

**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 25, 2005

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from _____ to _____

Commission File Number 1-13699

RAYTHEON COMPANY

(Exact Name of Registrant as Specified in its Charter)

DELAWARE

*(State or Other Jurisdiction of
Incorporation or Organization)*

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

95-1778500

*(I.R.S. Employer
Identification No.)*

02451

(Zip Code)

(781) 522-3000

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock outstanding as of October 3, 2005: 446,723,000

RAYTHEON COMPANY
PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED FINANCIAL STATEMENTS
RAYTHEON COMPANY
BALANCE SHEETS (Unaudited)

	<u>Sept. 25, 2005</u>	<u>Dec. 31, 2004</u>
	(In millions)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 820	\$ 556
Accounts receivable, less allowance for doubtful accounts	452	478
Contracts in process	3,676	3,514
Inventories	2,014	1,745
Deferred federal and foreign income taxes	420	469
Prepaid expenses and other current assets	316	343
Assets from discontinued operations	15	19
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Total current assets	7,713	7,124
Property, plant, and equipment, net	2,591	2,738
Deferred federal and foreign income taxes	—	71
Goodwill	11,549	11,516
Other assets, net	2,471	2,704
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Total assets	<u>\$ 24,324</u>	<u>\$ 24,153</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Notes payable and current portion of long-term debt	\$ 472	\$ 516
Subordinated notes payable	408	—
Advance payments and billings in excess of costs incurred	2,056	1,900
Accounts payable	964	867
Accrued salaries and wages	968	934
Other accrued expenses	1,317	1,403
Liabilities from discontinued operations	29	24
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Total current liabilities	6,214	5,644
Accrued retiree benefits and other long-term liabilities	3,145	3,224
Deferred federal and foreign income taxes	150	—
Long-term debt	4,170	4,229
Subordinated notes payable	—	408
Minority interest	140	97
Stockholders' equity	10,505	10,551
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Total liabilities and stockholders' equity	<u>\$ 24,324</u>	<u>\$ 24,153</u>

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

RAYTHEON COMPANY

STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004	Sept. 25, 2005	Sept. 26, 2004
	(In millions, except per share amounts)			
Net sales	\$ 5,331	\$ 4,936	\$ 15,684	\$ 14,541
Cost of sales	4,445	4,129	13,053	12,242
Administrative and selling expenses	348	327	1,053	986
Research and development expenses	124	123	360	365
Total operating expenses	4,917	4,579	14,466	13,593
Operating income	414	357	1,218	948
Interest expense	79	100	237	326
Interest income	(14)	(11)	(38)	(33)
Other (income) expense, net	(4)	5	13	368
Non-operating expense, net	61	94	212	661
Income from continuing operations before income taxes	353	263	1,006	287
Federal and foreign income taxes	122	77	346	94
Income from continuing operations	231	186	660	193
Loss from discontinued operations, net of tax	(3)	(34)	(65)	(62)
Income before accounting change	228	152	595	131
Cumulative effect of change in accounting principle, net of tax	—	—	—	41
Net income	\$ 228	\$ 152	\$ 595	\$ 172
Earnings per share from continuing operations				
Basic	\$ 0.52	\$ 0.41	\$ 1.47	\$ 0.44
Diluted	\$ 0.51	\$ 0.41	\$ 1.45	\$ 0.44
Earnings per share				
Basic	\$ 0.51	\$ 0.34	\$ 1.33	\$ 0.40
Diluted	\$ 0.50	\$ 0.34	\$ 1.31	\$ 0.39
Dividends declared per share	\$ 0.22	\$ 0.20	\$ 0.66	\$ 0.60

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

RAYTHEON COMPANY

STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004
	(In millions)	
Cash flows from operating activities		
Income from continuing operations	\$ 660	\$ 193
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	327	321
Deferred federal and foreign income taxes	54	59
Net gain on sales of investments and operating units	—	(4)
Savings and investment plan activity	—	73
Decrease in accounts receivable	25	33
Change in contracts in process and advance payments and billings in excess of costs incurred	(17)	6
(Increase) decrease in inventories	(238)	7
Decrease (increase) in prepaid expenses and other current assets	27	(107)
Increase (decrease) in accounts payable	95	(8)
Increase in accrued salaries and wages	29	165
(Decrease) increase in other accrued expenses	(27)	119
Change in income taxes payable	236	49
Origination of financing receivables	(218)	(223)
Collection of financing receivables not sold	278	329
Sale of financing receivables	19	39
Pension and other adjustments, net	94	119
Net cash provided by operating activities from continuing operations	1,344	1,170
Net cash used in operating activities from discontinued operations	(56)	(32)
Net cash provided by operating activities	1,288	1,138
Cash flows from investing activities		
Purchase of short-term investments	—	(74)
Expenditures for property, plant, and equipment	(183)	(209)
Proceeds from sales of property, plant, and equipment	14	—
Capitalized expenditures for internal use software	(61)	(73)
Change in other assets	14	—
Payment for purchase of acquired companies	(99)	(70)
Activity related to investments and sales of operating units	7	4
Net cash used in investing activities	(308)	(422)
Cash flows from financing activities		
Dividends paid	(289)	(258)
Increase in short-term debt and other notes	387	6
Repayments of long-term debt	(480)	(579)
Repayments of subordinated notes payable	—	(428)
Issuance of common stock	—	867
Repurchase of common stock	(390)	—
Proceeds under common stock plans	56	64
Net cash used in financing activities	(716)	(328)
Net increase in cash and cash equivalents	264	388
Cash and cash equivalents at beginning of year	556	661
Cash and cash equivalents at end of period	\$ 820	\$ 1,049

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

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, 2004. The information furnished has been prepared from the accounts of the Company without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In the opinion of management, these financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the financial statements for the interim periods. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Certain prior year amounts have been reclassified to conform with the current year presentation.

2. Employee Stock Plans

In 2004, the Company established the Long-Term Performance Plan (LTPP), under the Company's 2001 Stock Plan, which provides awards of common stock to the Company's senior leadership when specific pre-established levels of Company performance are achieved over a three-year performance cycle. The performance goals for 2004 and 2005, which are independent of each other and equally weighted, are based on two metrics: free cash flow, as defined, and total shareholder return relative to a peer group, both over a three-year period. The ultimate award, which is determined at the end of the three-year performance cycle, can range from zero to 200 percent of the aggregate target award. The aggregate target awards outstanding at September 25, 2005 related to 2005 and 2004 were 478,000 shares and 577,500 shares, respectively.

The Company applies Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, in accounting for its stock-based compensation plans. Accordingly, no compensation expense has been recognized for the Company's stock option plans, however, stock-based compensation expense has been recorded for restricted stock and the LTTP. Had compensation expense for the Company's stock-based compensation been determined based on the fair value at the grant date for awards under these plans, consistent with the methodology prescribed by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, the Company's net income and earnings per share would have approximated the pro forma amounts indicated below:

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004	Sept. 25, 2005	Sept. 26, 2004
	(In millions, except per share amounts)			
Reported net income	\$ 228	\$ 152	\$ 595	\$ 172
Stock-based compensation expense included in reported net income, net of tax	11	5	27	9
Compensation expense determined under the fair value method for all stock-based awards, net of tax	(18)	(20)	(51)	(51)
Pro forma net income	\$ 221	\$ 137	\$ 571	\$ 130
Earnings per share (as reported): Basic	\$ 0.51	\$ 0.34	\$ 1.33	\$ 0.40
Diluted	\$ 0.50	\$ 0.34	\$ 1.31	\$ 0.39
Pro forma earnings per share: Basic	\$ 0.50	\$ 0.30	\$ 1.27	\$ 0.30
Diluted	\$ 0.49	\$ 0.30	\$ 1.26	\$ 0.30

The fair value of each stock option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004
Expected life	4 years	4 years
Assumed annual dividend growth rate	5%	—
Expected volatility	30%	35%
Assumed annual forfeiture rate	8%	8%

The risk free interest rate (month-end yields on 4-year treasury strips equivalent zero coupon) was 3.6% in the nine months ended September 25, 2005 and ranged from 2.4% to 3.6% in the nine months ended September 26, 2004.

3. Acquisitions and Divestitures

In August 2005, the Company acquired UTD, Inc. for \$39 million, net of cash received, subject to a purchase price adjustment. The preliminary purchase price allocation resulted in approximately \$38 million of goodwill (at Intelligence and Information Systems) in connection with this acquisition. Pro forma financial information has not been provided for this acquisition as it is not material.

In September 2005, Space Imaging signed an asset purchase agreement (APA) whereby substantially all of the assets of Space Imaging will be sold. The APA is contingent upon

certain government approvals. The Company has a note receivable and an investment in Space Imaging which the Company had written down to zero in 2002. Upon completion of the sale, the Company will receive proceeds of approximately \$25 million and record a gain in other income in connection with the repayment of the note.

In the first quarter of 2005, the Company paid the third and final installment of \$60 million related to the 2003 acquisition of Solypsis Corporation.

4. Inventories

Inventories consisted of the following at:

	<u>Sept. 25, 2005</u>	<u>Dec. 31, 2004</u>
	(In millions)	
Finished goods	\$ 562	\$ 553
Work in process	1,224	938
Materials and purchased parts	228	254
	<u>2,014</u>	<u>1,745</u>
Total	<u>\$ 2,014</u>	<u>\$ 1,745</u>

Inventories at Raytheon Aircraft, Raytheon Airline Aviation Services, and Flight Options totaled \$1,683 million at September 25, 2005 (consisting of \$545 million of finished goods, \$961 million of work in process, and \$177 million of materials and purchased parts) and \$1,420 million at December 31, 2004 (consisting of \$537 million of finished goods, \$681 million of work in process, and \$202 million of materials and purchased parts).

