Resources		
Date	November 18, 2002	Memo:	KJP:02:033
To	J. B. Stephens	Distribution:	
From	K. J. Peden		
Subject	Clarification of Stock Options and Change in Control Agreement		

This letter is to serve as clarification as to the Raytheon Company's intent with regard to the 140,000 Stock Options and 75,000 Restricted Shares awarded to you by the Management Development and Compensation Committee (MDCC) of the Board of Directors upon your hiring at Raytheon.

If there is a "Change in Control" of the Raytheon Company as defined on page 2, paragraph 1.5 of your Change in Control Agreement or your employment is terminated for any reason other than "Cause" as defined on page 1, paragraph 1.4 of your Change in Control Agreement, all Restricted Stock and Stock Options awarded upon your hiring will be vested in full.

Sincerely,

Keith J. Peden
Senior Vice President
Human Resources

Exhibit 10.34

SUMMARY OF 2004 RAYTHEON COMPANY EXECUTIVE SEVERANCE POLICY AND EXECUTIVE PERQUISITES POLICY

Summary of Raytheon Company Executive Severance Policy

Upon the approval of the Management Development and Compensation Committee of the Board of Directors, the Company instituted an Executive Severance Policy (the “Severance Policy”) for the purpose of continuing the payments of compensation of executive officers for designated periods upon their separation from the Company.

The Severance Policy provides for various levels of continued compensation and benefits for the Chief Executive Officer (a “Level 1 Executive”), executive vice presidents and senior vice presidents on the Executive Leadership Team and vice presidents who are presidents of the Company’s Business Units (“Level 2 Executives”), elected vice presidents (“Level 3 Executives”), and all other appointed officers, vice presidents of a Business Unit and assistant general counsels (“Level 4 Executives”). The Severance Policy shall apply to such officers unless the continuation of compensation pursuant to the Severance Policy is otherwise addressed in a superseding written Severance Agreement, Employment Agreement, Change in Control Severance Agreement, Transition Agreement or similar agreement.

These officers will receive the following compensation upon a change in control or their separation from the Company:

Level 1 Executive: cash payment of three (3) times the executive’s base salary and annual incentive bonus target upon a change in control of the Company; **or** if separated from the Company for any reason other than “cause,” or “disability” or “death,” salary continuance of 2.99 times the executive’s base salary and annual incentive bonus target and the continuation of three (3) years of existing benefits and perquisites described below pursuant to the Company’s Executive Perquisites Policy.

Level 2 Executive: cash payment of three (3) times the executive’s base salary and annual incentive bonus target upon a change in control of the Company; **or** if separated from the Company for any reason other than “cause,” or “disability” or “death,” salary continuance of two (2) times the executive’s base salary and annual incentive bonus target and the continuation of two (2) years of existing benefits and perquisites described below pursuant to the Company’s Executive Perquisites Policy.

Level 3 Executive: cash payment of two (2) times the executive’s base salary and annual incentive bonus target upon a change in control of the Company; **or** if separated from the Company for any reason other than “cause,” or “disability” or “death,” salary continuance of one (1) times the executive’s base salary and annual incentive bonus target and the continuation of one year of existing benefits and perquisites awarded in accordance with the Company’s Executive Perquisites Policy.

Level 4 Executive: cash payment of salary continuance of one (1) times the executive's base salary and annual incentive bonus and the continuation of one (1) year of existing benefits and perquisites awarded in accordance with the Company's Executive Benefits Program.

Summary of Raytheon Company Executive Perquisites Policy

Upon the approval of the Management Development and Compensation Committee of the Board of Directors, the Company instituted an Executive Perquisites Policy for the purpose of providing executive officers and other key employees with certain benefits.

Unless otherwise provided in a superseding agreement with the Company, each executive officer of the Company is entitled to receive the following perquisites and benefits: financial planning services of up to $15,000 per year; life insurance coverage of up to five times base salary; excess liability insurance of up to $5 million; participation in the Executive Health Program (benefits of up to $2,000 per year); participation in the Executive Registry (access to medical services on business travel); car allowance of up to $18,000 per year or use of a leased automobile with a value of up to $18,000 per year; and first class commercial air travel for business purposes. The Chief Executive Officer is entitled to excess liability insurance coverage of up to $15 million and a larger car allowance. More information regarding these prerequisites may be found in the Company's 2005 Proxy Statement filed with the Securities and Exchange Commission.

