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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 28, 2003

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number 1-13699

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

DELAWARE	**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)

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

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

Number of shares of common stock outstanding as of September 28, 2003: 416,226,421

RAYTHEON COMPANY

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

RAYTHEON COMPANY

BALANCE SHEETS (Unaudited)

	Sept. 28, 2003	Dec. 31, 2002
	(In millions)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 203	$ 544
Accounts receivable, less allowance for doubtful accounts	543	675
Contracts in process	3,255	3,016
Inventories	2,085	2,032
Deferred federal and foreign income taxes	485	601
Prepaid expenses and other current assets	135	247
Assets from discontinued operations	60	75
Total current assets	6,766	7,190
Property, plant, and equipment, net	2,620	2,396
Deferred federal and foreign income taxes	358	281
Goodwill	11,474	11,170
Other assets, net	2,578	2,909
Total assets	$23,796	$23,946
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Notes payable and current portion of long-term debt	$ 559	$ 1,153
Advance payments, less contracts in process	1,008	819
Accounts payable	786	776
Accrued salaries and wages	826	710
Other accrued expenses	1,082	1,316
Liabilities from discontinued operations	75	333
Total current liabilities	4,336	5,107
Accrued retiree benefits and other long-term liabilities	2,853	2,831
Long-term debt	6,702	6,280
Mandatorily redeemable equity securities	859	858
Stockholders' equity	9,046	8,870
Total liabilities and stockholders' equity	$23,796	$23,946

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

RAYTHEON COMPANY
STATEMENTS OF INCOME (Unaudited)

	Three Months Ended		Nine Months Ended	
	Sept. 28, 2003	Sept. 29, 2002	Sept. 28, 2003	Sept. 29, 2002
	(In millions, except per share amounts)			
Net sales	$ 4,378	$ 4,092	$ 13,008	$ 12,098
Cost of sales	3,776	3,240	10,826	9,607
Administrative and selling expenses	305	285	952	892
Research and development expenses	129	112	366	337
Total operating expenses	4,210	3,637	12,144	10,836
Operating income	168	455	864	1,262
Interest expense	137	118	415	388
Interest income	(10)	(7)	(33)	(24)
Other expense, net	12	15	27	36
Non-operating expense, net	139	126	409	400
Income from continuing operations before taxes	29	329	455	862
Federal and foreign income taxes	8	101	137	262
Income from continuing operations	21	228	318	600
Loss from discontinued operations, net of tax	(56)	(81)	(158)	(664)
Income (loss) before extraordinary item and accounting change	(35)	147	160	(64)
Extraordinary gain from debt repurchases, net of tax	—	—	—	1
Cumulative effect of change in accounting principle, net of tax	—	—	—	(509)
Net income (loss)	$ (35)	$ 147	$ 160	$ (572)
Earnings per share from continuing operations				
Basic	$ 0.05	$ 0.56	$ 0.77	$ 1.50
Diluted	$ 0.05	$ 0.56	$ 0.77	$ 1.47
Loss per share from discontinued operations				
Basic	$ (0.14)	$ (0.20)	$ (0.38)	$ (1.66)
Diluted	$ (0.13)	$ (0.20)	$ (0.38)	$ (1.62)
Loss per share from cumulative effect of change in accounting principle				
Basic	$ —	$ —	$ —	$ (1.27)
Diluted	$ —	$ —	$ —	$ (1.25)
Earnings (loss) per share				
Basic	$ (0.08)	$ 0.36	$ 0.39	$ (1.43)
Diluted	$ (0.08)	$ 0.36	$ 0.39	$ (1.40)
Dividends declared per share	$ 0.20	$ 0.20	$ 0.60	$ 0.60

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

RAYTHEON COMPANY
STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended	
	Sept. 28, 2003	Sept. 29, 2002
	(In millions)	
Cash flows from operating activities		
Income from continuing operations	$ 318	$ 600
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	279	267
Deferred federal and foreign income taxes	102	220
Gain on sale of operating units and investments	(27)	(3)
Savings and investment plan activity	149	143
Decrease (increase) in accounts receivable	133	(19)
Increase in contracts in process	(221)	(266)
Decrease (increase) in inventories	36	(117)
Decrease in prepaid expenses and other current assets	96	115
Increase (decrease) in advance payments	102	(90)
Decrease in accounts payable	(26)	(77)
Increase in accrued salaries and wages	115	174
Decrease in other accrued expenses	(217)	(96)
Other adjustments, net	145	151
Net cash provided by operating activities from continuing operations	984	1,002
Net cash used in operating activities from discontinued operations	(485)	(805)
Net cash provided by operating activities	499	197
Cash flows from investing activities		
Origination of financing receivables	(274)	(257)
Collection of financing receivables not sold	430	122
Sale of financing receivables, net of repurchases	—	(46)
Expenditures for property, plant, and equipment	(243)	(286)
Synthetic lease maturity payment	(125)	—
Proceeds from sales of property, plant, and equipment	12	11
Expenditures for internal use software	(71)	(94)
Increase in other assets	(2)	(35)
Space Imaging debt guarantee payment	(130)	—
Payment for purchase of acquired companies, net of cash received	(60)	—
Proceeds from sales of operating units and investments	54	1,166
Hughes Defense settlement	—	134
Net cash (used in) provided by investing activities	(409)	715
Cash flows from financing activities		
Dividends	(247)	(240)
Increase (decrease) in short-term debt and other notes	98	(167)
Issuance of long-term debt, net of offering costs	418	—
Repayments of long-term debt	(775)	(1,294)
Issuance of common stock	63	123
Proceeds under common stock plans	12	71
Net cash used in financing activities	(431)	(1,507)
Net decrease in cash and cash equivalents	(341)	(595)
Cash and cash equivalents at beginning of year	544	1,214
Cash and cash equivalents at end of period	$ 203	$ 619

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

RAYTHEON COMPANY

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

The accompanying unaudited financial statements of Raytheon Company (the "Company") have been prepared on substantially the same basis as the Company's annual financial statements. These unaudited financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2002. The information furnished has been prepared from the accounts of the Company without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In the opinion of management, these financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the financial statements for the interim periods. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Certain prior year amounts have been reclassified to conform with the current year presentation.

2. Stock Plans

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. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123 (SFAS No. 148). Accordingly, no compensation expense has been recognized for stock-based compensation plans other than for restricted stock. Had compensation expense for the Company's stock option plans been determined based on the fair value at the grant date for awards under these plans, consistent with the methodology prescribed under SFAS No. 148, the Company's net income (loss) and earnings (loss) per share would have approximated the pro forma amounts indicated below:

	Three Months Ended		Nine Months Ended	
	Sept. 28, 2003	Sept. 29, 2002	Sept. 28, 2003	Sept. 29, 2002
	(In millions except per share amounts)			
Reported net income (loss)	$ (35)	$ 147	$ 160	$ (572)
Add: Stock-based compensation expense included in reported net income, net of tax	1	2	4	4
Deduct: Compensation expense determined under the fair value method for all stock-based awards, net of tax	18	16	55	45
Pro forma net income (loss)	$ (52)	$ 133	$ 109	$ (613)
Reported basic earnings (loss) per share	$ (0.08)	$ 0.36	$ 0.39	$ (1.43)
Reported diluted earnings (loss) per share	$ (0.08)	$ 0.36	$ 0.39	$ (1.40)
Pro forma basic earnings (loss) per share	$ (0.13)	$ 0.33	$ 0.26	$ (1.53)
Pro forma diluted earnings (loss) per share	$ (0.12)	$ 0.33	$ 0.26	$ (1.50)

The weighted-average fair value of each stock option included in the preceding pro forma amounts is amortized over the vesting period of the underlying options.

The fair value was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions for stock options granted in the first nine months of 2003:

Expected life	4 years
Assumed annual dividend growth rate	—
Expected volatility	40%
Assumed annual forfeiture rate	12%

The risk free interest rate (month-end yields on 4-year treasury strips equivalent zero coupon) ranged from 2.1% to 3.0% in the first nine months of 2003.

3. Acquisitions and Divestitures

In July 2003, the Company acquired the Aerospace and Defence Services business unit of Honeywell for $20 million in cash, subject to purchase price adjustments. 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 in connection with this acquisition.

In June 2003, the Company participated in a financial recapitalization of Flight Options LLC (FO) and exchanged certain FO debt for equity. As a result of this recapitalization, the Company now owns approximately 65 percent of FO and is consolidating FO's results in its financial statements. 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 $77 million of accounts payable and accrued expenses. The Company also recorded $26 million of intangible assets and $128 million of goodwill in connection with this recapitalization.

In March 2003, the Company acquired Solipsys Corporation for $170 million, net of cash received, to be paid over two years. In addition, the Company may be required to make certain performance-based incentive payments. The Company paid $40 million, net in cash in the first quarter of 2003 and intends to make the remaining payments, which have been accrued, in cash. 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 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.

4. Inventories

Inventories consisted of the following at:

	Sept. 28, 2003	Dec. 31, 2002
	(In millions)	
Finished goods	$ 667	$ 597
Work in process	1,105	1,042
Materials and purchased parts	313	393
Total	$ 2,085	$ 2,032

Inventories at Raytheon Aircraft totaled $1,749 million at September 28, 2003 (consisting of $649 million of finished goods, $877 million of work in process, and $223 million of materials and purchased parts) and $1,612 million at December 31, 2002 (consisting of $557 million of finished goods, $761 million of work in process, and $294 million of materials and purchased parts).

The Company uses lot accounting for new aircraft introductions. Lot accounting involves selecting an initial lot size at the time a new aircraft begins to ship 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 expected to be produced and are determined under the learning curve concept which anticipates a predictable decrease in unit costs 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 $115 million and $110 million at September 28, 2003 and December 31, 2002, respectively. Once production costs stabilize, which is expected by the time 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, the only aircraft for which the Company is currently utilizing lot accounting, is 200 units. The estimated average cost of the aircraft is reviewed and reassessed quarterly.

The Company anticipates certification of the Horizon aircraft in the first half of 2004 and first delivery by year-end 2004. The Company had inventories of $95 million and $76 million at September 28, 2003 and December 31, 2002, respectively, related to the Horizon aircraft.

5. Prepaid Expenses and Other Current Assets

Included in prepaid expenses and other current assets at December 31, 2002 was $48 million of restricted cash from the sale of the Company's corporate headquarters. During the first six months of 2003, $38 million of this cash was used to fund the construction of the Company's new corporate headquarters and the acquisition of three other properties. In June 2003, the restrictions related to the use of this cash expired, therefore, the remaining $10 million was reflected in the statement of cash flows for the nine months ended September 28, 2003 as proceeds from sales of property, plant, and equipment.

6. Product Warranty

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

Activity related to aircraft warranty provisions was as follows:

	(In millions)
Balance at January 1, 2003	$ 22
Accruals for aircraft deliveries in 2003	13
Warranty services provided in 2003	(16)
Balance at September 28, 2003	$ 19

7. Notes Payable and Long-term Debt

In the first quarter of 2003, the Company issued $425 million ($418 million net of offering costs) of ten-year debt and used the proceeds to reduce the amounts outstanding under the Company's lines of credit. The Company has on file a shelf registration with the Securities and Exchange Commission registering 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 of which $2.0 billion is remaining. In the first quarter of 2002, the Company repurchased debt with a par value of $96 million and recorded an extraordinary gain of $1 million, net of tax.

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, be at least 2.5 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 the first nine months of 2003.

8. Stockholders' Equity

Stockholders' equity consisted of the following at:

	Sept. 28, 2003	Dec. 31, 2002
	(In millions)	
Preferred stock, no outstanding shares	$ —	$ —
Common stock, outstanding shares	4	4
Additional paid-in capital	8,369	8,146
Accumulated other comprehensive income	(2,138)	(2,180)
Treasury stock	(5)	(4)
Retained earnings	2,816	2,904
Total	$ 9,046	$ 8,870
Outstanding shares of common stock	416.2	408.2

During the first nine months of 2003, the Company issued 7.1 million shares of common stock related to its savings and investment plans, described below, and 0.9 million shares in connection with stock plan activity.

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). The Company Match was $124 million for the nine months ended September 28, 2003 and September 29, 2002. The Company also makes an annual contribution to the Company stock fund of approximately one-half of one percent of salaries and wages of most U.S. salaried and hourly employees (Company Contribution). The Company Contribution was $25 million and $19 million for the nine months ended September 28, 2003 and September 29, 2002, respectively. The Company Match and Company Contribution were funded through the issuance of common stock and are non-cash operating activities included on the statement of cash flows.