The Company uses lot accounting for new commercial aircraft introductions at Raytheon Aircraft. The size of the initial lot for the Beechcraft Premier I and the Hawker Horizon is 200 and 75 units, respectively. Costs incurred on in-process and delivered aircraft in excess of the estimated average cost were included in inventories and totaled \$74 million and \$89 million on Premier and \$104 million and \$90 million on Horizon at September 25, 2005 and December 31, 2004, respectively.

General and program specific manufacturing equipment and tooling at Raytheon Aircraft are included in property, plant, and equipment. There were \$195 million and \$205 million, net, of program specific manufacturing equipment and tooling related to Premier and Horizon at September 25, 2005 and December 31, 2004, respectively.

5. Product Warranty

Costs recorded for warranty provisions associated with long-term contracts are accounted for as contract costs as the work is performed. The estimates for future expected warranty services are an integral part of the total cost components considered in the process used to determine the pricing of the Company's products and services.

Warranty provisions related to commercial aircraft sales are determined based upon an estimate of costs that may be incurred for warranty services and other post-sales support programs. Activity related to aircraft warranty accruals was as follows:

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004	Sept. 25, 2005	Sept. 26, 2004
	(In millions)			
Balance at beginning of period	\$ 40	\$ 27	\$ 38	\$ 29
Provisions for aircraft deliveries	8	8	21	20
Warranty services provided	(6)	(6)	(17)	(20)
Balance at end of period	\$ 42	\$ 29	\$ 42	\$ 29

6. Notes Payable and Long-term Debt

In the three and nine months ended September 26, 2004, the Company repurchased long-term debt with a par value of \$115 million and \$583 million, respectively, at a loss of \$9 million pretax and \$19 million pretax, respectively, which were included as a non-operating item in other expense.

After the end of the third quarter of 2005, the Company initiated a call to repurchase \$196 million of its 7.375 percent notes due July 15, 2025 at a loss of approximately \$10 million.

7. Equity Security Units

In the nine months ended September 26, 2004, in accordance with the terms of the Company's equity security units, the Company received proceeds of \$863 million and issued 27.0 million shares of common stock.

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

The subordinated notes payable (\$408 million at September 25, 2005 and December 31, 2004), which are due on May 15, 2006, have the same terms as the mandatorily redeemable equity security which represent an undivided interest in the assets of RCTI, a Delaware business trust formed for the purpose of issuing these securities and whose assets consist solely of subordinated notes receivable issued by the Company. In the three and nine months ended September 26, 2004, mandatorily redeemable equity securities with a par value of \$22 million and \$431 million, respectively, were repurchased at a loss of \$1 million pretax and \$28 million pretax, respectively, which were included in other expense. As a result of these repurchases, the Company's subordinated notes payable declined by the same amount.

8. Stockholders' Equity

Stockholders' equity consisted of the following at:

	Sept. 25, 2005	Dec. 31, 2004
	(In millions)	
Preferred stock, no outstanding shares	\$ —	\$ —
Common stock, outstanding shares	4	5
Additional paid-in capital	9,694	9,540
Unearned compensation	(103)	(60)
Accumulated other comprehensive income	(1,982)	(1,919)
Treasury stock, at cost	(405)	(13)
Retained earnings	3,297	2,998
Total	\$ 10,505	\$ 10,551

On November 30, 2004, the Board of Directors authorized the repurchase, between January 1, 2005 and December 31, 2006, of up to \$700 million of the Company's outstanding common stock. In the nine months ended September 25, 2005, the Company repurchased 10.0 million shares of common stock for \$390 million under this program.

Savings and investment plan activity includes certain items related to the Company's 401(k) plan that were funded through the issuance of the Company's common stock and are non-cash operating activities included on the 2004 statement of cash flows. During the nine months ended September 26, 2004, the Company issued 2.5 million shares of common stock related to its savings and investment plans. In 2005, these items were funded by cash.

In the nine months ended September 25, 2005 and September 26, 2004, the Company issued 4.0 and 4.4 million shares of common stock in connection with stock plan activity, respectively.

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

	(In millions)
Balance at December 31, 2004	453.1
Common stock plan activity	4.0
Treasury stock activity	(10.0)
Balance at September 25, 2005	447.1

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

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004	Sept. 25, 2005	Sept. 26, 2004
	(In thousands)			
Average common shares outstanding for basic EPS	445,582	449,181	448,411	434,119
Dilutive effect of stock options, restricted stock, LTTP, restricted units, and equity security units	6,541	4,363	6,004	3,203
Shares for diluted EPS	452,123	453,544	454,415	437,322

Stock options to purchase 16.6 million and 18.9 million shares of common stock in the three months ended September 25, 2005 and September 26, 2004, respectively, and options to purchase 16.8 million and 19.3 million shares of common stock in the nine months ended September 25, 2005 and September 26, 2004, respectively, were excluded from 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 17.9 million and 20.6 million shares of common stock in the three months ended September 25, 2005 and September 26, 2004, respectively, and options to purchase 17.8 million and 20.1 million shares of common stock in the nine months ended September 25, 2005 and September 26, 2004, 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, LTTP, restricted units, 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, and unrealized gains and losses on effective cash flow hedges. The computation of comprehensive income was as follows:

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004	Sept. 25, 2005	Sept. 26, 2004
	(In millions)			
Net income	\$ 228	\$ 152	\$ 595	\$ 172
Other comprehensive income (loss)	(10)	9	(63)	17
Comprehensive income	\$ 218	\$ 161	\$ 532	\$ 189

9. Federal and Foreign Income Taxes

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions.

The Company is currently under examination by the Internal Revenue Service (IRS) for the years 1998 through 2002. IRS examinations have been completed for tax years through 1997. The Company has protested certain positions taken by the IRS examination team on certain items related to the years 1995 through 1997 and those items are now being considered by the Appeals Division (Appeals) of the IRS.

In addition, the Company's federal research tax credit refund claim for the years 1984 through 1990 remains under examination, and certain items regarding the Company's Foreign Sales Corporation (FSC) benefit for the years 1989 through 1997 are also at Appeals. The Company believes adequate provisions for all outstanding issues have been made for all open years.

Amounts accrued for potential tax assessments are primarily recorded in non-current deferred tax liabilities and totaled \$253 million and \$225 million at September 25, 2005 and December 31, 2004, respectively. Accruals relate to tax issues for U.S. federal taxes and taxation of foreign earnings and include accruals associated with items such as the tax benefits from the FSC and Extraterritorial Income (ETI) regimes, the amount of research tax credits, allocation of income among various tax jurisdictions, issues related to various acquisitions and divestitures, and various other federal and foreign tax issues. Amounts asserted by taxing authorities could be greater than the Company's accrued position. Accordingly, additional provisions on federal and foreign tax related matters could be recorded in the future as revised estimates are made or the underlying matters are settled.

The American Jobs Creation Act of 2004 (the "Act") repealed and provided transitional relief for the ETI regime for transactions after December 31, 2004. The Act also provides a deduction for income derived from qualifying domestic production activities; which will be phased in over a five-year period at rates of 3% in 2005 and 2006, 6% in 2007, 2008, and 2009, and 9% thereafter. The introduction of legislation proposing a technical correction to the Act accompanied by language in recently issued proposed regulations consistent with the technical correction have substantially diminished concerns existing in prior periods that U.S. government contractors might be denied full benefits under the domestic production activities incentive.

In addition, the Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing a deduction for certain dividends from controlled foreign corporations equivalent to 85 percent of the dividends received. The Company recorded a \$5 million tax expense in the three months ended September 25, 2005, in connection with a planned repatriation of up to \$115 million to be undertaken pursuant to the Act.

10. Pension and Other Employee Benefits

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

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

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004	Sept. 25, 2005	Sept. 26, 2004
	(In millions)			
Service cost	\$ 96	\$ 85	\$ 288	\$ 255
Interest cost	208	204	624	612
Expected return on plan assets	(228)	(215)	(684)	(646)
Amortization of prior service cost	5	4	15	13
Recognized net actuarial loss	122	106	366	318
Special termination benefit recognized	2	—	2	—
Net periodic benefit cost	\$ 205	\$ 184	\$ 611	\$ 552

The Company's net periodic benefit cost also includes expense from foreign pension plans of \$8 million in the three months ended September 25, 2005 and September 26, 2004 and \$24 million and \$23 million in the nine months ended September 25, 2005 and September 26, 2004, respectively.

The Company expects total contributions (required and discretionary) to the Pension Benefits plans to be approximately \$515 million in 2005. In the nine months ended September 25, 2005 and September 26, 2004, the Company contributed to its pension plans approximately \$460 million and \$350 million, respectively.

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

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004	Sept. 25, 2005	Sept. 26, 2004
	(In millions)			
Service cost	\$ 4	\$ 4	\$ 11	\$ 12
Interest cost	18	22	56	71
Expected return on plan assets	(9)	(7)	(28)	(22)
Amortization of transition asset	2	2	6	14
Amortization of prior service cost	(13)	(13)	(39)	(38)
Recognized net actuarial loss	8	12	24	36
Net periodic benefit cost	\$ 10	\$ 20	\$ 30	\$ 73

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

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

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

Benefits and Other Benefit plans more appropriately reflects the plans' financial status for the years then ended.