Exhibit 10.37

EXECUTION COPY

SECOND AMENDMENT TO 364-DAY CREDIT AGREEMENT

SECOND AMENDMENT, dated as of August 13, 2004 (this "Amendment"), to the 364-DAY COMPETITIVE ADVANCE AND REVOLVING CREDIT AGREEMENT, dated as of November 24, 2003 (as amended by the First Amendment thereto, dated as of June 4, 2004, the "Credit Agreement"), among RAYTHEON COMPANY, a Delaware corporation (the "Borrower"), RAYTHEON TECHNICAL SERVICES COMPANY LLC, a Delaware limited liability company, and RAYTHEON AIRCRAFT COMPANY, a Kansas corporation, each as a Guarantor (in such capacity, each a "Guarantor" and, collectively, the "Guarantors"), the several Lenders from time to time parties thereto (the "Lenders"), J.P. MORGAN SECURITIES INC. and BANC OF AMERICA SECURITIES LLC, as joint lead arrangers and joint bookrunners (in such capacity, the "Arrangers"), BANK OF AMERICA, N.A., as syndication agent (in such capacity, the "Syndication Agent"), CITICORP USA, INC., and CREDIT SUISSE FIRST BOSTON, as documentation agents (in such capacity, each a "Documentation Agent" and, collectively, the "Documentation Agents"), and JPMORGAN CHASE BANK, as administrative agent (in such capacity, the "Administrative Agent" and, collectively with the Syndication Agent and the Documentation Agents, the "Agents") for the Lenders.

W I T N E S S E T H:

WHEREAS, pursuant to the Credit Agreement, the Borrower has requested that the Lenders, and the Lenders have agreed, to extend credit to the Borrower subject to the terms and conditions contained therein;

WHEREAS, the Borrower has requested that the Lenders amend the Credit Agreement in certain ways; and

WHEREAS, the Lenders and the Borrower desire to amend the Credit Agreement in the manner specified herein.

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. Defined Terms. Terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

2. Amendments to Section 1.01 of the Credit Agreement (Definitions). Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of the term "Maturity Date" in its entirety and by substituting in lieu thereof the following:

""Maturity Date" shall mean May 31, 2005".

3. Affirmation of Guarantee. Each Guarantor hereby consents to the foregoing amendment to the Credit Agreement set forth herein and reaffirms its obligations under the Guarantee provided by such Guarantor pursuant to Article IX of the Credit Agreement.

4. Conditions to Effectiveness. This Amendment shall become effective on the date (the "Amendment Effective Date") on which the Borrower and each Lender shall have executed and delivered this Amendment to the Administrative Agent.

5. Representation and Warranties. To induce the Lenders to enter into this Amendment, the Borrower hereby represents and warrants to the Lenders as of the Amendment Effective Date that:

(a) *Reaffirmation*. As of the date hereof and after giving effect to this Amendment, the representations and warranties set forth in Article III of the Credit Agreement are true and correct in all material respects; and

(b) *No Default*. After giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing.

6. Payment of Expenses. The Borrower agrees to pay or reimburse the Administrative Agent for all its respective out-of-pocket costs and expenses incurred in connection with the development, preparation and execution of, and any amendment, supplement or modification to, this Amendment and any other documents prepared in connection herewith or therewith, and the consummation and administration of the transactions contemplated hereby and thereby, including, without limitation, the reasonable fees and disbursements of counsel to the Administrative Agent.

7. Counterparts. This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed signature page of this Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof. A set of the copies of this Amendment signed by all the parties shall be lodged with the Borrower and the Administrative Agent.

8. Severability; Headings. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. The section and subsection headings used in this Amendment are for convenience of reference only and are not to affect the construction hereof or to be taken into consideration in the interpretation hereof.

9. Continuing Effect of Other Documents. This Amendment shall not constitute an amendment or waiver of any other provision of the Credit Agreement not expressly referred to herein and shall not be construed as a waiver or consent to any further or future action on the part of the Borrower that would require a waiver or consent of the Lenders or the Administrative Agent. Except as expressly amended, modified and supplemented hereby, the provisions of the Credit Agreement are and shall remain in full force and effect.