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

	Three Months Ended		Nine Months Ended	
	Sept. 28, 2003	Sept. 29, 2002	Sept. 28, 2003	Sept. 29, 2002
	(In thousands)			
Average common shares outstanding for basic EPS	414,275	403,675	411,466	399,780
Dilutive effect of stock options, restricted stock, and equity security units	3,541	5,068	2,997	8,943
Shares for diluted EPS	417,816	408,743	414,463	408,723

Stock options to purchase 24.9 million and 24.3 million shares of common stock for the three months ended September 28, 2003 and September 29, 2002, respectively, and stock options to purchase 30.8 million and 24.3 million shares of common stock for the nine months ended September 28, 2003 and September 29, 2002, respectively, did not affect the computation of diluted EPS. The exercise prices for these stock options were greater than the average market price of the Company’s common stock during the respective periods.

Stock options to purchase 21.4 million and 18.4 million shares of common stock for the three months ended September 28, 2003 and September 29, 2002, respectively, and stock options to purchase 15.4 million and 18.4 million shares of common stock for the nine months ended September 28, 2003 and September 29, 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, restricted stock, and equity security units in the table above.

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

	Three Months Ended		Nine Months Ended	
	Sept. 28, 2003	Sept. 29, 2002	Sept. 28, 2003	Sept. 29, 2002
	(In millions)			
Net income (loss)	$ (35)	$ 147	$ 160	$ (572)
Other comprehensive income	(19)	11	42	30
Comprehensive income	$ (54)	$ 158	$ 202	$ (542)

9. Business Segment Reporting

Effective January 1, 2003, the Company began reporting its government and defense businesses in six segments. In addition, the Company's Commercial Electronics businesses were reassigned to the new government and defense businesses. Also in the first quarter of 2003, the Company changed the way pension expense or income is reported in the Company's segment results. Statement of Financial Accounting Standards (SFAS) No. 87, Employers' Accounting for Pensions, outlines the methodology used to determine pension expense or income for financial reporting purposes, which is not necessarily indicative of the funding requirements of pension plans which are determined by other factors. A major factor for 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 Company now reports the difference between SFAS No. 87 (FAS) pension expense or income and CAS pension expense as a separate line item in the Company's segment results called FAS/CAS Pension Adjustment. The Company's individual segment results now 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. Previously, the Company's individual segment results included FAS pension expense or income, which consisted of CAS pension expense and an adjustment to reconcile CAS pension expense to FAS Pension expense or income.

Segment net sales and operating income include intersegment sales and profit recorded at cost plus a specified fee, which may differ from what the selling entity would be able to obtain on external sales. Corporate and Eliminations includes Company-wide accruals and over/under applied overhead that have not been attributed to a particular segment and intersegment sales and profit eliminations. Corporate and Eliminations also includes net sales of $14 million and $31 million for the three months ended September 28, 2003 and September 29, 2002, respectively, and $65 million and $78 million for the nine months ended September 28, 2003 and September 29, 2002, respectively, consisting primarily of Raytheon Professional Services, which reported break-even operating results for the same periods.

Segment financial results were as follows:

	Net Sales Three Months Ended		Net Sales Nine Months Ended	
	Sept. 28, 2003	Sept. 29, 2002	Sept. 28, 2003	Sept. 29, 2002
	(In millions)			
Integrated Defense Systems	$ 718	$ 541	$ 2,073	$ 1,731
Intelligence and Information Systems	533	485	1,520	1,359
Missile Systems	905	792	2,595	2,248
Network Centric Systems	556	759	2,043	2,267
Space and Airborne Systems	930	803	2,710	2,308
Technical Services	447	556	1,403	1,589
Aircraft	637	451	1,641	1,471
Corporate and Eliminations	(348)	(295)	(977)	(875)
Total	$ 4,378	$ 4,092	$ 13,008	$ 12,098

Intersegment sales in the three months ended September 28, 2003 and September 29, 2002, respectively, include $35 million and $22 million for Integrated Defense Systems, $13 million and $7 million for Intelligence and Information Systems, $2 million and $1 million for Missile Systems, $85 million and $53 million for Network Centric Systems, $108 million and $80 million for Space and Airborne Systems, and $119 million and $163 million for Technical Services. Corporate and Eliminations includes net sales of $14 million and $31 million in the three months ended September 28, 2003 and September 29, 2002, respectively, consisting primarily of Raytheon Professional Services.

Intersegment sales in the nine months ended September 28, 2003 and September 29, 2002, respectively, include $106 million and $77 million for Integrated Defense Systems, $31 million and $26 million for Intelligence and Information Systems, $4 million and $1 million for Missile Systems, $220 million and $155 million for Network Centric Systems, $301 million and $232 million for Space and Airborne Systems, and $380 million and $462 million for Technical Services. Corporate and Eliminations includes net sales of $65 million and $78 million in the nine months ended September 28, 2003 and September 29, 2002, respectively, consisting primarily of Raytheon Professional Services.

	Operating Income Three Months Ended		Operating Income Nine Months Ended	
	Sept. 28, 2003	Sept. 29, 2002	Sept. 28, 2003	Sept. 29, 2002
	(In millions)			
Integrated Defense Systems	$ 82	$ 70	$ 236	$ 213
Intelligence and Information Systems	54	46	141	124
Missile Systems	111	94	316	281
Network Centric Systems	(138)	63	(56)	194
Space and Airborne Systems	131	109	362	302
Technical Services	(2)	37	68	77
Aircraft	(10)	(11)	(41)	(53)
FAS/CAS Pension Adjustment	(28)	53	(85)	157
Corporate and Eliminations	(32)	(6)	(77)	(33)
Total	$ 168	$ 455	$ 864	$ 1,262

	Identifiable Assets	
	Sept. 28, 2003	Dec. 31, 2002
	(In millions)	
Integrated Defense Systems	$ 1,688	$ 1,612
Intelligence and Information Systems	1,966	1,926
Missile Systems	4,654	4,429
Network Centric Systems	3,712	3,914
Space and Airborne Systems	3,900	3,875
Technical Services	1,399	1,372
Aircraft	4,044	3,891
Corporate	2,373	2,852
Discontinued Operations	60	75
Total	$ 23,796	$ 23,946

10. Other Expense, net

The components of other expense, net were as follows:

	Three Months Ended		Nine Months Ended	
	Sept. 29, 2003	Sept. 28, 2002	Sept. 28, 2003	Sept. 29, 2002
	(In millions)			
Equity (income) losses, net in unconsolidated affiliates	$ —	$ 8	$ 19	$ 24
Gain on sale of a preferred stock investment in the Company's former aviation support business	—	—	(27)	—
Write-down of investments and assets held for sale	—	—	12	—
Other	12	7	23	12
Total	$ 12	$ 15	$ 27	$ 36

11. Discontinued Operations

In March 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. 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. The Company also retained $106 million of BBJ-related assets, $18 million of receivables and other assets, and rights to a $25 million jury award related to a 1999 claim against Learjet. At September 28, 2003, the balance of these retained assets was $47 million.

In the third quarter of 2003 and the first nine months of 2003, the Company recorded charges of $5 million and $17 million, respectively, related to cost growth on the BBJ program. The Company also recorded charges of $3 million in the third quarter of 2003 and $10 million in the first nine months of 2003, as a result of continued difficulty the Company has been experiencing liquidating the BBJ-related assets. In the first nine months of 2002, the Company recorded a $23 million write-down of a BBJ-related aircraft owned by the Company and a $4 million charge for cost growth in the BBJ program, offset by a $13 million gain resulting from the collection of the 1999 claim, described above. The write-down of the BBJ-related aircraft resulted from the Company's decision to market this aircraft unfinished due to the current environment of declining prices for BBJ-related aircraft. The Company was previously marketing this aircraft as a customized executive BBJ.

The income (loss) from discontinued operations related to AIS was as follows:

	Three Months Ended		Nine Months Ended	
	Sept. 28, 2003	Sept. 29, 2002	Sept. 28, 2003	Sept. 29, 2002
	(In millions)			
Net sales	$ —	$ —	$ —	$ 202
Operating expenses	—	—	—	196
Income before taxes	—	—	—	6
Federal and foreign income taxes	—	—	—	2
Income from discontinued operations	—	—	—	4
Loss on disposal of discontinued operations, net of tax	—	—	—	(212)
Adjustments, net of tax	(5)	(3)	(17)	(12)
Total	$ (5)	$ (3)	$ (17)	$ (220)

The components of assets and liabilities related to AIS were as follows:

	Sept. 28, 2003	Dec. 31, 2002
	(In millions)	
Current assets	$ 60	$ 75
Total assets	$ 60	$ 75
Current liabilities	$ 10	$ 14
Total liabilities	$ 10	$ 14

In 2000, the Company sold its Raytheon Engineers & Constructors businesses (RE&C) to Washington Group International, Inc. (WGI). In March 2001, WGI abandoned two Massachusetts construction projects, the Mystic Station plant and the Fore River plant (the “Massachusetts Projects”). Pursuant to the Company’s guarantees to the customers, the Company commenced work on the two Massachusetts Projects. In May 2001, WGI filed for bankruptcy protection. In the course of the bankruptcy proceeding, WGI rejected some ongoing construction contracts, triggering certain obligations of the Company under the outstanding Support Agreements.

Since the Mystic Station plant had not achieved performance test completion by January 14, 2003, the Company made payments to the customer of $68 million, which pre-funded the delay and performance liquidated damages to the maximum amount specified by the construction contract. Of this pre-funded amount, $36 million is recorded as a receivable as it represents contingent performance liquidated damages that were not realized and should be refunded. The customer has taken the position that a similar missed deadline occurred on February 24, 2003 for the Fore River plant and that a payment of $67 million was required from the Company on that date to pre-fund the delay and performance liquidated damages to the maximum amount specified by the construction contract. The Company believes that this February 24, 2003 deadline was incorrect and should have been extended. Accordingly, the Company did not make the requested payment to the customer and has informed the customer that the deadline and requested payment are in dispute. As a result, the customer drew down on certain letters of credit totaling $27 million that had been posted by the Company as contract performance security. Of this amount, $2 million is recorded as a receivable. A resolution of the current dispute between the Company and the customer over the contract deadline and the applicable liquidated damages is dependent upon the outcome of arbitration and the resolution of other change orders.

On July 29, 2003, Exelon Corporation, the ultimate parent of the customers of the Massachusetts Projects, announced that it had commenced the process of an orderly transition out of the ownership of the two Massachusetts Projects and would not provide additional funding beyond its existing contractual obligations. Accordingly, the Company believes that the customers of the Massachusetts Projects are insolvent and have not provided adequate assurances for payment of approximately $50 million that the Company believes it is owed and has recorded in the financial statements, as well as the value of unrecorded claims against the customers. On August 29, 2003, the Company filed a lawsuit in Massachusetts seeking to protect the Company’s rights in connection with the Massachusetts Projects, including seeking protection against draws under existing letters of credit totaling approximately $73 million. Related litigation is pending in New York and Nevada that involves the Massachusetts Projects and the Company’s interests. Although at this time the Company does not expect Exelon Corporation’s announcement or the pending litigation to have a material adverse effect on its financial position or results of operations, the ultimate effects of these events cannot be predicted.

Both of the Massachusetts Projects have been delivered to the customers for commercial operation and the customers have assumed care, custody, operational control, and risk of loss of both facilities. The Company is still performing work in connection with the Massachusetts Projects, including punchlist and warranty items.

Due to increased costs for the Massachusetts Projects, the Company recorded a $55 million charge in the third quarter of 2003, a $106 million charge in the second quarter of 2003, and a $12 million charge in the first quarter of 2003. The Company had previously recorded charges of $796 million in 2002 and $814 million in 2001 for the Massachusetts Projects. The charges and increased costs 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. Remaining risks in completing the Massachusetts Projects include inability to collect amounts owed to the Company due to the financial condition of the customers, the resolution of various disputes and other matters with the customers, suppliers, and subcontractors, costs associated with the possibility of further delays, labor and material cost growth productivity issues, equipment and subcontractor performance, and the successful completion of all remaining work items.

In addition to the Massachusetts Projects, the Company is responsible for completing four projects retained by the Company at the time of the sale of RE&C and other projects rejected by WGI in connection with its bankruptcy proceeding referenced above. All of these projects are in the final stages of work that includes punch list, warranty, commercial closeout, and claims resolution. Risks and exposures related to these projects include delays, labor and material cost growth, productivity issues, equipment and subcontractor performance, punch list and warranty closeout and performance, schedule and performance liquidated damages, final resolution of contract closeout issues including arbitration and litigation, collection of amounts due under the contracts, potential adverse claims resolution including possible subcontractor claims, lease exposures, availability guarantees, surety bonds, and warranties. In the third quarter of 2003, the Company recorded a charge of $4 million related to the settlement of warranty claims on one of these projects. In 2002, the Company recorded charges of $53 million for various issues in connection with these projects, including but not limited to, punchlist items, start-up costs, reliability testing, and turbine-related delays.

WGI continues to perform on certain projects on which Support Agreements remain outstanding. Further risks could arise for the Company if WGI fails to meet its obligations in connection with these projects.