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

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004	Sept. 25, 2005	Sept. 26, 2004
	(In millions, except per share amounts)			
Reported income before accounting change	\$ 228	\$ 152	\$ 595	\$ 131
Change in accounting principle, net of tax	—	—	—	—
Adjusted income before accounting change	\$ 228	\$ 152	\$ 595	\$ 131
Basic EPS before accounting change	\$ 0.51	\$ 0.34	\$ 1.33	\$ 0.30
Change in accounting principle, net of tax	—	—	—	—
Adjusted basic EPS before accounting change	\$ 0.51	\$ 0.34	\$ 1.33	\$ 0.30
Diluted EPS before accounting change	\$ 0.50	\$ 0.34	\$ 1.31	\$ 0.30
Change in accounting principle, net of tax	—	—	—	—
Adjusted diluted EPS before accounting change	\$ 0.50	\$ 0.34	\$ 1.31	\$ 0.30

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

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004	Sept. 25, 2005	Sept. 26, 2004
	(In millions, except per share amounts)			
Reported net income	\$ 228	\$ 152	\$ 595	\$ 172
Change in accounting principle, net of tax	—	—	—	(41)
Adjusted net income	\$ 228	\$ 152	\$ 595	\$ 131
Reported basic EPS	\$ 0.51	\$ 0.34	\$ 1.33	\$ 0.40
Change in accounting principle, net of tax	—	—	—	(0.10)
Adjusted basic EPS	\$ 0.51	\$ 0.34	\$ 1.33	\$ 0.30
Reported diluted EPS	\$ 0.50	\$ 0.34	\$ 1.31	\$ 0.39
Change in accounting principle, net of tax	—	—	—	(0.09)
Adjusted diluted EPS	\$ 0.50	\$ 0.34	\$ 1.31	\$ 0.30

11. Business Segment Reporting

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

Company-wide accruals and intersegment sales and profit eliminations. In 2005, certain programs within Intelligence and Information Systems, Network Centric Systems, and Technical Services were realigned within those same segments. Information for all prior periods presented was restated to reflect these changes.

Segment financial results were as follows:

	Net Sales Three Months Ended		Net Sales Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004	Sept. 25, 2005	Sept. 26, 2004
	(In millions)			
Integrated Defense Systems	\$ 919	\$ 833	\$ 2,765	\$ 2,542
Intelligence and Information Systems	649	597	1,821	1,704
Missile Systems	1,005	928	3,002	2,832
Network Centric Systems	833	764	2,399	2,226
Space and Airborne Systems	1,013	929	3,030	2,927
Technical Services	479	489	1,455	1,417
Aircraft	642	624	1,771	1,568
Other	185	164	566	492
Corporate and Eliminations	(394)	(392)	(1,125)	(1,167)
Total	\$ 5,331	\$ 4,936	\$ 15,684	\$ 14,541
Defense businesses after eliminations	\$ 4,504	\$ 4,148	\$ 13,347	\$ 12,481

Intersegment sales in the three months ended September 25, 2005 and September 26, 2004, respectively, included \$28 million and \$27 million for Integrated Defense Systems, \$8 million and \$7 million for Intelligence and Information Systems, \$6 million and \$3 million for Missile Systems, \$104 million and \$113 million for Network Centric Systems, \$125 million and \$113 million for Space and Airborne Systems, and \$123 million and \$129 million for Technical Services. Aircraft net sales do not include intersegment aircraft, parts, and service sales to Flight Options of \$28 million and \$21 million in the three months ended September 25, 2005 and September 26, 2004, respectively.

Intersegment sales in the nine months ended September 25, 2005 and September 26, 2004, respectively, included \$70 million and \$97 million for Integrated Defense Systems, \$23 million and \$30 million for Intelligence and Information Systems, \$20 million and \$10 million for Missile Systems, \$281 million and \$332 million for Network Centric Systems, \$344 million and \$311 million for Space and Airborne Systems, and \$387 million and \$387 million for Technical Services. Aircraft net sales do not include intersegment aircraft, parts, and service sales to Flight Options of \$73 million and \$100 million in the nine months ended September 25, 2005 and September 26, 2004, respectively.

	Operating Income Three Months Ended		Operating Income Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004	Sept. 25, 2005	Sept. 26, 2004
	(In millions)			
Integrated Defense Systems	\$ 134	\$ 100	\$ 394	\$ 298
Intelligence and Information Systems	57	53	166	150
Missile Systems	104	109	313	322
Network Centric Systems	87	64	244	182
Space and Airborne Systems	143	138	444	409
Technical Services	38	38	107	104
Aircraft	34	21	69	16
Other	(25)	(7)	(66)	(29)
FAS/CAS Pension Adjustment	(117)	(117)	(349)	(356)
Corporate and Eliminations	(41)	(42)	(104)	(148)
Total	\$ 414	\$ 357	\$ 1,218	\$ 948
Defense businesses after eliminations	\$ 527	\$ 468	\$ 1,569	\$ 1,366

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

The following table reconciles operating income to income from continuing operations before taxes:

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004	Sept. 25, 2005	Sept. 26, 2004
	(In millions)			
Operating income	\$ 414	\$ 357	\$ 1,218	\$ 948
Non-operating expense, net	(61)	(94)	(212)	(661)
Income from continuing operations before taxes	\$ 353	\$ 263	\$ 1,006	\$ 287

	Operating Margin Three Months Ended		Operating Margin Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004	Sept. 25, 2005	Sept. 26, 2004
	(In millions)			
Integrated Defense Systems	14.6%	12.0%	14.2%	11.7%
Intelligence and Information Systems	8.8	8.9	9.1	8.8
Missile Systems	10.3	11.7	10.4	11.4
Network Centric Systems	10.4	8.4	10.2	8.2
Space and Airborne Systems	14.1	14.9	14.7	14.0
Technical Services	7.9	7.8	7.4	7.3
Aircraft	5.3	3.4	3.9	1.0
Other	(13.5)	(4.3)	(11.7)	(5.9)
FAS/CAS Pension Adjustment				
Corporate and Eliminations				
Total	7.8%	7.2%	7.8%	6.5%
Defense businesses after eliminations	11.7%	11.3%	11.8%	10.9%

	Free Cash Flow Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004
	(In millions)	
Integrated Defense Systems	\$ 275	\$ 273
Intelligence and Information Systems	63	112
Missile Systems	298	220
Network Centric Systems	217	67
Space and Airborne Systems	20	157
Technical Services	72	20
Aircraft	(82)	133
Other	42	(37)
Corporate	195	(57)
Total	\$ 1,100	\$ 888
Government and defense businesses	\$ 945	\$ 849

Corporate free cash flow includes the difference between amounts charged to the segments for interest and taxes on an intercompany basis and the amounts actually paid by the Company. Also included in Corporate free cash flow in the nine months ended September 26, 2004 was a \$210 million payment in connection with the settlement of a class action lawsuit.

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

	Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004
	(In millions)	
Free cash flow	\$ 1,100	\$ 888
Plus: Expenditures for property, plant, and equipment	183	209
Capitalized expenditures for internal use software	61	73
Net cash provided by operating activities from continuing operations	\$ 1,344	\$ 1,170

	Identifiable Assets	
	Sept. 25, 2005	Dec. 31, 2004
	(In millions)	
Integrated Defense Systems	\$ 1,745	\$ 1,756
Intelligence and Information Systems	1,979	1,916
Missile Systems	4,675	4,598
Network Centric Systems	3,728	3,755
Space and Airborne Systems	4,315	4,223
Technical Services	1,332	1,379
Aircraft	2,469	2,327
Other	1,238	1,235
Corporate	2,828	2,945
Discontinued Operations	15	19
Total	\$ 24,324	\$ 24,153

Sayreville, NJ, and there is a dispute between the Company and AES Red Oak LLC regarding the closeout of this project. The letter of credit was provided to AES Red Oak LLC in 2002 in lieu of the owner withholding retainage from periodic construction milestone payments.

The Company recorded net charges of \$3 million and \$7 million pretax in the three months ended September 25, 2005 and September 26, 2004, respectively, and \$58 million and \$39 million in the nine months ended September 25, 2005 and September 26, 2004, respectively, for program management, legal, and other costs related to RE&C. Included in the nine months ended September 26, 2005, was a \$39 million charge for the settlement of a class action lawsuit related to the sale of RE&C to WGI as discussed in Note 14, Commitments and Contingencies. This charge does not reflect any insurance proceeds. In September 2005, the Company reached a tentative agreement with its insurance carriers under which the Company will receive approximately \$28 million towards the settlement and related expenses. The agreement is expected to be finalized and the settlement amount paid by the carriers in the fourth quarter of 2005. The Company will record the \$28 million as income from discontinued operations upon final settlement.

In the nine months ended September 25, 2005 and September 26, 2004, the Company also recorded after-tax charges of \$23 million and \$24 million respectively, for an estimated liability for foreign tax-related matters. Although not expected to be material, additional losses on foreign tax-related matters could be recorded in the future as estimates are revised or the underlying matters are settled.

Liabilities from discontinued operations included net current liabilities related to RE&C of \$25 million and \$17 million at September 25, 2005 and December 31, 2004, respectively.

In 2002, the Company sold its Aircraft Integration Systems business (AIS) for \$1,123 million, net, subject to purchase price adjustments. The Company is currently involved in a purchase price dispute related to the sale of AIS in which the purchaser has claimed a purchase price adjustment of \$85 million. The Company disputes this claim and expects the matter to be resolved in arbitration in January 2006. As part of the transaction, the Company retained the responsibility for performance of the Boeing Business Jet (BBJ) program and retained certain assets related to the BBJ program, which is now essentially complete.

The Company recorded charges related to AIS of \$2 million and \$9 million in the three months ended September 25, 2005 and September 26, 2004, respectively, and \$6 million and \$20 million in the nine months ended September 25, 2005 and September 26, 2004, respectively, primarily related to the BBJ program.

Assets and liabilities related to AIS included net current assets of \$15 million and \$19 million at September 25, 2005 and December 31, 2004, respectively, and net current liabilities of \$4 million and \$7 million at September 25, 2005 and December 31, 2004, respectively.