10. GOVERNING LAW. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered in New York, New York by their proper and duly authorized officers as of the day and year first above written.

RAYTHEON COMPANY,
as the Borrower

By: ______________________________
Name:
Title:

RAYTHEON TECHNICAL SERVICES COMPANY LLC,
as a Guarantor

By: ______________________________
Name:
Title:

RAYTHEON AIRCRAFT COMPANY,
as a Guarantor

By: ______________________________
Name:
Title:

JPMORGAN CHASE BANK,
as Administrative Agent and as a Lender

By: ______________________________
Name:
Title:

BANK OF AMERICA, N.A.
as Syndication Agent and as a Lender

By: ______________________________
Name:
Title:

CITICORP USA, INC.,
as Documentation Agent and as a Lender

By: ______________________________
Name:
Title:

CREDIT SUISSE FIRST BOSTON
acting through its Cayman Islands Branch,
as Documentation Agent and as a Lender

By: ____________________________
Name:
Title:

AUSTRALIAN & NEW ZEALAND
BANKING GROUP,
as a Lender

By: ______________________________
Name:
Title:

BANK HAPOALIM, B.M.
as a Lender

By: ______________________________
Name:
Title:

BANK OF TOKYO-MITSUBISHI TRUST COMPANY,
as a Lender

By: ______________________________
Name:
Title:

BANK ONE, N.A.,
as a Lender

By: ______________________________
Name:
Title:

Second Amendment to 364-Day Credit Agreement

BARCLAYS BANK PLC,
as a Lender

By: ______________________________
Name:
Title:

BAYERISCHE LANDESBANK
GIROZENTRALE, NEW YORK
BRANCH, as a Lender

By: ______________________________
Name:
Title:

BNP PARIBAS,
as a Lender

By: ______________________________
Name:
Title:

CALYON NEW YORK BRANCH,
as a Lender

By: ______________________________
Name:
Title:

CREDIT INDUSTRIAL ET COMMERCIAL,
as a Lender

By: ______________________________
Name:
Title:

UFJ BANK LIMITED,
as a Lender

By: ______________________________
Name:
Title:

Second Amendment to 364-Day Credit Agreement

FLEET NATIONAL BANK,
as a Lender

By: ______________________________
Name:
Title:

KEYBANK NATIONAL ASSOCIATION,
as a Lender

By: ______________________________
Name:
Title:

MELLON BANK, N.A.,
as a Lender

By: ______________________________
Name:
Title:

Second Amendment to 364-Day Credit Agreement

MORGAN STANLEY BANK,
as a Lender

By: ______________________________
Name:
Title:

Second Amendment to 364-Day Credit Agreement

SOCIETE GENERALE,
as a Lender

By: ______________________________
Name:
Title:

Second Amendment to 364-Day Credit Agreement

THE BANK OF NEW YORK,
as a Lender

By: ______________________________
Name:
Title:

Second Amendment to 364-Day Credit Agreement

THE BANK OF NOVA SCOTIA,
as a Lender

By: ______________________________
Name:
Title:

THE ROYAL BANK OF SCOTLAND plc,
as a Lender

By: ________________________________
Name:
Title:

UBS LOAN FINANCE LLC,
as a Lender

By: ______________________________
Name:
Title:

Second Amendment to 364-Day Credit Agreement

WACHOVIA BANK, N.A.,
as a Lender

By: ______________________________
Name:
Title:

WESTLB AG, NEW YORK BRANCH,
as a Lender

By: ____
Name:
Title:

BANK OF COMMUNICATIONS,
as a Lender

By: ______________________________
Name:
Title:

Exhibit 12

RAYTHEON COMPANY
STATEMENT REGARDING COMPUTATION OF
RATIO OF EARNINGS TO COMBINED FIXED CHARGES
(dollar amounts in millions except for ratio)
(excludes RE&C and AIS for all periods
except for Interest costs, which includes RE&C and AIS)