At the time of the sale, the Company had, either directly or through a subsidiary that it still owns, outstanding letters of credit, performance bonds, and guarantees of performance and payment (the “Support Agreements”) on many long-term construction contracts and certain leases. A number of the Support Agreements remain in effect. At September 28, 2003, the Company’s maximum exposure on Support Agreements that have a stated value was approximately $680 million. In addition, there are outstanding guarantees of project performance for which there is no stated maximum value. The guarantees with no stated maximum value relate to projects that are substantially complete and are in the final stages of work that includes punch list, warranty, commercial closeout, and claims resolution. Some of these contingent obligations and guarantees include warranty provisions that extend for a number of years.

The Company’s cost estimates for the projects, including but not limited to the Massachusetts Projects, are heavily dependent upon third parties, including WGI, and their ability to perform construction management, cost estimating, and other tasks that require industry expertise the Company no longer possesses. In addition, there are risks that the ultimate costs to complete and close out various remaining projects will increase beyond the Company’s current estimates due to factors such as labor productivity, the nature and complexity of the work to be performed, the impact of change orders, the recoverability of claims included in the estimated cost to complete, punchlist and warranty items, and the outcome of claims asserted against the Company by vendors, subcontractors, and other project participants. A significant change in an estimate on one or more of the projects could have a material adverse effect on the Company’s financial position and results of operations. Additional risks include the Company’s ability to recover on claims and collect amounts due from its customers.

In the third quarter of 2003, the Company recorded charges of $19 million for legal, management, and other costs related to RE&C versus $6 million in the third quarter of 2002. In the first nine months of 2003, the Company recorded charges of $40 million for legal, management, and other costs related to RE&C versus $29 million in the first nine months of 2002. In the third quarter of 2002 and the first nine months of 2002, the Company allocated $22 million and $52 million, respectively, of interest expense to RE&C based upon actual cash outflows since the date of disposition. Since the projects are nearing completion, the Company is not allocating interest expense to RE&C in 2003.

Liabilities from discontinued operations included current liabilities for RE&C of $65 million and $319 million at September 28, 2003 and December 31, 2002, respectively.

In the third quarter of 2003, the total loss from discontinued operations was $86 million pretax, $56 million after-tax, or $0.13 per diluted share versus $125 million pretax, $81 million after-tax, or $0.20 per diluted share in the third quarter of 2002.

In the first nine months of 2003, the total loss from discontinued operations was $244 million pretax, $158 million after-tax, or $0.38 per diluted share versus $671 million pretax, $664 million after-tax, or $1.62 per diluted share in the first nine months of 2002.

12. <u>Commitments and Contingencies</u>

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 $147 million. On a discounted basis, the Company estimates the liability to be $94 million before U.S.

government recovery and had this amount accrued at September 28, 2003. 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 $49 million at September 28, 2003 for the estimated future recovery of these costs from the U.S. government, which is included in contracts in process. 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.

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 General Accounting Office, the Department of Justice, and Congressional Committees. The Department of Justice, from time to time, has convened grand juries to investigate possible irregularities by the Company. Individually and in the aggregate, these investigations are not expected to have a material adverse effect on the Company's financial position or results of operations.

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

The Company continues to cooperate with the staff of the Securities and Exchange Commission (SEC) which is engaged in an 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. The Company is unable to predict the outcome of the investigation or any action that the SEC might take.

In late 1999, the Company and two of its officers were named as defendants in several class action lawsuits which were consolidated into a single complaint in June 2000, when four additional former or present officers were named as defendants (the "Consolidated Complaint"). The Consolidated Complaint principally alleges that the defendants violated federal securities laws by making misleading statements and by failing to disclose material information concerning the Company's financial performance during the purported class period. In March 2002, the court certified the class of plaintiffs as those people who purchased the Company's stock between October 7, 1998 and October 12, 1999. In August 2001, the court issued an order dismissing most of the claims asserted against the Company and the individual defendants. Discovery is proceeding on the two circumstances that remain the subject of claims. In March 2003, the plaintiff filed an amendment to the Consolidated Complaint which sought to add the Company's independent accountant as an additional defendant. In May 2003, the court issued an order dismissing one of the two claims that had been asserted against the Company's independent accountant.

In 1999 and 2000, the Company was also named as a nominal defendant and all of its directors at the time (except one) were named as defendants in purported derivative lawsuits. The derivative complaints contain allegations similar to those included in the Consolidated Complaint and further allege that the defendants breached fiduciary duties to the Company and allegedly failed to exercise due care and diligence in the management and administration of the affairs of the Company. In December 2001, the Company and the individual defendants filed a motion to dismiss one of the derivative lawsuits. These actions have since been consolidated, and the plaintiffs have filed a consolidated amended complaint. The defendants have filed a motion to dismiss the consolidated amended complaint.

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

In July 2001, the Company was named as a nominal defendant and all of its directors at the time have been named as defendants in two identical purported derivative lawsuits. The court has since consolidated these lawsuits into one action. The derivative complaints 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 December 2001, the Company and the individual defendants filed a motion to dismiss one of the derivative lawsuits.

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

In May 2003, two purported class action lawsuits were filed on behalf of participants in the Company's retirement 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. The complaints allege that the

Company and certain members of the Company's Investment Committee breached ERISA fiduciary and co-fiduciary duties by allegedly failing to (1) disseminate necessary information regarding the retirement plans' investment in the Company's stock, (2) diversify the retirement plans' assets away from the Company's stock, (3) monitor investment alternatives to the Company's stock, and (4) avoid conflicts of interest.

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 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 or results of operations in the period in which the lawsuits are resolved. The Company is not presently able to reasonably estimate potential losses, if any, related to any of the lawsuits.

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.

13. Accounting Standards

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46). FIN 46 addresses the consolidation of certain variable interest entities (VIEs) and may be applied prospectively with a cumulative effect adjustment or by restating previously issued financial statements with a cumulative effect adjustment as of the beginning of the first year restated. In October 2003, the FASB issued FASB Staff Position No. FIN 46-6, Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities which deferred the effective date of FIN 46 for interests held in VIEs created before February 1, 2003 until the end of the first interim or annual period ending after December 15, 2003. The adoption of FIN 46 is not expected to have a material effect on the Company's financial position or results of operations.

In May 2001, the Company issued 17,250,000, 8.25% equity security units. Each equity security unit consists of a contract to purchase shares of the Company's common stock and a mandatorily redeemable equity security. 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. RCTI is considered to be a VIE under FIN 46 and because the preferred stock was a part of the equity security units issued by the Company, the Company is not the primary beneficiary of RCTI. As a result, RCTI can no longer be consolidated by the Company under the provisions of FIN 46, therefore, the Company's mandatorily redeemable equity securities will not be reported on the Company's balance sheet in the fourth quarter of 2003. Instead the Company will report the subordinated note payable to RCTI.

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS No. 150). This accounting standard establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. It requires that certain financial instruments that were previously classified as equity now be classified as a liability. This accounting standard was effective at the beginning of the first interim period beginning after June 15, 2003. In November 2003, the FASB issued FASB Staff Position No. FAS 150-3, Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interest under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (FSP 150-3) which indefinitely deferred the effective date of SFAS No. 150 for certain mandatorily redeemable noncontrolling interests. The Company's mandatorily redeemable equity securities, which are subject to the provisions of SFAS No. 150 that were deferred by FSP 150-3, will be reported differently in the fourth quarter of 2003 as a result of the adoption of FIN 46, described above.

14. Subsequent Events

In October 2003, the Company securitized $337 million of general aviation finance receivables. The securitization was supported by a financial guarantee from a "AAA" rated insurance company and is non recourse to the Company. The Company received proceeds of $280 million and retained an interest in the receivables.

The Company has agreed to sell the common stock investment in Vertex, the Company's former aviation support business, for at least $52 million. The final sales price is in dispute. However, since the Company has recorded this investment at zero, the entire amount of proceeds received will be reflected as a gain in the period in which the transaction is finalized.

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

Consolidated Results of Operations – Third Quarter 2003 Compared with Third Quarter 2002

Net sales were $4.4 billion in the third quarter of 2003 versus $4.1 billion in the third quarter of 2002. The increase in sales was due to higher U.S. Department of Defense (DoD) expenditures in the Company's strategic business areas. Included in the third quarter 2003 sales was $141 million of sales resulting from the consolidation of Flight Options and a $178 million negative impact to sales resulting from charges at Network Centric Systems, described below. Sales to the U.S. DoD were 69 percent of sales in the third quarter of 2003 versus 64 percent of sales in the third quarter of 2002. Total sales to the U.S. government, including foreign military sales, were 75 percent of sales in the third quarter of 2003 versus 76 percent of sales in the third quarter of 2002. Total international sales, including foreign military sales, were 18 percent of sales in the third quarter of 2003 versus 21 percent of sales in the third quarter of 2002.

Gross margin, net sales less cost of sales, in the third quarter of 2003 was $602 million or 13.8 percent of sales versus $852 million or 20.8 percent of sales in the third quarter of 2002. Included in gross margin was a FAS/CAS Pension Adjustment, described below, of $28 million of expense and $53 million of income in the third quarter of 2003 and 2002, respectively. The change in the FAS/CAS Pension Adjustment was due primarily to the reduction in the Company's long-term return on asset assumption under SFAS No. 87 and the actual rate of return on pension plan assets over the last several years. The decrease in gross margin as a percent of sales in the third quarter of 2003 reflects charges of $226 million, including $187 million for performance issues primarily related to cost growth on certain programs at Network Centric Systems, and $39 million at Technical Services. Each of these charges is described below. The change in FAS/CAS Pension Adjustment is also reflected in the decline in gross margin as a percentage of sales.

In the first quarter of 2003, the Company changed the way pension expense or income is reported in the Company's segment results. Statement of Financial Accounting Standards (SFAS) No. 87, Employers' Accounting for Pensions, outlines the methodology used to determine pension expense or income for financial reporting purposes, which is not necessarily indicative of the funding requirements of pension plans, which are determined by other factors. A major factor for 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 Company now reports the difference between SFAS No. 87 (FAS) pension expense or income and CAS pension expense as a separate line item in the Company's segment results called FAS/CAS Pension Adjustment. The Company's individual segment results now 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. Previously, the Company’s individual segment results included FAS pension expense or income, which consisted of CAS pension expense and an adjustment to reconcile CAS pension expense to FAS pension expense or income.

Administrative and selling expenses were $305 million or 7.0 percent of sales in the third quarter of 2003 versus $285 million or 7.0 percent of sales in the third quarter of 2002.

Research and development expenses were $129 million or 2.9 percent of sales in the third quarter of 2003 versus $112 million or 2.7 percent of sales in the third quarter of 2002.

Operating income was $168 million or 3.8 percent of sales in the third quarter of 2003 versus $455 million or 11.1 percent of sales in the third quarter of 2002. The changes in operating income by segment are discussed below.

Interest expense in the third quarter of 2003 was $137 million versus $118 million in the third quarter of 2002. In the third quarter of 2002, the Company allocated $22 million of interest expense to discontinued operations. Since the projects are nearing completion, the Company is not allocating interest expense to discontinued operations in 2003. Total interest expense was $140 million in the third quarter of 2002.

Interest income in the third quarter of 2003 was $10 million versus $7 million in the third quarter of 2002.

Other expense, net in the third quarter of 2003 was $12 million versus $15 million in the third quarter of 2002.

The effective tax rate was 27.6 percent and 30.7 percent in the third quarter of 2003 and 2002, respectively, reflecting the U.S. statutory rate of 35 percent reduced by ESOP dividend deductions, foreign sales corporation tax credits, and research and development tax credits applicable to certain government contracts.

Income from continuing operations was $21 million in the third quarter of 2003, or $0.05 per diluted share on 417.8 million average shares outstanding versus $228 million in the third quarter of 2002, or $0.56 per diluted share on 408.7 million average shares outstanding. The increase in average shares outstanding was due primarily to benefit plan-related activity.

The loss from discontinued operations, described below in Discontinued Operations, was $56 million after-tax, or $0.13 per diluted share in the third quarter of 2003 versus $81 million after-tax, or $0.20 per diluted share in the third quarter of 2002.

The net loss in the third quarter of 2003 was $35 million, or $0.08 per diluted share versus net income of $147 million, or $0.36 per diluted share in the third quarter of 2002.

Integrated Defense Systems had sales of $718 million in the third quarter of 2003 versus $541 million in the third quarter of 2002. The increase in sales was due to continued growth in DD(X), the Navy’s future destroyer program, strong missile defense sales, and increased Patriot Engineering support for Operation Iraqi Freedom. The Company does not expect this sales growth rate to continue over the remainder of the year. Operating income was $82 million in the third quarter of 2003 versus $70 million in the third quarter of 2002.