In the three months ended September 25, 2005, the total loss from discontinued operations was \$5 million pretax, \$3 million after-tax, or \$0.01 per basic and diluted share versus \$16 million pretax, \$34 million after-tax, or \$0.08 per basic and \$0.07 per diluted share in the three months ended September 26, 2004.

In the nine months ended September 25, 2005, the total loss from discontinued operations was \$64 million pretax, \$65 million after-tax, or \$0.14 per basic and diluted share versus \$59 million pretax, \$62 million after-tax, or \$0.14 per basic and diluted share in the nine months ended September 26, 2004.

14. Commitments and Contingencies

The Company is involved in various stages of investigation and cleanup related to remediation of various environmental sites. The Company's estimate of total environmental remediation costs expected to be incurred is \$129 million. Discounted at a weighted-average risk-free rate of 5.8 percent, the Company estimates the liability to be \$98 million before U.S. government recovery and had this amount accrued at September 25, 2005. 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 government contracting regulations and the Company's long history of receiving reimbursement for such costs. Accordingly, the Company has recorded \$54 million at September 25, 2005 for the estimated future recovery of these costs from the U.S. government, which is included in contracts in process. The Company leases certain government-owned properties and is generally not liable for environmental remediation at these sites, therefore, no provision has been made in the financial statements for these costs. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative cleanup methods and technologies, the uncertainty of insurance coverage, and the unresolved extent of the Company's responsibility, it is difficult to determine the ultimate outcome of these matters, however, any additional liability is not expected to have a material adverse effect on the Company's financial position, results of operations, or liquidity.

The Company issues guarantees and has banks and surety companies issue, on its behalf, letters of credit and surety bonds to meet various bid, performance, warranty, retention, and advance payment obligations of the Company or its affiliates. Approximately \$321 million, \$804 million, and \$78 million of these guarantees, letters of credit, and surety bonds, for which there were stated values, were outstanding at September 25, 2005, respectively, and \$294 million, \$827 million, and \$250 million were outstanding at December 31, 2004, respectively. These instruments expire on various dates through 2015. Included in guarantees and letters of credit above was \$74 million and \$151 million at September 25, 2005, respectively and \$43 million and \$153 million at December 31, 2004, respectively related to the Company's joint venture in Thales-Raytheon Systems. Also included in guarantees, letters of credit, and surety bonds above was \$94 million, \$8 million, and \$62 million at September 25, 2005, respectively and \$94 million, \$9 million, and \$234 million at December 31, 2004, respectively related to discontinued operations. Additional guarantees of project performance for which there is no stated value also remain outstanding.

The customers of Flight Options (FO), 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 \$600 million at September 25, 2005.

In 1997, the Company provided a first loss guarantee, which remains outstanding, of \$133 million on \$1.3 billion of U.S. Export-Import Bank loans (maturing in 2015) to the

Brazilian government related to the System for the Vigilance of the Amazon (SIVAM) program being performed by Network Centric Systems.

The Company's Other segment results were primarily comprised of the operations of FO. The higher losses in 2005 are due to increased supplemental lift expense due to the operational impacts primarily from older aircraft in the fleet, and customer demand. The older aircraft in the fleet are being retired and replaced by newer aircraft over the next five years. FO is also taking action to reduce the number of different types of aircraft in its fleet from twelve to four and in the interim to reduce current operating costs. Although FO management believes that these actions will result in improved financial results, there can be no assurance that these actions will have the expected effect.

In the three months ended September 25, 2005, the Company made a \$50 million equity contribution to FO. Substantially all of these funds were used to retire intercompany debt and intercompany accounts payable. As a result of this equity contribution the Company now owns approximately 97 percent of FO. The Company is recording 100 percent of FO's losses and is funding all of FO's cash requirements. At September 25, 2005, the balance of FO's external debt (capital leases) was \$48 million. The Company's net investment in FO, including intercompany debt and equity increased by \$1 million in the three months ended September 25, 2005, to approximately \$190 million. If losses at FO were to continue over the longer-term the Company's investment in FO could become impaired.

The minority equity owners have objected to the \$50 million equity contribution made in the three months ended September 25, 2005, which diluted their equity interest to approximately three percent. In addition the minority equity owners have sought to effect a merger of affiliates of FO and the minority equity owners where FO would assume certain liabilities and contingencies. This merger is required only in circumstances where the liabilities and contingencies assumed have a fair value not greater than \$25 million at the time of the merger. The Company has not agreed that the conditions for the merger have been satisfied and the merger is the subject of ongoing discussions among FO, the Company, and the minority equity owners. In October 2005, FO settled a lawsuit and recorded a charge of \$7 million in the three months ended September 25, 2005 related to one of these contingencies.

Defense contractors are subject to many levels of audit and investigation. Agencies that oversee contract performance include: the Defense Contract Audit Agency, the Department of Defense Inspector General, the Government Accountability Office, the Department of Justice, and Congressional Committees. The Department of Justice, from time to time, has convened grand juries to investigate possible irregularities by the Company. Individually and in the aggregate, these investigations are not expected to have a material adverse effect on the Company's financial position, results of operations, or liquidity. Raytheon Aircraft is also subject to oversight by the Federal Aviation Administration (the "FAA"). The FAA routinely evaluates aircraft operational and safety requirements and is responsible for certification of new and modified aircraft. Future action by the FAA may adversely affect Raytheon Aircraft's financial position, results of operations, and liquidity, including recovery of its investment in its newer aircraft.

As previously reported, the Company has been cooperating with the staff of the Securities and Exchange Commission (the "SEC") in a formal investigation into the Company's

disclosure and accounting practices, primarily related to the commuter aircraft business and the timing of revenue recognition at Raytheon Aircraft during the period from 1997 to 2001.

On April 15, 2005, the Company announced that it had submitted an offer of settlement to the staff of the SEC, which the staff agreed to recommend to the SEC. The Company, without admitting or denying any wrongdoing, offered to pay a civil penalty of \$12 million and consent to the entry of a cease and desist order with respect to violations of Sections 17(a)(2)-(3) of the Securities Act of 1933 and Sections 13(a) and 13(b)(2)(A)-(B) of the Securities Exchange Act of 1934, and related SEC rules. The proposed settlement is subject to approval by the SEC.

The SEC continues to investigate two of the Company's employees in connection with this matter, including the individual who served as the Company's Chief Financial Officer from December 2002 until April 15, 2005. Both individuals have been placed on administrative leave.

In May 2004, without admitting any liability or wrongdoing, the Company reached an agreement to settle a securities class action lawsuit originally filed in 1999 on behalf of the Company and all individual defendants. The terms of the settlement include a cash payment of \$210 million and the issuance of warrants for the Company's stock with a stipulated value of \$200 million. The warrants will have a five-year term with a strike price of \$37.50 and will be issued when the settlement proceeds are distributed to the claimants which is expected to occur in 2005 or 2006. In December 2004, the court approved the settlement, resolving all claims asserted against the Company and the individual defendants. In connection with the settlement, the Company recorded a charge of \$329 million in the three months ended June 27, 2004, of which \$325 million was included in other expense, a \$410 million accrued expense, and an \$85 million receivable for insurance proceeds primarily related to this settlement. The charge for the settlement will be revised to reflect the actual fair value of the warrants upon issuance. In September 2004, the Company paid \$210 million into escrow in connection with the settlement. At September 25, 2005, the insurance receivable balance was \$74 million and is expected to be paid in 2005. In July 2004, without admitting any liability or wrongdoing, the Company and the individual defendants reached an agreement to settle a derivative action related to this class action lawsuit for \$4 million. The settlement, which was approved by the court in July 2005, resolves all claims in the case.

In May 2005, without admitting any liability or wrongdoing, the Company and individual defendants reached an agreement to settle a class action lawsuit originally filed in 2001. The settlement, which was approved by the court in July 2005, includes a cash payment by the Company of \$39 million, which the Company accrued in the three months ended March 27, 2005, and will resolve all claims in the case. In May 2005, the Company paid \$39 million into escrow in connection with the settlement. In September 2005, the Company reached a tentative agreement with its insurance carriers under which the Company will receive approximately \$28 million towards the settlement and related expenses. The agreement is expected to be finalized and the settlement amount paid by the carriers in the fourth quarter of 2005. In November 2004, without admitting any liability or wrongdoing, the individual defendants and the Company reached a tentative agreement to settle a derivative action related to this class action lawsuit for \$2 million. The settlement, which was approved by the court in September 2005, resolves all claims in the case.

In May 2003, two purported class action lawsuits were filed on behalf of participants in the Company's savings and investment plans who invested in the Company's stock between August 19, 1999 and May 27, 2003. The two class action complaints are brought pursuant to the Employee Retirement Income Security Act (ERISA). Both lawsuits are substantially similar and have been consolidated into a single action. In April 2004, a second consolidated amended complaint (the "Second Consolidated Amended ERISA Complaint") was filed on behalf of participants and beneficiaries in the Company's savings and investment plans who invested in the Company's stock since October 7, 1998. The Second Consolidated Amended ERISA Complaint alleges that the Company, its Pension and Investment Group, and its Investment Committee breached ERISA fiduciary duties by failing to: (1) prudently and loyally manage plan assets, (2) monitor the Pension and Investment Group and the Investment Committee and provide them with accurate information, (3) provide complete and accurate information to plan participants and beneficiaries, and (4) avoid conflicts of interest. In October 2004, the defendants filed a motion to dismiss the Second Consolidated Amended ERISA Complaint. In September 2005, the court denied the motion to dismiss without prejudice to re-file the motion after the completion of further discovery conducted by the parties. Although the Company believes that it and the other defendants have meritorious defenses and intends to contest this lawsuit vigorously, an adverse resolution of this lawsuit could have a material adverse effect on the Company's financial position, results of operations, and liquidity. The Company is not presently able to reasonably estimate potential losses, if any, related to this lawsuit.