	2000	2001	2002	2003	2004
Income from continuing operations before taxes per statements of income	832	100	1,076	762	579
Add:					
Fixed charges	876	807	658	611	497
Amortization of capitalized interest	2	2	2	2	1
Less:					
Capitalized interest	2	1	0	0	0
Income as adjusted	1,708	908	1,736	1,375	1,077
Fixed charges:					
Portion of rents representative of interest factor	95	92	82	74	79
Interest costs	779	714	576	537	418
Capitalized interest	2	1	0	0	0
Fixed charges	876	807	658	611	497
Equity security distributions	–	347(1)	15	15	5
Combined fixed charges	876	1,154	673	627	502
Ratio of earnings to combined fixed charges	1.9	*	2.6	2.2	2.1

(1) Earnings of $347 million were required to cover $7 million of equity security distributions because the Company's effective tax rate for the year ended December 31, 2001 was 98.0 percent.

* The ratio of earnings to combined fixed charges has not been presented for 2001 as the ratio is less than 1.0 in order to achieve a ratio of 1.0 the Company's income from continuing operations before taxes per statements of income would have had to have been $246 million higher.

RAYTHEON COMPANY SUBSIDIARIES

Name of Subsidiary	Jurisdiction	Ownership Percentage
Amber Engineering, Inc.	California	100%
Raytheon Aircraft Holdings, Inc.	Delaware	100%
Raytheon Technical Services Company, LLC	Delaware	100%

The Company has additional operating subsidiaries, which considered in the aggregate or as a single subsidiary, do not constitute a significant subsidiary.

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-85648; 333-71974; 333-58474; and 333-82529), Form S-4 (File Nos. 333-40646 and 333-78219) and Form S-8 (File Nos. 333-56117; 333-52536; 333-64168 and 333-45629) of Raytheon Company of our report dated March 15, 2005 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Boston, Massachusetts
March 15, 2005

Exhibit 24

RAYTHEON COMPANY
POWER OF ATTORNEY IN CONNECTION WITH THE
2004 ANNUAL REPORT ON FORM 10-K

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned directors and officers of Raytheon Company, a Delaware corporation, does hereby appoint JAY B. STEPHENS and EDWARD S. PLINER, and each of them, jointly and severally, as his or her lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him or her and in his or her name, place and stead, in any and all capacities, including, but not limited to, that listed below, in connection with the preparation, execution and filing with the Securities and Exchange Commission (the "Commission"), under the Securities Exchange Act of 1934 of an Annual Report on Form 10-K of Raytheon Company and any amendments thereto for the fiscal year ended December 31, 2004, including all exhibits thereto (the "Form 10-K"), and all matters required by the Commission in connection with the Form 10-K, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney's-in-fact and agents, and each of them, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

This Power of Attorney shall remain in full force and effect until revoked or superseded by written notice filed with the Commission.

IN WITNESS THEREOF, each of the undersigned has set his or her hand this 15th day of March 2005.

/s/ WILLIAM H. SWANSON **William H. Swanson**	Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ BARBARA M. BARRETT **Barbara M. Barrett**	Director
/s/ FERDINAND COLLOREDO-MANSFELD **Ferdinand Colloredo-Mansfeld**	Director
/s/ JOHN M. DEUTCH **John M. Deutch**	Director
/s/ THOMAS E. EVERHART **Thomas E. Everhart**	Director
/s/ FREDERIC M. POSES **Frederic M. Poses**	Director
/s/ WARREN B. RUDMAN **Warren B. Rudman**	Director

/s/ MICHAEL C. RUETTGERS **Michael C. Ruettgers**	Director
/s/ RONALD L. SKATES **Ronald L. Skates**	Director
/s/ WILLIAM R. SPIVEY **William R. Spivey**	Director
/s/ LINDA G. STUNTZ **Linda G. Stuntz**	Director
/s/ JOHN H. TILELLI, JR. **John H. Tilelli, Jr.**	Director
/s/ EDWARD S. PLINER **Edward S. Pliner**	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ BIGGS C. PORTER **Biggs C. Porter**	Vice President and Controller (Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) 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

d) 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: March 15, 2005

/s/ William H. Swanson

William H. Swanson
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) 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

d) 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: March 15, 2005

/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 Annual Report of Raytheon Company (the “Company”) on Form 10-K for the period ending December 31, 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
March 15, 2005

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 Annual Report of Raytheon Company (the "Company") on Form 10-K for the period ending December 31, 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
March 15, 2005

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.