Intelligence and Information Systems had sales of $533 million in the third quarter of 2003 versus $485 million in the third quarter of 2002. The increase in sales 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 $54 million in the third quarter of 2003 versus $46 million in the third quarter of 2002.

Missile Systems had sales of $905 million in the third quarter of 2003 versus $792 million in the third quarter of 2002. The increase in sales was due to work on the Tomahawk remanufacturing program and an increase in production for the Air Intercept Missile (AIM-9X), Evolved Sea Sparrow Missile, Paveway, Standard Missile-3, and Tactical Tomahawk. Operating income was $111 million in the third quarter of 2003 versus $94 million in the third quarter of 2002.

Network Centric Systems had sales of $556 million in the third quarter of 2003 versus $759 million in the third quarter of 2002. The operating loss was $138 million in the third quarter of 2003 versus operating income of $63 million in the third quarter of 2002. The decrease in operating income reflects charges of $187 million including approximately $147 million associated with ten problem programs and $40 million resulting from negative developments on a few claims and other performance issues in other parts of the business. The continuing performance deterioration in the ten problem programs primarily within the Air Traffic Management Systems business and the Communications business contributed to the charge. There were a number of unfavorable events that occurred on these ten programs including unsuccessful resolution of technical issues, inability to achieve production rates and milestones, customer directed delays and reductions in scheduled deliveries, and unfavorable rulings and negotiations on contractual matters.

Space and Airborne Systems had sales of $930 million in the third quarter of 2003 versus $803 million in the third quarter of 2002. The increase in sales was due to stronger classified sales and new follow-on Air Force awards. Operating income was $131 million in the third quarter of 2003 versus $109 million in the third quarter of 2002.

Technical Services had sales of $447 million in the third quarter of 2003 versus $556 million in the third quarter of 2002. The decrease in sales was primarily due to program losses in 2002. The operating loss was $2 million in the third quarter of 2003 versus operating income of $37 million in the third quarter of 2002. The decrease in operating income 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.

Raytheon Aircraft had sales of $637 million in the third quarter of 2003 versus $451 million in the third quarter of 2002. The consolidation of Flight Options, described below in Financial Condition and Liquidity, resulted in a $141 million increase in sales and $2 million decrease in operating income. The operating loss was $10 million in the third quarter of 2003 versus $11 million in the third quarter of 2002.

Nine Months 2003 Compared with Nine Months 2002

Net sales in the first nine months of 2003 were $13.0 billion versus $12.1 billion in the first nine months of 2002. The increase in sales was due to higher U.S. Department of Defense (DoD) expenditures in the Company’s strategic business areas. Sales to the U.S. DoD were 67 percent of sales in the first nine months of 2003 versus 63 percent of sales in the first nine months of 2002. Total sales to the U.S. government, including foreign military sales, were 76 percent of sales in the first nine months of 2003 versus 74 percent of sales in the first nine months of 2002. Total international sales, including foreign military sales, were 19 percent of sales in the first nine months of 2003 versus 21 percent of sales in the first nine months of 2002.

Gross margin, net sales less cost of sales, in the first nine months of 2003 was $2.2 billion or 16.8 percent of sales versus $2.5 billion or 20.6 percent of sales in the first nine months of 2002. Included in gross margin was a FAS/CAS Pension Adjustment, described above, of $85 million of expense and $157 million of income in the first nine months of 2003 and 2002, respectively. The change in the FAS/CAS Pension Adjustment was due primarily to the reduction in the Company’s long-term return on asset assumption under SFAS No. 87 and the actual rate of return on pension plan assets over the last several years. The decrease in gross margin as a percent of sales in the first nine months of 2003 reflects charges of $226 million, including $187 million for performance issues primarily related to cost growth on certain programs at Network Centric Systems, and $39 million at Technical Services. Each of these charges is described below. The change in FAS/CAS Pension Adjustment is also reflected in the decline in gross margin as a percentage of sales.

Administrative and selling expenses were $952 million or 7.3 percent of sales in the first nine months of 2003 versus $892 million or 7.4 percent of sales in the first nine months of 2002.

Research and development expenses were $366 million or 2.8 percent of sales in the first nine months of 2003 versus $337 million or 2.8 percent of sales in the first nine months of 2002.

Operating income was $864 million or 6.6 percent of sales in the first nine months of 2003 versus $1,262 million or 10.4 percent of sales in the first nine months of 2002. The changes in operating income by segment are discussed below.

Interest expense in the first nine months of 2003 was $415 million versus $388 million in the first nine months of 2002. In the first nine months of 2002, the Company allocated $52 million of interest expense to discontinued operations. Since the projects are nearing completion, the Company is not allocating interest expense to discontinued operations in 2003. Total interest expense was $440 million in the first nine months of 2002. The decrease was due to lower weighted-average cost of borrowing.

Interest income in the first nine months of 2003 was $33 million versus $24 million in the first nine months of 2002. The increase in interest income was due to interest on receivables brought onto the Company’s books as part of the buy-out of the Aircraft Receivables Facility in the fourth quarter of 2002.

Other expense, net in the first nine months of 2003 was $27 million versus $36 million in the first nine months of 2002. Included in other expense, net in the first nine months of

2003 was a $27 million gain on the sale of a preferred stock investment in the Company's former aviation support business offset by $20 million of equity losses related to Flight Options LLC, described below in Financial Condition and Liquidity, and $12 million of charges to reduce the carrying value of certain investments and assets held for sale. Other expense, net also included equity losses in other unconsolidated subsidiaries.

The effective tax rate was 30.1 percent in the first nine months of 2003 versus 30.4 percent in the first nine months of 2002, reflecting the U.S. statutory rate of 35 percent reduced by ESOP dividend deductions, foreign sales corporation tax credits, and research and development tax credits applicable to certain government contracts.

Income from continuing operations was $318 million in the first nine months of 2003, or $0.77 per diluted share on 414.5 million average shares outstanding versus $600 million in the first nine months of 2002, or $1.47 per diluted share on 408.7 million average shares outstanding. The increase in average shares outstanding was due primarily to benefit plan-related activity.

The loss from discontinued operations, described below in Discontinued Operations, was $158 million after-tax, or $0.38 per diluted share in the first nine months of 2003 versus $664 million after-tax, or $1.62 per diluted share in the first nine months of 2002.

Net income in the first nine months of 2003 was $160 million, or $0.39 per diluted share versus a net loss of $572 million, or $1.40 per diluted share in the first nine months of 2002.

Integrated Defense Systems had sales of $2,073 million in the first nine months of 2003 versus $1,731 million in the first nine months of 2002. The increase in sales was due to continued growth in DD(X), the Navy's future destroyer program, as well as strong missile defense sales. Operating income was $236 million in the first nine months of 2003 versus $213 million in the first nine months of 2002.

Intelligence and Information Systems had sales of $1,520 million in the first nine months of 2003 versus $1,359 million in the first nine months of 2002. The increase in sales 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 $141 million in the first nine months of 2003 versus $124 million in the first nine months of 2002.

Missile Systems had sales of $2,595 million in the first nine months of 2003 versus $2,248 million in the first nine months of 2002. The increase in sales was due to work on the Tomahawk remanufacturing program and an increase in production for Air Intercept Missile (AIM-9X), Evolved Sea Sparrow Missile, Standard Missile-3, and Tactical Tomahawk. Operating income was $316 million in the first nine months of 2003 versus $281 million in the first nine months of 2002.

Network Centric Systems had sales of $2,043 million in the first nine months of 2003 versus $2,267 million in the first nine months of 2002. The operating loss was $56 million in the first nine months of 2003 versus operating income of $194 million in the first nine months of 2002. The continuing performance deterioration in ten problem programs primarily within the Air Traffic Management Systems business and Communications business resulted in a charge in the third quarter of 2003 of $147 million. There were a number of unfavorable events that occurred on these ten programs including unsuccessful resolution of technical issues, inability to achieve production rates and milestones, customer directed delays and reductions in scheduled deliveries, and unfavorable rulings and negotiations on contractual matters. In the first six months of 2003, the Company recorded a $50 million charge on two of these programs related to schedule and production delays. In addition to the ten problem programs, the Company recorded a charge of $40 million in the third quarter of 2003 resulting from negative developments on a few claims and other performance issues in other parts of the business.

Space and Airborne Systems had sales of $2,710 million in the first nine months of 2003 versus $2,308 million in the first nine months of 2002. The increase in sales was due to stronger classified sales, follow-on Air Force awards, and higher sales on ASTOR (Airborne Stand-off Radar). Operating income was $362 million in the first nine months of 2003 versus $302 million in the first nine months of 2002.

Technical Services had sales of $1,403 million in the first nine months of 2003 versus $1,589 million in the first nine months of 2002. The decrease in sales was due to program losses in 2002. Operating income was $68 million in the first nine months of 2003 versus $77 million in the first nine months of 2002. The decrease in operating income 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 in the first nine months of 2002 was a $28 million write-off of contract costs that the Company determined were unbillable.

Raytheon Aircraft had sales of $1,641 million in the first nine months of 2003 versus $1,471 million in the first nine months of 2002. Included in the first nine months of 2003 was $207 million of sales and a $2 million operating loss resulting from the consolidation of Flight Options. The operating loss was $41 million in the first nine months of 2003 versus $53 million in the first nine months of 2002. The reduction in the operating loss was due to higher productivity and cost saving initiatives implemented over the last year. The Company has made a significant investment in its Premier aircraft, the realization of which is contingent upon future sales and reductions in production costs on future deliveries. The Company continues to monitor the development cost and certification and delivery schedule of the Horizon aircraft with anticipated certification in the first half of 2004 and first delivery by year-end 2004. The Company remains concerned about the market outlook for both new and used aircraft.

Backlog consisted of the following at:

	Sept. 28, 2003	December 31, 2002
	(In millions)	
Integrated Defense Systems	$ 5,399	$ 5,011
Intelligence and Information Systems	3,876	3,540
Missile Systems	4,187	3,509
Network Centric Systems	2,972	2,853
Space and Airborne Systems	4,580	4,523
Technical Services	1,606	1,603
Aircraft	2,016	4,396
Corporate	183	231
Total	$ 24,819	$ 25,666
Funded backlog included above	$ 15,311	$ 16,962
U.S. government backlog included above	$ 19,419	$ 18,254

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

The decrease in backlog in the first nine months of 2003 was due to backlog adjustments at Aircraft. In the second quarter of 2003, the Company reduced its reported Aircraft backlog by $834 million related to an order received from Flight Options as a result of Flight Options being consolidated with the Company in the second quarter of 2003 as described below in Financial Condition and Liquidity. In addition, an Aircraft customer canceled its order for 50 Hawker Horizon aircraft resulting in an $895 million backlog reduction. Other Aircraft order cancellations and backlog adjustments during the first nine months of 2003 were $391 million. This decrease was offset by strong bookings across the government and defense businesses, particularly several large contract awards in Missile Systems and Integrated Defense Systems.

Gross bookings were as follows:

	Nine Months Ended	
	Sept. 28, 2003	Sept. 29, 2002
	(In millions)	
Integrated Defense Systems	$ 2,317	$ 2,223
Intelligence and Information Systems	1,845	1,950
Missile Systems	3,269	2,308
Network Centric Systems	2,101	1,675
Space and Airborne Systems	2,491	1,471
Technical Services	878	831
Aircraft	1,381	2,283
Corporate	27	25
Total	$ 14,309	$ 12,766

<u>Discontinued Operations</u>

In March 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. 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. The Company also retained $106 million of BBJ-related assets, $18 million of receivables and other assets, and rights to a $25 million jury award related to a 1999 claim against Learjet. At September 28, 2003, the balance of these retained assets was $47 million.

In the third quarter of 2003 and the first nine months of 2003, the Company recorded charges of $5 million and $17 million, respectively, related to cost growth on the BBJ program. The Company also recorded charges of $3 million in the third quarter of 2003 and $10 million in the first nine months of 2003, as a result of continued difficulty the Company has been experiencing liquidating the BBJ-related assets. In the first nine months of 2002, the Company recorded a $23 million write-down of a BBJ-related aircraft owned by the Company and a $4 million charge for cost growth in the BBJ program, offset by a $13 million gain resulting from the collection of the 1999 claim, described above. The write-down of the BBJ-related aircraft resulted from the Company’s decision to market this aircraft unfinished due to the current environment of declining prices for BBJ-related aircraft. The Company was previously marketing this aircraft as a customized executive BBJ.

In 2000, the Company sold its Raytheon Engineers & Constructors businesses (RE&C) to Washington Group International, Inc. (WGI). In March 2001, WGI abandoned two Massachusetts construction projects, the Mystic Station plant and the Fore River plant (the "Massachusetts Projects"). Pursuant to the Company's guarantees to the customers, the Company commenced work on the two Massachusetts Projects. In May 2001, WGI filed for bankruptcy protection. In the course of the bankruptcy proceeding, WGI rejected some ongoing construction contracts, triggering certain obligations of the Company under the outstanding Support Agreements.