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 or potential range of loss, if any, from these proceedings is presently indeterminable, any additional liability is not expected to have a material adverse effect on the Company's financial position, results of operations, or liquidity.

15. Accounting Standards

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 (FIN 47). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The effect of adopting FIN 47 on the Company's financial position and results of operations has not yet been determined.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payments (SFAS No. 123R). SFAS No. 123R requires the recognition of compensation expense related to stock options under SFAS No. 123, Accounting for Stock-Based Compensation. In April 2005, the effective date for this accounting standard was deferred until the first annual period beginning after June 15, 2005. The Company expects to adopt SFAS No. 123R prospectively in the first quarter of 2006 with an anticipated impact to earnings per share of less than \$0.02 per share for the year 2006.

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

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

Consolidated Results of Operations – Third Quarter 2005 Compared with Third Quarter 2004

Net sales were \$5.3 billion in the third quarter of 2005 versus \$4.9 billion in the third quarter of 2004. The increase in sales was due to higher U.S. government expenditures in the Company's defense businesses. Total sales to the U.S. Department of Defense (DoD) were 68 percent of sales in the third quarter of 2005 and 2004. Total sales to the U.S. government, including foreign military sales, were 75 percent of sales in the third quarter of 2005 versus 74 percent in the third quarter of 2004. Total international sales, including foreign military sales, were \$1,078 million or 20 percent of sales in the third quarter of 2005 versus \$873 million or 18 percent of sales in the third quarter of 2004.

Gross margin, net sales less cost of sales, in the third quarter of 2005 was \$886 million or 16.6 percent of sales versus \$807 million or 16.3 percent of sales in the third quarter of 2004. Included in gross margin was a FAS/CAS Pension Adjustment, described below, of \$117 million of expense in the third quarter of 2005 and 2004.

Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions (SFAS No. 87), outlines the methodology used to determine pension expense or income for financial reporting purposes, which is not necessarily indicative of the funding requirements of pension plans, which are determined by other factors. A major factor in determining pension funding requirements are Cost Accounting Standards (CAS) that proscribe the allocation to and recovery of pension costs on U.S. government contracts. The difference between SFAS No. 87 (FAS) pension expense or income and CAS pension expense is reported as a separate line item in the Company's segment results called FAS/CAS Pension Adjustment. The results for each segment only include pension expense as determined under CAS, which can generally be recovered through the pricing of products and services to the U.S. government.

Administrative and selling expenses were \$348 million or 6.5 percent of sales in the third quarter of 2005 versus \$327 million or 6.6 percent of sales in the third quarter of 2004.

Research and development expenses were \$124 million or 2.3 percent of sales in the third quarter of 2005 versus \$123 million or 2.5 percent of sales in the third quarter of 2004.

Operating income was \$414 million or 7.8 percent of sales in the third quarter of 2005 versus \$357 million or 7.2 percent of sales in the third quarter of 2004. The changes in operating income by segment are discussed below.

Interest expense in the third quarter of 2005 was \$79 million versus \$100 million in the third quarter of 2004. The decrease in interest expense in the third quarter of 2005 was primarily due to lower average debt.

Other income, net in the third quarter of 2005 was \$4 million versus other expense, net of \$5 million in the third quarter of 2004.

The effective tax rate was 34.6 percent and 29.3 percent in the third quarter of 2005 and 2004, respectively reflecting the U.S. statutory rate of 35 percent reduced by ESOP dividend deductions, export-related tax benefits, and research and development tax credits applicable to certain government contracts. Included in the effective tax rate in the third quarter of 2005 was a \$5 million accrual related to the expected repatriation of earnings from foreign subsidiaries.

Income from continuing operations was \$231 million in the third quarter of 2005, or \$0.51 per diluted share on 452.1 million average shares outstanding versus income from continuing operations of \$186 million in the third quarter of 2004, or \$0.41 per diluted share on 453.5 million average shares outstanding.

The loss from discontinued operations, described below in Discontinued Operations, was \$3 million after-tax, or \$0.01 per diluted share in the third quarter of 2005 versus \$34 million after-tax, or \$0.07 per diluted share in the third quarter of 2004.

Net income in the third quarter of 2005 was \$228 million, or \$0.50 per diluted share versus net income of \$152 million, or \$0.34 per diluted share in the third quarter of 2004.

Segment Results

Integrated Defense Systems had sales of \$919 million in the third quarter of 2005 versus \$833 million in the third quarter of 2004. The increase in sales was due to growth on international programs and the Cobra Judy Replacement Mission Equipment program partially offset, as expected, by lower sales on the Sea-Based Radar program. Operating income was \$134 million in the third quarter of 2005 versus \$100 million in the third quarter of 2004. The increase in operating margin was due to higher sales on international programs and improved program performance.

Intelligence and Information Systems had sales of \$649 million in the third quarter of 2005 versus \$597 million in the third quarter of 2004. The increase in sales was due to growth in classified programs. Operating income was \$57 million in the third quarter of 2005 versus \$53 million in the third quarter of 2004.

Missile Systems had sales of \$1,005 million in the third quarter of 2005 versus \$928 million in the third quarter of 2004. The increase in sales was due to the ramp up on Tactical Tomahawk and several developmental programs. Operating income was \$104 million in the third quarter of 2005 versus \$109 million in the third quarter of 2004. The decline in operating margin in 2005 was due to the completion of cost recovery for prior year restructuring actions. The costs related to these restructuring actions were accrued in 1997 through 2000, but were being recovered through the pricing of products and services to the U.S. government over a five-year period. The wind-down of this recovery was substantially completed in 2004.

Network Centric Systems had sales of \$833 million in the third quarter of 2005 versus \$764 million in the third quarter of 2004. The increase was due to increased effort on development programs and communication programs. Operating income was \$87 million in the third quarter of 2005 versus \$64 million in the third quarter of 2004. The increase in operating margin was due to improved performance.

Space and Airborne Systems had sales of \$1,013 million in the third quarter of 2005 versus \$929 million in the third quarter of 2004. The increase in sales was due to growth in ATFLIR production and airborne radar programs. Operating income was \$143 million in the third quarter of 2005 versus \$138 million in the third quarter of 2004.

Technical Services had sales of \$479 million in the third quarter of 2005 versus \$489 million in the third quarter of 2004. Operating income was \$38 million in the third quarter of 2005 and 2004.

Raytheon Aircraft had sales of \$642 million in the third quarter of 2005 versus \$624 million in the third quarter of 2004. Operating income was \$34 million in the third quarter of 2005 versus \$21 million in the third quarter of 2004. The increase in operating income was due to commercial and special mission delivery mix, higher revenue from other government programs, and continued improved operating performance.

The Other segment had sales of \$185 million in the third quarter of 2005 versus \$164 million in the third quarter of 2004. The Other segment had an operating loss of \$25 million in the third quarter of 2005 versus \$7 million in the third quarter of 2004. The increase in operating loss in 2005 was primarily due to the operating results of Flight Options (FO) and Raytheon Airline Aviation Services (RAAS). Included in FO in the third quarter of 2005 was a \$7 million charge related to the settlement of a lawsuit against FO and its minority shareholders. The higher losses at RAAS were due to higher aircraft maintenance expense in the period.

Nine Months 2005 Compared with Nine Months 2004

Net sales in the first nine months of 2005 were \$15.7 billion versus \$14.5 billion in the first nine months of 2004. The increase in sales was due to higher U.S. government expenditures in the Company's defense businesses as well as higher sales at Raytheon Aircraft. Sales to the U.S. DoD were 68 percent of sales in the first nine months of 2005 versus 69 percent of sales in the first nine months of 2004. Total sales to the U.S. government, including foreign military sales, were 75 percent of sales in the first nine months of 2005 and 2004. Total international sales, including foreign military sales, were \$3,061 million or 20 percent of sales in the first nine months of 2005 versus \$2,609 million or 18 percent of sales in the first nine months of 2004.

Gross margin, net sales less cost of sales, in the first nine months of 2005 was \$2.6 billion or 16.8 percent of sales versus \$2.3 billion or 15.8 percent of sales in the first nine months of 2004. Included in gross margin was a FAS/CAS Pension Adjustment, described above, of \$349 million and \$356 million of expense in the first nine months of 2005 and 2004, respectively.

Administrative and selling expenses were \$1,053 million or 6.7 percent of sales in the first nine months of 2005 versus \$986 million or 6.8 percent of sales in the first nine months of 2004.

Research and development expenses were \$360 million or 2.3 percent of sales in the first nine months of 2005 versus \$365 million or 2.5 percent of sales in the first nine months of 2004.

Operating income was \$1,218 million or 7.8 percent of sales in the first nine months of 2005 versus \$948 million or 6.5 percent of sales in the first nine months of 2004. The changes in operating income by segment are discussed below.

Interest expense in the first nine months of 2005 was \$237 million versus \$326 million in the first nine months of 2004. The decrease in interest expense in 2005 was primarily due to lower average debt.

Other expense, net in the first nine months of 2005 was \$13 million versus \$368 million in the first nine months of 2004. Included in other expense, net in the first nine months of 2005 was a \$12 million charge related to the Company's proposed settlement with the Securities and Exchange Commission (SEC) as described in Note 14, Commitments and Contingencies of the Notes to the Financial Statements. Included in other expense, net in the first nine months of 2004 was a \$325 million charge related to the settlement of a securities class action lawsuit, as described in Note 14, Commitments and Contingencies of the Notes to the Financial Statements and a \$47 million charge related to the Company's repurchase of long-term debt and subordinated notes payable described below in Capital Structure and Resources.