Since the Mystic Station plant had not achieved performance test completion by January 14, 2003, the Company made payments to the customer of $68 million, which pre-funded the delay and performance liquidated damages to the maximum amount specified by the construction contract. Of this pre-funded amount, $36 million is recorded as a receivable as it represents contingent performance liquidated damages that were not realized and should be refunded. The customer has taken the position that a similar missed deadline occurred on February 24, 2003 for the Fore River plant and that a payment of $67 million was required from the Company on that date to pre-fund the delay and performance liquidated damages to the maximum amount specified by the construction contract. The Company believes that this February 24, 2003 deadline was incorrect and should have been extended. Accordingly, the Company did not make the requested payment to the customer and has informed the customer that the deadline and requested payment are in dispute. As a result, the customer drew down on certain letters of credit totaling $27 million that had been posted by the Company as contract performance security. Of this amount, $2 million is recorded as a receivable. A resolution of the current dispute between the Company and the customer over the contract deadline and the applicable liquidated damages is dependent upon the outcome of arbitration and the resolution of other change orders.

On July 29, 2003, Exelon Corporation, the ultimate parent of the customers of the Massachusetts Projects, announced that it had commenced the process of an orderly transition out of the ownership of the two Massachusetts Projects and would not provide additional funding beyond its existing contractual obligations. Accordingly, the Company believes that the customers of the Massachusetts Projects are insolvent and have not provided adequate assurances for payment of approximately $50 million that the Company believes it is owed and has recorded in the financial statements, as well as the value of claims against the customers. On August 29, 2003, the Company filed a lawsuit in Massachusetts seeking to protect the Company's rights in connection with the Massachusetts Projects, including seeking protection against draws under existing letters of credit totaling approximately $73 million. Related litigation is pending in New York and Nevada that involves the Massachusetts Projects and the Company’s interests. Although at this time the Company does not expect Exelon Corporation’s announcement or the pending litigation to have a material adverse effect on its financial position or results of operations, the ultimate effects of these events cannot be predicted.

Both of the Massachusetts Projects have been delivered to the customers for commercial operation and the customers have assumed care, custody, operational control, and risk of loss of both facilities. The Company is still performing work in connection with the Massachusetts Projects, including punchlist and warranty items.

Due to increased costs for the Massachusetts Projects, the Company recorded a $55 million charge in the third quarter of 2003, a $106 million charge in the second quarter of 2003, and a $12 million charge in the first quarter of 2003. The Company had previously recorded charges of $796 million in 2002 and $814 million in 2001 for the Massachusetts Projects. The charges and increased costs 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. Remaining risks in completing the Massachusetts Projects include inability to collect amounts owed to the Company due to the financial condition of the customers, the resolution of various disputes and other matters with the customers, suppliers, and subcontractors, costs associated with the possibility of further delays, labor and material cost growth, productivity issues, equipment and subcontractor performance, and the successful completion of all remaining work items.

In addition to the Massachusetts Projects, the Company is responsible for completing four projects retained by the Company at the time of the sale of RE&C and other projects rejected by WGI in connection with its bankruptcy proceeding referenced above. All of these projects are in the final stages of work that includes punch list, warranty, commercial closeout, and claims resolution. Risks and exposures related to these projects include delays, labor and material cost growth, productivity issues, equipment and subcontractor performance, punch list and warranty closeout and performance, schedule and performance liquidated damages, final resolution of contract closeout issues including arbitration and litigation, collection of amounts due under the contracts, potential adverse claims resolution including possible subcontractor claims, lease exposures, availability guarantees, surety bonds, and warranties. In the third quarter of 2003, the Company recorded a charge of $4 million related to the settlement of warranty claims on one of these projects. In 2002, the Company recorded charges of $53 million for various issues in connection with these projects, including but not limited to, punchlist items, start-up costs, reliability testing, and turbine-related delays.

WGI continues to perform on certain projects on which Support Agreements remain outstanding. Further risks could arise for the Company if WGI fails to meet its obligations in connection with these projects.

At the time of the sale, the Company had, either directly or through a subsidiary that it still owns, outstanding letters of credit, performance bonds, and guarantees of performance and payment (the “Support Agreements”) on many long-term construction contracts and certain leases. A number of the Support Agreements remain in effect. At September 28, 2003, the Company’s maximum exposure on Support Agreements that have a stated value was approximately $680 million. In addition, there are outstanding guarantees of project performance for which there is no stated maximum value. The guarantees with no stated maximum value relate to projects that are substantially complete and are in the final stages of work that includes punch list, warranty, commercial closeout, and claims resolution. Some of these contingent obligations and guarantees include warranty provisions that extend for a number of years.

The Company's cost estimates for the projects, including but not limited to the Massachusetts Projects, are heavily dependent upon third parties, including WGI, and their ability to perform construction management, cost estimating, and other tasks that require industry expertise the Company no longer possesses. In addition, there are risks that the ultimate costs to complete and close out various remaining projects will increase beyond the Company's current estimates due to factors such as labor productivity, the nature and complexity of the work to be performed, the impact of change orders, the recoverability of claims included in the estimated cost to complete, punchlist and warranty items, and the outcome of claims asserted against the Company by vendors, subcontractors, and other project participants. A significant change in an estimate on one or more of the projects could have a material adverse effect on the Company's financial position and results of operations. Additional risks include the Company's ability to recover on claims and collect amounts due from its customers.

In the third quarter of 2003, the Company recorded charges of $19 million for legal, management, and other costs related to RE&C versus $6 million in the third quarter of 2002. In the first nine months of 2003, the Company recorded charges of $40 million for legal, management, and other costs related to RE&C versus $29 million in the first nine months of 2002. In the third quarter of 2002 and the first nine months of 2002, the Company allocated $22 million and $52 million, respectively, of interest expense to RE&C based upon actual cash outflows since the date of disposition. Since the projects are nearing completion, the Company is not allocating interest expense to RE&C in 2003.

Net cash used in operating activities from discontinued operations related to RE&C was $470 million in the first nine months of 2003 versus $758 million in the first nine months of 2002. The Company expects its operating cash flow to be negatively affected by approximately $50 million in the fourth quarter of 2003 which includes project completion, legal, and management costs related to RE&C. Further increases in project costs may increase the estimated operating cash outflow for RE&C in 2003.

In the third quarter of 2003, the total loss from discontinued operations was $86 million pretax, $56 million after-tax, or $0.13 per diluted share versus $125 million pretax, $81 million after-tax, or $0.20 per diluted share in the third quarter of 2002.

In the first nine months of 2003, the total loss from discontinued operations was $244 million pretax, $158 million after-tax, or $0.38 per diluted share versus $671 million pretax, $664 million after-tax, or $1.62 per diluted share in the first nine months of 2002.

Financial Condition and Liquidity

Net cash provided by operating activities was $499 million in the first nine months of 2003 versus $197 million in the first nine months of 2002. Net cash provided by operating activities from continuing operations was $984 million in the first nine months of 2003 versus $1,002 million in the first nine months of 2002.

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). The Company Match was $124 million for the nine months ended September 28, 2003 and September 29, 2002. The Company also makes an annual contribution to the Company stock fund of approximately one-half of one percent of salaries and wages of most U.S. salaried and hourly employees (Company Contribution). The Company Contribution was $25 million and $19 million for the nine months ended September 28, 2003 and September 29, 2002, respectively. The Company Match and Company Contribution were funded through the issuance of common stock and are non-cash operating activities included on the statement of cash flows. In addition, employee-directed 401(k) plan purchases (Employee Contributions) of the Company stock fund were funded through the issuance of common stock totaling $63 million and $123 million for the nine months ended September 28, 2003 and September 29, 2002, respectively. The Company Match, Company Contribution, and Employee Contributions in 2004 may be funded by the issuance of stock or through purchases of the stock on the open market.

Net cash used in investing activities in the first nine months of 2003 was $409 million versus net cash provided of $715 million in the first nine months of 2002. Origination of financing receivables in the first nine months of 2003 was $274 million versus $257 million in the first nine months of 2002. Collection of financing receivables not sold was $430 million in the first nine months of 2003 versus $122 million in the first nine months of 2002. The increase in collection of financing receivables was a result of the buy-out of general aviation and commuter aircraft long-term receivables from an off balance sheet facility in the fourth quarter of 2002 which brought the related assets onto the Company’s books. Capital expenditures were $243 million in the first nine months of 2003 versus $286 million in the first nine months of 2002. Capital expenditures for the full year 2003 are expected to be approximately $450 million. Capitalized expenditures for internal use software were $71 million in the first nine months of 2003 versus $94 million in the first nine months of 2002. Capitalized expenditures for internal use software are expected to be approximately $90 million in 2003 as the Company continues to convert significant portions of its existing financial systems to a new integrated financial system. In addition, 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 September 2003, the lease facility expired and the Company bought back the assets remaining in the lease facility for $125 million. As discussed above in Discontinued Operations, in the first quarter of 2002, the Company sold AIS for $1,123 million, net subject to purchase price adjustments. In the first quarter of 2002, the Company received $134 million related to the Company’s merger with the defense business of Hughes Electronics Corporation (Hughes Defense).

Net cash used in financing activities was $431 million in the first nine months of 2003 versus $1,507 million in the first nine months of 2002. Dividends paid to stockholders were $247 million and $240 million in the first nine months of 2003 and 2002, respectively. The quarterly dividend rate was $0.20 per share for the first three quarters of 2003 and 2002.

In March 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. As a result of this recapitalization, the Company now owns approximately 65 percent of FO and is consolidating FO’s results in its financial statements. The Company has committed to invest certain additional capital on an as needed basis over the 18 months following the financial recapitalization and provide collateralized aircraft and retail financing over the three years following the financial recapitalization. The Company's additional capital commitment was $21 million at September 28, 2003, however, FO does not expect to need additional capital funding in 2003. The Company's additional collateralized aircraft financing commitment totaled $73 million at September 28, 2003 and FO expects to use $25 million of this financing during the remainder of 2003, driven by sales levels. The Company's additional collateralized retail financing commitment totaled $36 million at September 28, 2003, with $15 million expected to be used during the remainder of 2003, also driven by sales levels. Prior to the financial recapitalization, 100 percent of FO's $20 million of losses was recorded in 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. 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 $530 million at December 31, 2002.

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 the fourth quarter 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 the third quarter of 2001, the Company recorded a charge of $693 million related to the commuter aircraft business. Immediately prior to the charge, the Company had exposure on approximately $1,600 million of commuter-related assets consisting of 511 aircraft including financing receivables, inventory, and leases. At September 28, 2003 and December 31, 2002, the Company's exposure on commuter-related assets was approximately $700 million consisting of 367 aircraft and approximately $800 million consisting of 433 aircraft, respectively.

Capital Structure and Resources

Total debt was $7.3 billion at September 28, 2003 compared with $7.4 billion at December 31, 2002. Cash and cash equivalents were $203 million at September 28, 2003 and $544 million at December 31, 2002. Total debt, as a percentage of total capital, was 42.3 percent at September 28, 2003 versus 43.3 percent at December 31, 2002.

Lines of credit with certain commercial banks exist to provide short-term liquidity. The lines of credit bear interest based upon LIBOR and were $2.85 billion at September 28, 2003 and December 31, 2002. There was $100 million outstanding under these lines of credit at September 28, 2003. There were no borrowings under these lines of credit at December 31, 2002. In the first quarter of 2003, the Company issued $425 million of ten-year debt and used the proceeds to reduce the amounts outstanding under the Company's lines of credit. In the first quarter of 2002, the Company repurchased debt with a par value of $96 million.

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, be at least 2.5 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 the first nine months of 2003.

The Company has pension and retirement plans covering the majority of its employees, including certain employees in foreign countries. The Company's SFAS No. 87 pension expense is expected to be approximately $300 million in 2003 and $625 million in 2004. The actual return on the Company's pension plan assets from November 2002 through September 2003 was 13.3 percent, which exceeds the Company's current long-term return on asset (ROA) assumption of 8.75 percent. For every 2.5 percent increase or decrease in the actual pension plan asset return for the current year, the Company's SFAS No. 87 pension expense for 2004 will change by approximately $12 million. The Company will adjust the discount rate on the pension and retirement plans' next measurement date to reflect current market conditions. A 0.25 percent adjustment in the discount rate for 2004 will change the Company's SFAS No. 87 pension expense for 2004 by approximately $38 million. Based upon the current market conditions at the end of October 2003, the discount rate would be approximately 6.25 percent. The discount rate at the end of October 2002 was 7.00 percent.

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.

Accounting Standards

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46). FIN 46 addresses the consolidation of certain variable interest entities (VIEs) and may be applied prospectively with a cumulative effect adjustment or by restating previously issued financial statements with a cumulative effect adjustment as of the beginning of the first year restated. In October 2003, the FASB issued FASB Staff Position No. FIN 46-6, Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities which deferred the effective date of FIN 46 for interests held in VIEs created before February 1, 2003 until the end of the first interim or annual period ending after December 15, 2003. The adoption of FIN 46 is not expected to have a material effect on the Company's financial position or results of operations.

In May 2001, the Company issued 17,250,000, 8.25% equity security units. Each equity security unit consists of a contract to purchase shares of the Company's common stock and a mandatorily redeemable equity security. 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. RCTI is considered to be a VIE under FIN 46 and because the preferred stock was a part of the equity security units issued by the Company, the Company is not the primary beneficiary of RCTI. As a result, RCTI can no longer be consolidated by the Company under the provisions of FIN 46, therefore, the Company's mandatorily redeemable equity securities will not be reported on the Company's balance sheet in the fourth quarter of 2003. Instead the Company will report the subordinated note payable to RCTI.

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS No. 150). This accounting standard establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. It requires that certain financial instruments that were previously classified as equity now be classified as a liability. This accounting standard was effective at the beginning of the first interim period beginning after June 15, 2003. In November 2003, the FASB issued FASB Staff Position No. FAS 150-3, Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interest under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (FSP 150-3) which indefinitely deferred the effective date of SFAS No. 150 for certain mandatorily redeemable noncontrolling interests. The Company's mandatorily redeemable equity securities, which are subject to the provisions of SFAS No. 150 that were deferred by FSP 150-3, will be reported differently in the fourth quarter of 2003 as a result of the adoption of FIN 46, described above.

Disclosure Regarding Forward-Looking Statements

Certain statements made in this report, including any statements relating to the Company's future plans, objectives, and projected future financial performance, contain or are based on, forward-looking statements within the meaning of the federal securities laws. Specifically, statements that are not historical facts, including statements accompanied by words such as "believe," "expect," "estimate," "intend," or "plan," and 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. The Company expressly disclaims any current intention to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this report. Important factors that could cause actual results to differ include, but are not limited to: the ability to obtain or the timing of obtaining future government awards; the availability of government funding; changes in government or customer priorities due to program reviews or revisions to strategic objectives; difficulties in developing and producing operationally advanced technology systems; termination of government contracts; program performance, including resolution of claims; timing of contract payments; the performance of critical subcontractors; government import and export policies and other government regulations; the ultimate resolution of contingencies and legal matters, including investigations; the effect of market conditions, particularly in relation to the general aviation and commuter aircraft markets; risks inherent with large long-term fixed price contracts, particularly the ability to contain cost growth and programs which anticipate significant future cost improvements; conflicts with other investors in joint ventures and less than wholly owned businesses; the Company's lack of construction industry expertise resulting from the Company's sale of its former engineering and construction businesses; the timing of project completion of two Massachusetts construction projects; delays and cost growth arising from testing and commissioning processes conducted at the Massachusetts projects; the final determination by the Company of the required expenditures to complete the Massachusetts projects; and the impact of change orders, the recoverability of the Company's claims, and the outcome of defending claims asserted against the Company; among other things. Further information regarding the factors that could cause actual results to differ materially from the Company's expectations are reported in the Company’s SEC filings, including “Item 1-Business” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2002.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The Company meets its working capital requirements with a combination of variable rate short-term and fixed rate long-term financing. The Company enters into interest rate swap agreements with commercial and investment banks primarily to manage interest rates associated with the Company’s financing arrangements. The Company also enters into foreign currency forward contracts with commercial banks to fix the dollar value of 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 firm commitment is in place.

Financial instruments held by the Company which are subject to interest rate risk include notes payable, long-term debt, long-term receivables, investments, and interest rate swap agreements. The aggregate hypothetical loss in earnings for one year of those financial instruments held by the Company at September 28, 2003 and September 29, 2002, which are subject to interest rate risk resulting from a hypothetical increase in interest rates of 10 percent, was $1 million after-tax. The hypothetical loss was determined by calculating the aggregate impact of a 10 percent increase in the interest rate of each variable rate financial instrument held by the Company at September 28, 2003 and September 29, 2002, which was subject to interest rate risk. Fixed rate financial instruments were not evaluated, as the risk exposure is not material.

ITEM 4. CONTROLS AND PROCEDURES

The Company’s management conducted an evaluation, under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of September 28, 2003. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective in alerting them in a timely manner, as appropriate, to material information required to be included in the Company’s SEC reports.

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

There were no changes in the Company’s internal control over financial reporting that occurred during the third quarter of 2003 that has materially affected, or is reasonably likely to materially affect the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to or has property subject to litigation and other proceedings referenced in “Note 12 – Commitments and Contingencies” of the Notes to Financial Statements (Unaudited) included in this Form 10-Q and in the Company’s Annual Report on Form 10-K for the year ended December 31, 2002, or arising in the ordinary course of business. In the opinion of management, except as otherwise indicated in the Form 10-K, it is unlikely that the outcome of any such litigation or other proceedings will have a material adverse effect on the Company’s financial position or results of operations.

See the “Legal Proceedings” section of the Company’s Annual Report on Form 10-K for the year ended December 31, 2002 for a detailed description of previously reported actions.

The Company is primarily engaged in providing products and services under contracts with the U.S. government and, to a lesser degree, under direct foreign sales contracts, some of which are funded by the U.S. government. 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 General Accounting Office, the Department of Justice, and Congressional Committees. The Department of Justice from time to time has convened grand juries to investigate possible irregularities by the Company.

Previously Reported Matters

As previously reported, 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 retirement plans who invested in the Company’s stock between August 19, 1999 and May 27, 2003. In September 2003, these actions were consolidated.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

3.1	Raytheon Company Amended and Restated By-Laws, as amended through June 25, 2003.
10.1	Amendment dated October 22, 2003 to the Transition Agreement between Raytheon Company and Francis M. Marchilena dated September 3, 2002, filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 29, 2002.
10.2	Amendment to 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.
10.3	Fourth Amendment to the Five-Year Competitive Advance and Revolving Credit Agreement dated as of November 7, 2003.
10.4	Second Amendment to the 364-Day Credit Agreement dated as of November 7, 2003.
31.1	Certification of William H. Swanson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Edward S. Pliner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On July 24, 2003, the Company filed a Current Report on Form 8-K with the Securities and Exchange Commission.

On September 2, 2003, the Company filed a Current Report on Form 8-K with the Securities and Exchange Commission.

On October 23, 2003, the Company filed a Current Report on Form 8-K with the Securities and Exchange Commission.

SIGNATURE

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

RAYTHEON COMPANY (Registrant)

By: /s/ BIGGS C. PORTER

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

November 12, 2003

Exhibit List

Exhibit No.	Description
3.1	Raytheon Company Amended and Restated By-Laws, as amended through June 25, 2003.
10.1	Amendment dated October 22, 2003 to the Transition Agreement between Raytheon Company and Francis M. Marchilena dated September 3, 2002, filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 29, 2002.
10.2	Amendment to 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.
10.3	Fourth Amendment to the Five-Year Competitive Advance and Revolving Credit Agreement dated as of November 7, 2003.
10.4	Second Amendment to the 364-Day Credit Agreement dated as of November 7, 2003.
31.1	Certification of William H. Swanson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Edward S. Pliner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 3.1

BY-LAWS

OF

RAYTHEON COMPANY

Amended and Restated June 25, 2003

ARTICLE I
Offices and Records

Section 1.1. Delaware Office. The principal office of the Corporation in the State of Delaware shall be located in the City of Wilmington, County of New Castle, and the name and address of its registered agent is The Corporation Trust Company, 1209 Orange Street in the City of Wilmington, County of New Castle.

Section 1.2. Other Offices. The Corporation may have such other offices, either within or outside the State of Delaware, as the Board of Directors of the Corporation (the "Board") may designate or as the business of the Corporation may from time to time require.

Section 1.3. Books and Records. The books and records of the Corporation may be kept outside the State of Delaware at such place or places as may from time to time be designated by the Board.

ARTICLE II
Stockholders

Section 2.1. Annual Meeting. The annual meeting of the stockholders of the Corporation shall be held on such date and at such time as may be fixed by resolution of the Board.

Section 2.2. Special Meeting. Except as otherwise required by law and subject to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, special meetings of stockholders of the Corporation for any purpose or purposes may be called only by (i) the Board pursuant to a resolution stating the purpose or purposes thereof approved by a majority of the total number of directors which the Corporation would have if there were no vacancies (the "Whole Board") or (ii) by the Chairman of the Board. No business other than that stated in the notice shall be transacted at any special meeting.

Section 2.3. Place of Meeting. The Board or the Chairman of the Board, as the case may be, may designate the place of meeting for any annual meeting or for any special meeting of the stockholders. If no designation is so made, the place of meeting shall be the principal office of the Corporation.

Section 2.4. Notice of Meeting. Written or printed notice stating (i) the place, day and hour of the meeting, and (ii) the purpose or purposes for which the meeting is called, shall be delivered by the Corporation not less than 10 calendar days nor more than 60 calendar days before the date of the meeting, either personally or by mail, to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail with postage thereon prepaid, addressed to the stockholder at such person’s address as it appears on the stock transfer books of the Corporation. Such further notice shall be given as may be required by law. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation’s notice of meeting. Meetings may be held without notice if all stockholders entitled to vote are present, or if notice is waived by those not present in accordance with Section 6.4 of these By-Laws. Any previously scheduled meeting of the stockholders may be postponed, and any special meeting of the stockholders may be canceled, by resolution of the Board upon public notice given prior to the date previously scheduled for such meeting of stockholders.

Section 2.5. Quorum and Adjournment; Voting. Except as otherwise provided by law or by the Restated Certificate of Incorporation of the Corporation (as amended and in effect from time to time, the “Certificate of Incorporation”), the holders of a majority of the voting power of all outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (the “Voting Stock”), represented in person or by proxy, shall constitute a quorum at a meeting of stockholders, except that when specified business is to be voted on by a class or series of stock voting as a class, the holders of a majority of the shares of each such class or series shall constitute a quorum of such class or series for the transaction of such business and a quorum of each such class or series entitled to vote thereon shall be required to act. To the extent that a quorum is present with respect to consideration of and action on a particular matter or matters but a quorum is not present as to another matter or matters, consideration of and action on the matter or matters for which a quorum is present may occur, and, after such consideration and action, the meeting may be adjourned for purposes of the consideration of and action on the matter or matters for which a quorum is not present. The Chairman of the meeting may adjourn the meeting from time to time, whether or not there is such a quorum. No notice of the time and place of adjourned meetings need be given except as required by law. The stockholders present at a duly called meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 2.6. Proxies. At all meetings of stockholders, a stockholder may vote by proxy executed in writing (or in such manner prescribed by the General Corporation Law of the State of Delaware (the “DGCL”)) by the stockholder, or by such person’s duly authorized attorney in fact.

Section 2.7. Notice of Stockholder Business and Nominations.

(A) Annual Meetings of Stockholders.

(1) Nominations of persons for election to the Board and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Corporation’s notice of meeting pursuant to Section 2.4 of these By-Laws, (b) by or at the direction of the Board, or (c) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this By-Law, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this By-Law.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A)(l) of this By-Law, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 90th calendar day nor earlier than the close of business on the 120th calendar day prior to the first anniversary of the preceding year's annual meeting; *provided, however,* that in the event that the date of the annual meeting is more than 30 calendar days before or more than 60 calendar days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th calendar day prior to such annual meeting and not later than the close of business on the later of the 90th calendar day prior to such annual meeting or the 10th calendar day following the calendar day on which public announcement of the date of such meeting is first made by the Corporation. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14a-11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any financial interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this By-Law to the contrary, in the event that the number of directors to be elected to the Board is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board at least 100 calendar days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this By-Law shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th calendar day following the day on which such public announcement is first made by the Corporation.

(B) Special Meetings of Stockholders.

Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting under

Section 2.4 of these By-Laws. Nominations of persons for election to the Board may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board, or (b) provided that the Board has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in this By-Law, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this By-Law. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board, any stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Corporation's notice of meeting pursuant to such clause (b), if the stockholder's notice required by paragraph (A)(2) of this By- Law shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th calendar day prior to such special meeting and not later than the close of business on the later of the 90th calendar day prior to such special meeting or the 10th calendar day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above.

(C) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this By-Law shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this By-Law. Except as otherwise provided by law, the Certificate of Incorporation or these By-Laws, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this By-Law and, if any proposed nomination or business is not in compliance with this By-Law, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this By-Law, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this By-Law, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this By-Law. Nothing in this By-Law shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14-8 under the Exchange Act or (ii) of the holders of any series of Preferred Stock to elect directors under an applicable Preferred Stock Designation (as defined in the Certificate of Incorporation).