The effective tax rate was 34.4 percent and 32.8 percent in the first nine months of 2005 and 2004, respectively, reflecting the U.S. statutory rate of 35 percent reduced by ESOP dividend deductions, export-related tax benefits, and research tax credits. Included in the effective tax rate for the first nine months of 2005 was the impact of the \$12 million nondeductible proposed settlement with the SEC, a \$5 million accrual related to certain federal and foreign tax issues, and a \$5 million accrual related to the expected repatriation of earnings from foreign subsidiaries. Included in the effective tax rate in the third quarter of 2004 was an \$8 million valuation allowance related to the anticipated expiration of certain foreign tax credits as a result of the \$329 million charge related to the settlement of a securities class action lawsuit.

Income from continuing operations was \$660 million in the first nine months of 2005, or \$1.45 per diluted share on 454.4 million average shares outstanding versus \$193 million in the first nine months of 2004, or \$0.44 per diluted share on 437.3 million average shares outstanding. The increase in average shares outstanding was due primarily to common stock issued in connection with the Company's equity security units described below in Capital Structure and Resources.

The loss from discontinued operations, described below in Discontinued Operations, was \$65 million after-tax, or \$0.14 per diluted share in the first nine months of 2005 versus \$62 million after-tax, or \$0.14 per diluted share in the first nine months of 2004.

Effective January 1, 2004, the Company changed the measurement date for its pension and other postretirement benefit plans from October 31 to December 31. This change in measurement date was accounted for as a change in accounting principle. The cumulative effect of this change in accounting principle was a gain of \$53 million pretax

for pension benefits and a gain of \$10 million pretax for other postretirement benefits. Using the Company's year end as the measurement date for pension and other postretirement benefit plans more appropriately reflects the plans' financial status for the years then ended. In the first nine months of 2004, the total cumulative effect of this change in accounting principle was a gain of \$63 million pretax, \$41 million after-tax, or \$0.09 per diluted share.

Net income in the first nine months of 2005 was \$595 million, or \$1.31 per diluted share versus \$172 million, or \$0.39 per diluted share in the first nine months of 2004.

Segment Results

Integrated Defense Systems had sales of \$2,765 million in the first nine months of 2005 versus \$2,542 million in the first nine months of 2004. The increase in sales was due to growth on international programs and the Cobra Judy Replacement Mission Equipment program partially offset, as expected, by lower sales on the Sea-Based Radar program. Operating income was \$394 million in the first nine months of 2005 versus \$298 million in the first nine months of 2004. The increase in operating margin was due to higher sales on international programs and improved program performance.

Intelligence and Information Systems had sales of \$1,821 million in the first nine months of 2005 versus \$1,704 million in the first nine months of 2004. The increase in sales was due to growth in classified programs. Operating income was \$166 million in the first nine months of 2005 versus \$150 million in the first nine months of 2004.

Missile Systems had sales of \$3,002 million in the first nine months of 2005 versus \$2,832 million in the first nine months of 2004. The increase in sales was due primarily to the ramp up on several developmental programs. Operating income was \$313 million in the first nine months of 2005 versus \$322 million in the first nine months of 2004. The decline in operating margin in 2005 was primarily due to the wind-down of cost recovery for prior year restructuring actions. The costs related to these restructuring actions were accrued in 1997 through 2000, but were being recovered through the pricing of products and services to the U.S. government over a five year period. The wind-down of this recovery was substantially completed in 2004.

Network Centric Systems had sales of \$2,399 million in the first nine months of 2005 versus \$2,226 million in the first nine months of 2004. The increase in sales was due to increased effort on development programs and communications programs. Operating income was \$244 million in the first nine months of 2005 versus \$182 million in the first nine months of 2004. The increase in operating margin was due to improved performance.

Space and Airborne Systems had sales of \$3,030 million in the first nine months of 2005 versus \$2,927 million in the first nine months of 2004. Operating income was \$444 million in the first nine months of 2005 versus \$409 million in the first nine months of 2004. The increase in operating margin in 2005 was due to profit adjustments on contracts nearing completion and favorable resolution of certain unbilled items.

Technical Services had sales of \$1,455 million in the first nine months of 2005 versus \$1,417 million in the first nine months of 2004. Operating income was \$107 million in the first nine months of 2005 versus \$104 million in the first nine months of 2004.

The defense businesses had a sales growth rate after eliminations of seven percent in the first nine months of 2005. This sales growth rate is not expected to continue in the fourth quarter of 2005.

Raytheon Aircraft had sales of \$1,771 million in the first nine months of 2005 versus \$1,568 million in the first nine months of 2004. The increase in sales was due to higher new and used aircraft sales. Operating income was \$69 million in the first nine months of 2005 versus \$16 million in the first nine months of 2004. The increase in operating income was due to commercial and special mission delivery mix, higher revenue from other government programs, and continued improved operating performance. The Company has made a significant investment in its Premier and Horizon aircraft, the realization of which is contingent upon future sales at forecasted prices and reductions in production costs on future deliveries. The Company uses lot accounting for new commercial aircraft introductions. The size of the initial lot for the Premier I and the Horizon is 200 and 75 units, respectively and the Company expects to complete the lots in 2007 and 2009, respectively. During the fourth quarter of 2004, the Federal Aviation Administration (FAA) granted a provisional type certification for the Horizon aircraft. Final certification is expected in 2005.

The Other segment had sales of \$566 million in the first nine months of 2005 versus \$492 million in the first nine months of 2004. The Other segment had an operating loss of \$66 million in the first nine months of 2005 versus \$29 million in the first nine months of 2004. The increase in operating loss in 2005 was primarily due to the operating results of FO and RAAS. Included in FO in the third quarter of 2005 was a \$7 million charge related to the settlement of a lawsuit against FO and its minority shareholders. The higher losses at RAAS were due to higher aircraft maintenance expense in the period.

The Other segment's results were primarily comprised of the operations of FO. The higher losses in 2005 are due to increased supplemental lift expense due to the operational impacts primarily from older aircraft in the fleet, and customer demand. The older aircraft in the fleet are being retired and replaced by newer aircraft over the next five years. FO is also taking action to reduce the number of different types of aircraft in its fleet from twelve to four and in the interim to reduce current operating costs. Although FO management believes that these actions will result in improved financial results, there can be no assurance that these actions will have the expected effect.

In the third quarter of 2005, the Company made a \$50 million equity contribution to FO. Substantially all of these funds were used to retire intercompany debt and intercompany accounts payable. As a result of this equity contribution the Company now owns approximately 97 percent of FO. The Company is recording 100 percent of FO's losses and is funding all of FO's cash requirements. At September 25, 2005, the balance of FO's external debt (capital leases) was \$48 million. The Company's net investment in FO, including intercompany debt and equity increased by \$1 million in the third quarter of 2005 to approximately \$190 million. If losses at FO were to continue over the longer-term the Company's investment in FO could become impaired.

The minority equity owners have objected to the \$50 million equity contribution made in the third quarter of 2005, which diluted their equity interest to approximately three percent. In addition the minority equity owners have sought to effect a merger of affiliates of FO and the minority equity owners where FO would assume certain liabilities and contingencies. This merger is required only in circumstances where

the liabilities and contingencies assumed have a fair value not greater than \$25 million at the time of the merger. The Company has not agreed that the conditions for the merger have been satisfied and the merger is the subject of ongoing discussions among FO, the Company, and the minority equity owners. In October 2005, FO settled a lawsuit and recorded a charge of \$7 million in the third quarter of 2005 related to one of these contingencies.

Commuter aircraft customers of RAAS are generally thinly capitalized companies that are dependent on the commuter aircraft industry. These customers could be significantly affected by sustained higher fuel costs and possible industry consolidation. These factors could have a material adverse effect on the financial strength of these customers. At September 25, 2005 and December 31, 2004, the Company's exposure on commuter-related assets was approximately \$548 million consisting of 269 aircraft and approximately \$614 million consisting of 297 aircraft, respectively.

Backlog consisted of the following at:

	Sept. 25, 2005	Dec. 31, 2004
	(In millions)	
Integrated Defense Systems	\$ 7,004	\$ 6,628
Intelligence and Information Systems	4,153	4,066
Missile Systems	8,011	8,341
Network Centric Systems	4,175	3,587
Space and Airborne Systems	5,690	5,216
Technical Services	1,635	1,773
Aircraft	2,203	2,638
Other	251	294
Total	\$ 33,122	\$ 32,543
Defense businesses included above	\$ 30,668	\$ 29,611
U.S. government backlog included above	\$ 26,960	\$ 25,525

Funded backlog consisted of the following at:

	Sept. 25, 2005	Dec. 31, 2004
	(In millions)	
Integrated Defense Systems	\$ 3,178	\$ 3,454
Intelligence and Information Systems	612	811
Missile Systems	4,395	4,517
Network Centric Systems	2,881	2,623
Space and Airborne Systems	2,957	3,127
Technical Services	953	939
Aircraft	2,203	2,638
Other	251	294
Total	\$ 17,430	\$ 18,403
Defense businesses included above	\$ 14,976	\$ 15,471

Funded backlog excludes U.S. and foreign government contracts for which funding has not been appropriated. The 2006 U.S. government fiscal year began on October 1 with the Department of Defense operating under a Continuing Resolution that extends until November 18, 2005. The Fiscal Year 2006 Defense Appropriations Bill (the Bill) is in conference between the House and the Senate. The Company expects the Congress to complete the conference and pass the Bill prior to the expiration of the Continuing Resolution.