Section 2.8. Procedure for Election of Directors; Required Vote. Election of directors at all meetings of the stockholders at which directors are to be elected shall be by ballot, and, subject to the rights of the holders of any series of Preferred Stock to elect directors under an applicable Preferred Stock Designation, a plurality of the votes cast thereat shall elect directors. Except as otherwise provided by law, the Certificate of Incorporation, Preferred Stock Designation, or these By-Laws, in all matters other than the election of directors, the affirmative vote of a majority of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the matter shall be the act of the stockholders.

Section 2.9. Inspectors of Elections; Opening and Closing the Polls. The Board by resolution shall appoint, or shall authorize an officer of the Corporation to appoint, one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representatives, to act at the meetings of stockholders and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act or is able to act at a meeting of stockholders, the Chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging such person's duties, shall take and sign an oath to execute faithfully the duties of inspector with strict impartiality and according to the best of such person's ability. The inspector(s) shall have the duties prescribed by law. The Chairman of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting.

Section 2.10. **No Stockholder Action by Written Consent.** Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders.

ARTICLE III
Board of Directors

Section 3.1. General Powers. The business and affairs of the Corporation shall be managed under the direction of the Board. In addition to the powers and authorities by these By-Laws expressly conferred upon them, the Board may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws required to be exercised or done by the stockholders.

Section 3.2. Chairman of the Board. The Chairman of the Board shall be chosen from among the directors. The Chairman of the Board shall preside at all meetings of the stockholders and of the Board and shall have such powers and perform such duties as the Board may from time to time determine. The Chairman of the Board may but need not be an officer of or employed in an executive or other capacity by the Corporation. The Board also may elect a Vice-Chairman to act in place of the Chairman upon his or her absence or inability to act.

Section 3.3. Number and Tenure. Except as otherwise fixed by or pursuant to the provisions of Article IV of the Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of the directors of the Corporation shall be as set forth in, and fixed from time to time exclusively in the manner set forth in, Article VI of the Certificate of Incorporation.

Section 3.4. Regular Meetings. A regular meeting of the Board shall be held without other notice than this By-Law immediately after, and at the same place as, the annual meeting of stockholders. The Board may, by resolution, provide the time and place for the holding of additional regular meetings without other notice than such resolution.

Section 3.5. Special Meetings. Special meetings of the Board shall be called at the request of the Chairman of the Board, the Chief Executive Officer, the President or a majority of the Board then in office. The person or persons authorized to call special meetings of the Board may fix the place and time of the meetings.

Section 3.6. Notice. Notice of any special meeting of directors shall be given to each director at such person's business or residence in writing by hand delivery, first-class or overnight mail, courier service or facsimile transmission, or orally by telephone. If mailed by first-class mail, such notice shall be deemed adequately delivered when deposited in the United States mails so addressed, with postage thereon prepaid, at least 5 calendar days before such meeting. If by overnight mail or courier service, such notice shall be deemed adequately delivered when the notice is delivered to the overnight mail or courier service company at least 24 hours before such meeting. If by facsimile transmission, such notice shall be deemed adequately delivered when the notice is transmitted at least 12 hours before such meeting. If by telephone or by hand delivery, the notice shall be given at least 12 hours prior to the time set for the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in the notice of such meeting, except for amendments to these By-Laws, as provided under Section 8.1. A meeting may be held at any time without notice if all the directors are present or if those not present waive notice of the meeting either before or after such meeting.

Section 3.7. Action by Consent of Board of Directors. Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

Section 3.8. Conference Telephone Meetings. Members of the Board or any committee thereof may participate in a meeting of the Board or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at such meeting.

Section 3.9. Quorum. Subject to Section 3.10, a whole number of directors equal to at least a majority of the Whole Board shall constitute a quorum for the transaction of business, but if at any meeting of the Board there shall be less than a quorum present, a majority of the directors present may adjourn the meeting from time to time without further notice. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board. The directors present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough directors to leave less than a quorum.

Section 3.10. Vacancies. Except as otherwise provided for or fixed by or pursuant to the provisions of Article IV of the Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, newly created directorships resulting from any increase in the number of Directors and any vacancies on the Board resulting from death, resignation, disqualification, removal or other cause shall be filled in accordance with, and any director elected to such newly created directorships shall hold office in accordance with, Article VI of the Certificate of Incorporation. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.

Section 3.11. Committees. (a) The Board, by resolution adopted by a majority of the Whole Board, may designate one or more committees which, to the extent permitted by law, may exercise such powers and have such responsibilities as shall be specified in the designating resolution. Each committee shall consist of two or more directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Each committee shall keep written minutes of its proceedings and shall report such proceedings to the Board when required.

(b) A majority of any committee may determine its action and fix the time and place of its meetings, unless the Board shall otherwise provide. Notice of such meetings shall be given to each member of the committee in the manner provided for in Section 3.6 of these By-Laws. The Board shall have power at any time to fill vacancies in, to change the membership of, or to dissolve any such committee. Nothing herein shall be deemed to prevent the Board from appointing one or more committees consisting in whole or in part of persons who are not directors of the Corporation; *provided, however,* that no such committee shall have or may exercise any authority of the Board.

Section 3.12. Removal. Any director may be removed from office only in accordance with Article VI of the Certificate of Incorporation.

Section 3.13. Records. The Board shall cause to be kept a record containing the minutes of the proceedings of the meetings of the Board and of the stockholders, appropriate stock books and registers and such books of records and accounts as may be necessary for the proper conduct of the business of the Corporation.

ARTICLE IV
Officers

Section 4.1. Elected Officers. The elected officers of the Corporation shall be a Chief Executive Officer, a Chief Financial Officer, a Secretary, a Treasurer, and such other officers (including, without limitation, a President, Senior Vice Presidents and Executive Vice Presidents and Vice Presidents) as the Board from time to time may deem proper. The Chief Executive Officer shall be a director. All officers elected by the Board shall each have such powers and duties as generally pertain to their respective offices, subject to the specific provisions of this Article IV. Such officers shall also have such powers and duties as from time to time may be conferred by the Board or by any committee thereof. The Board or any committee thereof may from time to time elect, or the Chief Executive Officer or President may appoint, such other officers (including one or more Vice Presidents, Controllers, Assistant Secretaries and Assistant Treasurers), as may be necessary or desirable for the conduct of the business of the Corporation. Such other officers and agents shall have such duties and shall hold their offices for such terms as shall be provided in these By-Laws or as may be prescribed by the Board or such committee or by the Chief Executive Officer or President, as the case may be. A person may hold any number of offices of the Corporation at any one time except as prohibited by law.

Section 4.2. Election and Term of Office. The elected officers of the Corporation shall be elected annually by the Board at the regular meeting of the Board held after the annual meeting of the stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as convenient. Each officer shall hold office until such person's successor shall have been duly elected and shall have qualified or until such person's death or until such person shall resign or be removed pursuant to Section 4.9.

Section 4.3. Chief Executive Officer. The Chief Executive Officer shall be responsible for the general management of the affairs of the Corporation and shall have such powers and perform all duties incidental to such person's office which may be required by law and all such other duties as the Board may from time to time determine. The Chief Executive Officer shall make reports to the Board and the stockholders, and shall see that all orders and resolutions of the Board and of any committee thereof are carried into effect.

Section 4.4. Chief Financial Officer. The Chief Financial Officer shall be the principal financial officer of the Corporation and shall have such powers and shall perform such duties as may be assigned from time to time by the Board or the Chief Executive Officer.

Section 4.5. President. The President, if any, shall act in a general executive capacity and shall assist the Chief Executive Officer in the administration and operation of the Corporation's business and general supervision of its policies and affairs and shall have such powers and perform such other duties as the Board or the Chief Executive Officer may from time to time determine.

Section 4.6. Vice Presidents. Each Senior Vice President and Executive Vice President and any Vice President shall have such powers and shall perform such duties as may be assigned from time to time by the Board or the Chief Executive Officer.

Section 4.7. Treasurer. The Treasurer shall exercise general supervision over the receipt, custody and disbursement of corporate funds. The Treasurer shall cause the funds of the Corporation to be deposited in such banks as may be authorized by the Board, or in such banks as may be designated as depositories in the manner provided by resolution of the Board. The Treasurer shall have such further powers and duties and shall perform such other duties as may be assigned from time to time by the Board, the Chief Executive Officer, the President, if any, or the Chief Financial Officer.

Section 4.8. Secretary. (a) The Secretary shall keep or cause to be kept in one or more books provided for that purpose, the minutes of all meetings of the Board, the committees of the Board and the stockholders; the Secretary shall see that all notices are duly given in accordance with the provisions of these By-Laws and as required by law; shall be custodian of the records and the seal of the Corporation and affix and attest the seal to all stock certificates of the Corporation (unless the seal of the Corporation on such certificates shall be a facsimile, as hereinafter provided) and affix and attest the seal to all other documents to be executed on behalf of the Corporation under its seal; and shall see that the books, reports, statements, certificates and other documents and records required by law to be kept and filed are properly kept and filed; and shall have such powers and perform all the duties incident to the office of Secretary and such other duties as may be assigned from time to time by the Board, the Chief Executive Officer or the President.

(b) Assistant Secretaries shall have such of the authority and perform such of the duties of the Secretary as may be provided in these By-Laws or assigned to them by the Board, the Chief Executive Officer or the Secretary. During the Secretary's absence or inability, the Secretary's authority and duties shall be performed by such Assistant Secretary or Assistant Secretaries as the Board, the Chief Executive Officer, the President or the Secretary may designate.

Section 4.9. Removal. Any officer elected, or agent appointed, by the Board may be removed by the affirmative vote of a majority of the Whole Board whenever, in their judgment, the best interests of the Corporation would be served thereby. Any officer or agent appointed by the Chief Executive Officer or the President may be removed by such person or a majority of the Whole Board whenever, in such person's or the Whole Board's judgment, the best interests of the Corporation would be served thereby. No elected officer shall have any contractual rights against the Corporation for compensation by virtue of such election beyond the date of the election of such person's successor, such person's death, such person's resignation or such person's removal, whichever event shall first occur, except as otherwise provided in an employment contract or under an employee deferred compensation plan.

Section 4.10. Vacancies. A newly created elected office and a vacancy in any elected office because of death, resignation, or removal may be filled by the Board for the unexpired portion of the term at any meeting of the Board. Any vacancy in an office appointed by the Chief Executive Officer or the President because of death, resignation, or removal may be filled by the Chief Executive Officer or the President.

ARTICLE V
Stock Certificates and Transfers

Section 5.1. Stock Certificates and Transfers. (a) The interest of each stockholder of the Corporation shall be evidenced by certificates for shares of stock in such form as the appropriate officers of the Corporation may from time to time prescribed unless the Board shall by resolution provide that some or all or any class or series of stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until the certificate is surrendered to the Corporation. Notwithstanding the adoption of any resolution providing for uncertificated shares, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the Corporation by, the Chairman or Vice-Chairman, if any, of the Board, or the President or any Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, representing the number of shares registered in certificated form.

(b) The shares of the stock of the Corporation shall be transferred on the books of the Corporation by the holder thereof in person or by such person's attorney, upon surrender for cancellation of certificates for at least the same number of shares, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, with such proof of the authenticity of the signature as the Corporation or its agents may reasonably require. The certificates of stock shall be signed, countersigned and registered in such manner as the Board may by resolution prescribe, which resolution may permit all or any of the signatures on such certificates to be in facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 5.2. Lost, Stolen or Destroyed Certificates. No certificate for shares of stock in the Corporation shall be issued in place of any certificate alleged to have been lost, destroyed or stolen, except on production of such evidence of such loss, destruction or theft and on delivery to the Corporation of a bond of indemnity in such amount, upon such terms and secured by such surety, as the Board or any financial officer may in its or such person's discretion require.

ARTICLE VI
Miscellaneous Provisions

Section 6.1. Fiscal Year. The fiscal year of the Corporation shall begin on the first day of January and end on the thirty-first day of December of each year.

Section 6.2. Dividends. The Board may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by law and the Certificate of Incorporation.

Section 6.3. Seal. The corporate seal shall have inscribed thereon the words "Corporate Seal," the year of incorporation and around the margin thereof the words "Delaware."

Section 6.4. Waiver of Notice. Whenever any notice is required to be given to any stockholder or director of the Corporation under the provisions of the DGCL or these By-Laws, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at, nor the purpose of, any annual or special meeting of the stockholders or the Board or committee thereof need be specified in any waiver of notice of such meeting.

Section 6.5. Audits. The accounts, books and records of the Corporation shall be audited upon the conclusion of each fiscal year by an independent certified public accountant selected by the Board, and it shall be the duty of the Board to cause such audit to be done annually.

Section 6.6. Resignations. Any director or any officer, whether elected or appointed, may resign at any time by giving written notice of such resignation to the Chairman of the Board, the Chief Executive Officer, the President, or the Secretary.Any such resignation shall be deemed to be effective as of the close of business on the date said notice is received by the Chairman of the Board, the Chief Executive Officer, the President, or the Secretary, or at such later time as is specified therein. No formal action shall be required of the Board, any officer or the stockholders to make any such resignation effective.