Gross bookings were as follows:

	Nine Months Ended	
	Sept. 25, 2005	Sept. 26, 2004
	(In millions)	
Integrated Defense Systems	\$ 3,933	\$ 2,525
Intelligence and Information Systems	1,888	1,635
Missile Systems	2,650	6,140
Network Centric Systems	2,843	2,601
Space and Airborne Systems	3,120	3,399
Technical Services	883	1,367
Aircraft	1,646	1,979
Other	541	579
Total	\$ 17,504	\$ 20,225
Defense businesses included above	\$ 15,317	\$ 17,667

In the second quarter of 2005, Integrated Defense Systems booked \$1.7 billion to continue the ship system integration and detail design for the U.S. Navy's DD(X) Destroyer. In the first nine months of 2004, Missile Systems booked \$2.1 billion for the Kinetic Energy Interceptor system contract, \$525 million contract for the development and demonstration of the Non-Line of Sight Launch System (NLOS-LS), and \$500 million for the definitization of the Standard Missile-3 contract. Also in the first nine months of 2004, TS booked \$546 million for the U.S. Antarctic Program and RAC booked an order for more than \$300 million for 40 new Hawker mid-size and light business jets.

Discontinued Operations

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

For several of these projects, the Company has entered into settlement agreements that resolve the Company's obligations under the related Support Agreements. On a number of these projects, the Company is continuing closeout efforts which includes warranty obligations, commercial close out, and claims resolution. There are also Support

Agreements on projects where WGI is continuing to perform work which could present risk to the Company if WGI fails to meet its obligations in connection with these projects. In meeting its obligations under the remaining Support Agreements, the Company has various risks and exposures, including delays, equipment and subcontractor performance, warranty close out, various liquidated damages issues, collection of amounts due under contracts, and potential adverse claims resolution under various contracts and leases.

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

The Company recorded net charges of \$3 million and \$7 million pretax in the third quarter of 2005 and 2004, respectively, and \$58 million and \$39 million in the first nine months of 2005 and 2004, respectively, for program management, legal, and other costs related to RE&C. Included in the first nine months of 2005, was a \$39 million charge for the settlement of a class action lawsuit related to the sale of RE&C to WGI as discussed in Note 14, Commitments and Contingencies, of the Notes to the Financial Statements. This charge does not reflect any insurance proceeds. In September 2005, the Company reached a tentative agreement with its insurance carriers under which the Company will receive approximately \$28 million towards the settlement and related expenses. The agreement is expected to be finalized and the settlement amount paid by the carriers in the fourth quarter of 2005. The Company will record the \$28 million as income from discontinued operations upon final settlement.

In the first nine months of 2005 and 2004, the Company also recorded after-tax charges of \$23 million and \$24 million, respectively, for an estimated liability for foreign tax-related matters. Although not expected to be material, additional losses on foreign tax-related matters could be recorded in the future as estimates are revised or the underlying matters are settled.

In 2002, the Company sold its Aircraft Integration Systems business (AIS) for \$1,123 million, net, subject to purchase price adjustments. The Company is currently involved in a purchase price dispute related to the sale of AIS in which the purchaser has claimed a purchase price adjustment of \$85 million. The Company disputes this claim and expects the matter to be resolved in arbitration in January 2006. As part of the transaction, the Company retained the responsibility for performance of the Boeing Business Jet (BBJ) program and retained certain assets related to the BBJ program, which is now essentially complete.

The Company recorded charges related to AIS of \$2 million and \$9 million in the third quarter of 2005 and 2004, respectively, and \$6 million and \$20 million in the first nine months of 2005 and 2004, respectively, primarily related to the BBJ program.

In the third quarter of 2005, the total loss from discontinued operations was \$5 million pretax, \$3 million after-tax, or \$0.01 per basic and diluted share versus \$16 million pretax, \$34 million after-tax, or \$0.08 per basic and \$0.07 per diluted share in the third quarter of 2004.

In the first nine months of 2005, the total loss from discontinued operations was \$64 million pretax, \$65 million after-tax, or \$0.14 per basic and diluted share versus \$59 million pretax, \$62 million after-tax, or \$0.14 per basic and diluted share in the first nine months of 2004.

Net cash used in operating activities from discontinued operations related to RE&C was \$50 million in the first nine months of 2005 versus net cash used of \$52 million in the first nine months of 2004. The Company expects its operating cash flow to be positively affected by approximately \$20 million in the remainder of 2005 primarily due to the anticipated receipt of the \$28 million from the Company's insurance carriers described above. Further increases in project costs may increase the estimated operating cash outflow for RE&C in 2005.

Financial Condition and Liquidity

Net cash provided by operating activities was \$1,288 million in the first nine months of 2005 versus \$1,138 million in the first nine months of 2004. In the first nine months of 2004, the Company paid \$210 million in connection with the settlement of a class action lawsuit. The increase in inventories at September 25, 2005 was due to higher sales anticipated in the fourth quarter of 2005 at Raytheon Aircraft. In general, the Company pays its employees on a biweekly basis. The increase in accrued salaries and wages is due to the timing of the pay period. Net cash tax payments are expected to be approximately \$60 million in 2005 versus \$5 million in 2004.

The increase in free cash flow at Network Centric Systems in the first nine months of 2005 was due to the settlement of an international contract and timing of other milestone payments. Included in free cash flow at Space and Airborne Systems in the first nine months of 2004 was the receipt of an advance payment on an international program.

Total contributions (required and discretionary) to the Company's pension plans are expected to be approximately \$515 million in 2005. Congress is currently considering pension funding reform legislation which would increase funding requirements for most companies sponsoring defined benefit pension plans. If enacted, the pension funding reform legislation could result in an increase in the Company's pension contribution requirement beginning in 2006.

Savings and investment plan activity includes certain items related to the Company's 401(k) plan that were funded through the issuance of the Company's common stock and are non-cash operating activities included on the 2004 statement of cash flows. In 2005, these items were funded by cash.

The Company provides long-term financing to its aircraft customers. Origination of financing receivables in the first nine months of 2005 was \$218 million versus \$223 million in the first nine months of 2004. Collection of financing receivables not sold was \$278 million in the first nine months of 2005 versus \$329 million in the first nine months of 2004.

Net cash used in investing activities in the first nine months of 2005 was \$308 million versus \$422 million in the first nine months of 2004. Capital expenditures were \$183 million in the first nine months of 2005 versus \$209 million in the first nine months of 2004. Capital expenditures for the full-year 2005 are expected to be approximately \$370 million. Capitalized expenditures for internal use software were \$61 million in the first

nine months of 2005 versus \$73 million in the first nine months of 2004. Capitalized expenditures for internal use software are expected to be approximately \$100 million in 2005 as the Company continues to convert significant portions of existing financial and operational systems. In the first quarter of 2005, the Company paid the third and final installment of \$60 million related to the 2003 acquisition of Solipsys Corporation. The second installment of \$70 million was paid in the first quarter of 2004. In the third quarter of 2005, the Company paid \$39 million for the acquisition of UTD, Inc.

Net cash used in financing activities was \$716 million in the first nine months of 2005 versus \$328 million in the first nine months of 2004. Dividends paid to stockholders were \$289 million in the first nine months of 2005 versus \$258 million in the first nine months of 2004. The quarterly dividend rate was \$0.22 per share for the first three quarters of 2005 versus \$0.20 per share for the first three quarters of 2004.

In 2004, the Board of Directors authorized the repurchase, between January 1, 2005 and December 31, 2006, of up to \$700 million of the Company's outstanding common stock. In the first nine months of 2005, the Company repurchased \$390 million of common stock under this program.

Capital Structure and Resources

Total debt was \$5.1 billion at September 25, 2005 and \$5.2 billion at December 31, 2004. Cash and cash equivalents were \$820 million at September 25, 2005 and \$556 million at December 31, 2004. At September 25, 2005, the cash and cash equivalent balance included approximately \$127 million of cash held by foreign subsidiaries. Total debt, as a percentage of total capital, was 32.5 percent at September 25, 2005 versus 32.8 percent at December 31, 2004.

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

After the end of the third quarter of 2005, the Company initiated a call to repurchase \$196 million of its 7.375 percent notes due July 15, 2025 at a loss of approximately \$10 million.

The Company's most restrictive financial bank agreement covenant is an interest coverage ratio that currently requires earnings before interest, taxes, depreciation, and amortization (EBITDA) to be at least 3.0 times net interest expense for the prior four quarters. The Company was in compliance with the interest coverage ratio covenant during the first nine months of 2005.

Lines of credit with certain commercial banks exist to provide short-term liquidity. The lines of credit bear interest based upon LIBOR and were \$2.2 billion at September 25, 2005 and \$2.3 billion at December 31, 2004. There were borrowings outstanding under these lines of credit of \$375 million at September 25, 2005. Additionally, the Company had approximately \$100 million of outstanding letters of credit and \$50 million of commercial paper borrowings outstanding at September 25, 2005 which effectively reduced the Company's borrowing capacity under the lines of credit to \$1.7 billion. There were no borrowings outstanding under these lines of credit at December 31, 2004.

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

The Company has on file a shelf registration with the Securities and Exchange Commission for the issuance of up to \$3.0 billion in debt securities, common or preferred stock, warrants to purchase any of the aforementioned securities, and/or stock purchase contracts, under which \$1.3 billion remained outstanding at September 25, 2005. A majority of the remaining availability under the shelf registration is expected to be used in connection with the settlement of a class action lawsuit, described in Note 14, Commitments and Contingencies of the Notes to the Financial Statements.