ARTICLE VII
Contracts, Proxies, Etc.

Section 7.1. Contracts. Except as otherwise required by law, the Certificate of Incorporation, a Preferred Stock Designation, or these By-Laws, any contracts or other instruments may be executed and delivered in the name and on the behalf of the Corporation by such officer or officers of the Corporation as the Board may from time to time direct. Such authority may be general or confined to specific instances as the Board may determine. The Chief Executive Officer, the President or any Senior Vice President, Executive Vice President or Vice President may execute bonds, contracts, deeds, leases and other instruments to be made or executed for or on behalf of the Corporation. Subject to any restrictions imposed by the Board or the Chief Executive Officer, the President or any Senior Vice President, Executive Vice President or Vice President of the Corporation may delegate contractual powers to others under such person's jurisdiction, it being understood, however, that any such delegation of power shall not relieve such officer of responsibility with respect to the exercise of such delegated power.

Section 7.2. Proxies. Unless otherwise provided by resolution adopted by the Board, the Chief Executive Officer, the President, the Chief Financial Officer or any Senior Vice President, Executive Vice President or Vice President may from time to time appoint an attorney or attorneys or agent or agents of the Corporation, in the name and on behalf of the Corporation, to cast the votes which the Corporation may be entitled to cast as the holder of stock or other securities in any other corporation, any of whose stock or other securities may be held by the Corporation, at meetings of the holders of the stock or other securities of such other corporation, or to consent in writing, in the name of the Corporation as such holder, to any action by such other corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed in the name and on behalf of the Corporation and under its corporate seal or otherwise, all such written proxies or other instruments as he may deem necessary or proper in the premises.

ARTICLE VIII
Amendments

Section 8.1. Amendments. The By-Laws may be altered or repealed and new By-Laws may be adopted (1) at any annual or special meeting of stockholders by the affirmative vote of the holders of shares of Common Stock in accordance with Articles IV and VII of the Certificate of Incorporation; *provided, however,* that, in the case of any such stockholder action at a special meeting of stockholders, notice of the proposed alteration, repeal or adoption of the new By-Law or By-Laws must be contained in the notice of such special meeting, or (2) by the affirmative vote of a majority of the Whole Board.

Raytheon

Keith J. Peden
Senior Vice President
Human Resources
781.860.2380
781.860.2912 fax

Raytheon Company
Executive Offices
141 Spring Street
Lexington, Massachusetts
02421 USA

September 24, 2003

Mr. Francis S. Marchilena

Re: Transition Agreement

Dear Frank:

Please accept this letter confirming the understandings we have reached with respect to: (i) the lapse of restrictions on 20,146 shares of performance-based restricted stock; (ii) the lapse of restrictions on 50,000 shares of restricted stock that you have deferred into a trust at Mellon Bank; and (iii) your resignation as an officer and/or director of the companies set forth on Attachment A hereto.

1. Lapse of Restrictions on Performance-Based Restricted Stock: Subject to the approval of the Management Development and Compensation Committee of the Board of Directors of the Company (the "MDCC"), the Company will recognize that the performance goals related to the lapsing of restrictions on 20,146 shares of restricted stock have been met and the restrictions on such shares shall lapse on September 24, 2003. You have requested to use shares to satisfy any tax obligation that may arise when these shares vest on September 24, 2003.

2. Lapse of Restrictions on Deferred and Unvested Shares in Mellon Trust: You have elected to defer certain shares of restricted stock into a trust at Mellon Bank. Fifty thousand shares of such award remain unvested as of the date hereof. Twenty-five thousand shares of such award are scheduled to vest on January 26, 2004 in accordance with the vesting schedule established on the date of grant. As approved by the MDCC, the remaining 25,000 shares will vest on September 30, 2005.

3. Officer and Director Positions. You agree to resign, effective immediately, as an officer and/or director of the companies set forth on Attachment A hereto. You shall execute and return a resignation letter as evidence thereof.

4. Trading Window: You acknowledge that in the course of your responsibilities at the Company you may have come into contact with material non-public information and that you may be considered an "insider" for securities law purposes. You further acknowledge that you will continue to be subject to the Company's Insider Trading Policy and blackout periods and trading windows thereunder for three months following your resignation as an executive officer of the Company.

5. Pension: For purposes of calculation of your pension under the provisions of the Raytheon Company Pension Plan for Salaried Employees ("Plan"), you will receive age and service recognition as if you were an active participant in the Plan through September 30, 2005. For the purpose of calculating your final average earnings under the Plan, you will be treated as continuing as an active participant through September 30, 2005.

6. Miscellaneous. This letter shall constitute an amendment to your Transition Agreement dated July 31, 2002 (including but not limited to paragraph 5 thereunder). Except as set forth herein, all of the terms and conditions of your Transition Agreement shall remain in full force and effect and are hereby ratified and confirmed. To the extent that there are any inconsistent terms in your Transition Agreement and this Agreement, the terms of this Agreement shall take precedence.

If you have any questions regarding the above, please contact me at (781) 860-2380.

Sincerely,

/s/ Keith J. Peden

Keith J. Peden
Senior Vice President, Human Resources

ACCEPTED:

/s/ Francis S. Marchilena

Date: Oct. 22, 2003

Francis S. Marchilena

Attachment A

Directorships and Officerships as of September 24, 2003

Company	**Title**
Raytheon Canada Ltd.	Director and Chairman
Raytheon Systems Ltd.	Director
Thales-Raytheon Systems Company Limited	Director
Thales-Raytheon Systems Company SAS	Director
Raytheon Company	Executive Vice President Leader – Discontinued Operations

EXHIBIT 10.2

The Board of Directors, upon the recommendation of the Management Development and Compensation Committee, voted to amend the Employment Agreement between Raytheon Company and Jay B. Stephens, which was filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2002. Pursuant to the amendment, Mr. Stephens was added to the Schedule of Beneficiaries to the Raytheon Supplemental Executive Retirement Plan. Upon completion of five years of service with Raytheon, Mr. Stephens will receive an additional five years of pension credit and in the case of an involuntary termination, change of control, death or disability, Mr. Stephens will be treated as having ten years of service with Raytheon for purposes of any benefits provided by the Raytheon Supplemental Executive Retirement Plan. The amendment became effective during the third quarter.

EXHIBIT 10.3

FOURTH AMENDMENT TO FIVE-YEAR CREDIT AGREEMENT

FOURTH AMENDMENT, dated as of November 7, 2003 (this "Amendment"), to the FIVE-YEAR COMPETITIVE ADVANCE AND REVOLVING CREDIT AGREEMENT, dated as of November 28, 2001 (as amended by the First Amendment thereto, dated as of July 25, 2002, the Second Amendment thereto, dated as of November 25, 2002, and the Third Amendment thereto, dated as of July 18, 2003, the "Credit Agreement"), among RAYTHEON COMPANY, a Delaware corporation (the "Borrower"), RAYTHEON TECHNICAL SERVICES COMPANY, a Delaware corporation, 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., CREDIT SUISSE FIRST BOSTON and MIZUHO CORPORATE BANK, LIMITED (f/k/a MIZUHO FINANCIAL GROUP), 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 (Defined Terms). The definition of "Consolidated Net Income" appearing in Section 1.01 of the Credit Agreement is hereby amended by (i) deleting the word "and" appearing before the fifth clause thereof and by inserting, in lieu thereof, a comma and (ii) by adding to the end thereof, before the period mark, the following:

> " and (vi) for the fiscal quarter of Raytheon and its consolidated Subsidiaries ending September 28, 2003, such Consolidated Net Income shall be increased by an amount not to exceed $306,000,000 for such fiscal quarter, representing write-offs and charges to the extent recorded for such quarter in connection with the Network Centric Systems

business, the Technical Services business, and the discontinued operations of Raytheon Engineers and Constructors with respect to such fiscal quarter".

3. Waiver. The Required Lenders hereby waive compliance with Section 7.05(b) and any related Event of Default pursuant to paragraph (d) of Article VIII of the Credit Agreement through the date hereof solely to the extent that the failure to comply with such provisions is remedied by the amendment contained in Section 2 hereof with respect to the definition of "Consolidated Net Income".

4. 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 X of the Credit Agreement.

5. Conditions to Effectiveness. This Amendment shall become effective on the date (the "Amendment Effective Date") on which (i) the Borrower and the Required Lenders shall have executed and delivered this Amendment to the Administrative Agent and (ii) the Administrative Agent shall have received, for the account of each Required Lender executing this Amendment, an amendment fee equal to 0.03% of such Lender's Commitment.

6. 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 IV 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.

7. 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.

8. 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.

9. Severability; Headings. Any provision of this Amendment that 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.

10. 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.

11. 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: /s/ Richard A. Goglia

Name: Richard A. Goglia
Title: Vice President and Treasurer

RAYTHEON TECHNICAL SERVICES COMPANY,
as a Guarantor

By: /s/ Louis P. Laroche

Name: Louis P. Laroche
Title: Chief Financial Officer

RAYTHEON AIRCRAFT COMPANY,
as a Guarantor

By: /s/ Anthony F. O'Brien

Name: Anthony F. O'Brien
Title: Vice President and Chief Financial Officer

JPMORGAN CHASE BANK,
as Administrative Agent and as a Lender

By: /s/ Richard C. Smith

Name: Richard C. Smith
Title: Vice President

EXHIBIT 10.4

SECOND AMENDMENT TO 364-DAY CREDIT AGREEMENT

SECOND AMENDMENT, dated as of November 7, 2003 (this "Amendment"), to the 364-DAY COMPETITIVE ADVANCE AND REVOLVING CREDIT AGREEMENT, dated as of November 25, 2002 (as amended by the First Amendment thereto, dated as of July 18, 2003, the "Credit Agreement"), among RAYTHEON COMPANY, a Delaware corporation (the "Borrower"), RAYTHEON TECHNICAL SERVICES COMPANY, a Delaware corporation, 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 (Defined Terms). The definition of "Consolidated Net Income" appearing in Section 1.01 of the Credit Agreement is hereby amended (i) by deleting the word "and" appearing before the second clause thereof and by inserting, in lieu thereof, a comma and (ii) by adding to the end thereof, before the period mark, the following:

> "and (iii) for the fiscal quarter of Raytheon and its consolidated Subsidiaries ending September 28, 2003, such Consolidated Net Income shall be increased by an amount not to exceed $306,000,000 for such fiscal quarter, representing write-offs and charges to the extent recorded for such quarter in connection with the Network Centric Systems business, the Technical Services business, and the discontinued operations of Raytheon Engineers and Constructors with respect to such fiscal quarter".

3. Waiver. The Required Lenders hereby waive compliance with Section 6.05(b) and any related Event of Default pursuant to paragraph (d) of Article VII of the Credit Agreement through the date hereof solely to the extent that the failure to comply with such provisions is remedied by the amendment contained in Section 2 hereof with respect to the definition of "Consolidated Net Income".

4. 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.

5. Conditions to Effectiveness. This Amendment shall become effective on the date (the "Amendment Effective Date") on which the Borrower and the Required Lenders shall have executed and delivered this Amendment to the Administrative Agent.

6. 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.

7. 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.

8. 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. A set of the copies of this Amendment signed by all the parties shall be lodged with the Borrower and the Administrative Agent.

9. 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.

10. 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.

11. 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: /s/ Richard A. Goglia

Name: Richard A. Goglia
Title: Vice President and Treasurer

RAYTHEON TECHNICAL SERVICES COMPANY,
as a Guarantor

By: /s/ Louis P. Laroche

Name: Louis P. Laroche
Title: Chief Financial Officer

RAYTHEON AIRCRAFT COMPANY,
as a Guarantor

By: /s/ Anthony F. O'Brien

Name: Anthony F. O'Brien
Title: Vice President and Chief Financial Officer

JPMORGAN CHASE BANK,
as Administrative Agent and as a Lender

By: /s/ Richard C. Smith

Name: Richard C. Smith
Title: Vice President

Exhibit 31.1

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of Raytheon Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2003

/s/ WILLIAM H. SWANSON

William H. Swanson
Chief Executive Officer and President

Exhibit 31.2

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of Raytheon Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2003

/s/ EDWARD S. PLINER

Edward S. Pliner
Senior Vice President and
Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Raytheon Company (the “Company”) on Form 10-Q for the period ending September 28, 2003 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William H. Swanson, Chief Executive Officer and President 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
Chief Executive Officer and President

November 12, 2003

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.

<u>Exhibit 32.2</u>

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

In connection with the Quarterly Report of Raytheon Company (the “Company”) on Form 10-Q for the period ending September 28, 2003 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Edward S. Pliner, 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

November 12, 2003

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.