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

Commitments and Contingencies

The Company is involved in various stages of investigation and cleanup related to remediation of various environmental sites. The Company's estimate of total environmental remediation costs expected to be incurred is \$129 million. Discounted at a weighted-average risk-free rate of 5.8 percent, the Company estimates the liability to be \$98 million before U.S. government recovery and had this amount accrued at September 25, 2005. 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 government contracting regulations and the Company's long history of receiving reimbursement for such costs. Accordingly, the Company has recorded \$54 million at September 25, 2005 for the estimated future recovery of these costs from the U.S. government, which is included in contracts in process. The Company leases certain government-owned properties and is generally not liable for environmental remediation at these sites, therefore, no provision has been made in the financial statements for these costs. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative cleanup methods and technologies, the uncertainty of insurance coverage, and the unresolved extent of the Company's responsibility, it is difficult to determine the ultimate outcome of these matters, however, any additional liability is not expected to have a material adverse effect on the Company's financial position, results of operations, or liquidity.

The Company issues guarantees and has banks and surety companies issue, on its behalf, letters of credit and surety bonds to meet various bid, performance, warranty, retention, and advance payment obligations of the Company or its affiliates. Approximately \$321 million, \$804 million, and \$78 million of these guarantees, letters of credit, and surety bonds, for which there were stated values, were outstanding at September 25, 2005, respectively, and \$294 million, \$827 million, and \$250 million were outstanding at December 31, 2004, respectively. These instruments expire on various dates through 2015. Included in guarantees and letters of credit above was \$74 million and \$151 million at September 25, 2005, respectively and \$43 million and \$153 million at December 31, 2004, respectively related to the Company's joint venture in Thales-Raytheon Systems. Also included in guarantees, letters of credit, and surety bonds above was \$94 million, \$8 million, and \$62 million at September 25, 2005, respectively and \$94 million, \$9 million, and \$234 million at December 31, 2004, respectively related to discontinued operations. Additional guarantees of project performance for which there is no stated value also remain outstanding.

Defense contractors are subject to many levels of audit and investigation. Agencies that oversee contract performance include: the Defense Contract Audit Agency, the Department of Defense Inspector General, the Government Accountability Office, the Department of Justice, and Congressional Committees. The Department of Justice, from time to time, has convened grand juries to investigate possible irregularities by the Company. Individually and in the aggregate, these investigations are not expected to have a material adverse effect on the Company's financial position, results of operations, or liquidity. Raytheon Aircraft is also subject to oversight by the Federal Aviation Administration (the "FAA"). The FAA routinely evaluates aircraft operational and safety requirements and is responsible for certification of new and modified aircraft. Future action by the FAA may adversely affect the Raytheon Aircraft's financial position, results of operations, and liquidity including recovery of its investment in its newer aircraft.

Accounting Standards

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 (FIN 47). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The effect of adopting FIN 47 on the Company's financial position and results of operations has not yet been determined.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payments (SFAS No. 123R). SFAS No. 123R requires the recognition of compensation expense related to stock options under SFAS No. 123, Accounting for Stock-Based Compensation. In April 2005, the effective date for this accounting standard was deferred until the first annual period beginning after June 15, 2005. The Company expects to adopt SFAS No. 123R prospectively in the first quarter of 2006 with an anticipated impact to earnings per share of less than \$0.02 per share for the year 2006.

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

Risk Factors and Forward-Looking Statements

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

This filing and the information we are incorporating by reference, including any statements relating to the Company's future plans, objectives, and projected future financial performance, contain or are based on, forward-looking statements within the meaning of federal securities laws. Specifically, statements that are not historical facts, including statements accompanied by words such as "believe," "expect," "estimate," "intend," or "plan," variations of these words, and similar expressions, are intended to identify forward-looking statements and convey the uncertainty of future events or outcomes. The Company cautions readers that any such forward-looking statements are based on assumptions that the Company believes are reasonable, but are subject to a wide range of risks, and actual results may differ materially. Given these uncertainties, you should not rely on forward-looking statements.

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

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

Generally, government contracts are subject to oversight audits by government representatives and contain provisions permitting termination, in whole or in part, without prior notice at the government's convenience upon the payment of compensation only for work done and commitments made at the time of termination. We can give no assurance that one or more of our government contracts will not be terminated under

these circumstances. Also, we can give no assurance that we would be able to procure new government contracts to offset the revenues lost as a result of any termination of our contracts. As our revenues are dependent on our procurement, performance and payment under our contracts, the loss of one or more critical contracts could have a negative impact on our financial condition.

Our government business is also subject to specific procurement regulations and a variety of socio-economic and other requirements. These requirements, although customary in government contracts, increase our performance and compliance costs. These costs might increase in the future, reducing our margins, which could have a negative effect on our financial condition. Failure to comply with these regulations and requirements could lead to suspension or debarment, for cause, from government contracting or subcontracting for a period of time. Among the causes for debarment are violations of various statutes, including those related to:

- procurement integrity
- export control
- government security regulations
- employment practices
- protection of the environment
- accuracy of records and the recording of costs
- foreign corruption

The termination of a government contract or relationship as a result of any of these acts would have a negative impact on our operations and could have a negative effect on our reputation and ability to procure other government contracts in the future. On those contracts for which we are teamed with others and are not the prime contractor, the U.S. government could terminate a prime contract under which we are a subcontractor, irrespective of the quality of our services as a subcontractor.

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

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

The influence of any of these factors, which are largely beyond our control, could also negatively impact our financial condition. We also may experience problems associated with advanced designs and programs required by the government which may result in

unforeseen technological difficulties and cost overruns. Failure to overcome these technological difficulties and the occurrence of cost overruns would have a negative impact on our results.

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

Approximately 74% of our net sales in 2004 were to the U.S. government. Therefore, any significant disruption or deterioration of our relationship with the U.S. government would significantly reduce our revenues. Our U.S. government programs must compete with programs managed by other defense contractors for a limited number of programs and for uncertain levels of funding. Our competitors continuously engage in efforts to expand their business relationships with the U.S. government at our expense and are likely to continue these efforts in the future. The U.S. government may choose to use other defense contractors for its limited number of defense programs. In addition, the funding of defense programs also competes with non-defense spending of the U.S. government. Budget decisions made by the U.S. government are outside of our control and have long-term consequences for the size and structure of Raytheon. A shift in government defense spending to other programs in which we are not involved or a reduction in U.S. government defense spending generally could have severe consequences for our results of operations.

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

In 2004, sales to international customers, including foreign military sales, accounted for approximately 18% of our net sales. We expect that international sales will continue to account for a significant portion of our revenues for the foreseeable future. As a result, we are subject to risks of doing business internationally, including:

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

- the difficulty of management and operation of an enterprise spread over various countries
- compliance with a variety of foreign laws, as well as U.S. laws affecting the activities of U.S. companies abroad
- economic and geopolitical developments and conditions, including international hostilities, acts of terrorism and governmental reactions, inflation, trade relationships, changes in governments and military and political alliances
- Uncertainty of dispute resolution in foreign jurisdictions

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

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

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

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

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

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

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

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

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

Specifically, at Raytheon Aircraft Company, our future success is dependent on our ability to meet scheduled timetables for the development, certification and delivery of new and derivative product offerings and our ability to continue to compete with our existing legacy aircraft products.

We believe that, in order to remain competitive in the future, we will need to continue to develop new products, which will require the investment of significant financial resources. The need to make these expenditures could divert our attention and resources from other projects, and we cannot be sure that these expenditures will ultimately lead to the timely development of new technology. Due to the design complexity of our products, we may in the future experience delays in completing development and introduction of new products. Any delays could result in increased costs of development or deflect resources from other projects. In addition, there can be no assurance that the market for our products will develop or continue to expand as we currently anticipate. The failure of our technology to gain market acceptance could significantly reduce our revenues and harm our business. Furthermore, we cannot be sure that our competitors will not develop competing technologies which gain market acceptance in advance of our products. The possibility that our competitors might develop new technology or products might cause our existing technology and products to become obsolete. If we fail in our new product development efforts or our products fail to achieve market acceptance more rapidly than our competitors, our revenues will decline and our business, financial condition and results of operations will be negatively affected.

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

A significant portion of our contracts are entered into on a fixed-price basis. This allows us to benefit from cost savings, but we carry the burden of cost overruns. If our initial estimates are incorrect, we can lose money on these contracts. In addition, some of our contracts have provisions relating to cost controls and audit rights, and if we fail to meet the terms specified in those contracts then we may not realize their full benefits. Our financial condition is dependent on our ability to maximize our earnings from our

contracts. Lower earnings caused by cost overruns and cost controls would have a negative impact on our financial results.

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

U.S. government agencies such as the Defense Contract Audit Agency, or the DCAA, routinely audit and investigate government contractors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The DCAA also reviews the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed, while such costs already reimbursed must be refunded. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us.

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

Contract and program accounting require judgment relative to assessing risks, including risks associated with customer directed delays and reductions in scheduled deliveries, unfavorable resolutions of claims and contractual matters, judgments associated with estimating contract revenues and costs, and assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. Assumptions have to be made regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials. Incentives or penalties related to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information for us to assess anticipated performance. Estimates of award fees are also used in estimating sales and profit rates based on actual and anticipated awards.

Because of the significance of the judgments and estimation processes described above, it is likely that materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect future financial performance.

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

The Company uses lot accounting for new commercial aircraft such as the Beechcraft Premier I and the Hawker Horizon. Lot accounting involves selecting an initial lot size at the time a new aircraft begins to be delivered and measuring an average cost over the entire lot for each aircraft sold. The costs attributed to aircraft delivered are based on the estimated average cost of all aircraft in the lot and are determined under the learning curve concept which anticipates a predictable decrease in unit costs from cost reduction initiatives and as tasks and production techniques become more efficient through

repetition. Once the initial lot has been completed, the use of lot accounting is discontinued. The selection of lot size is a critical judgment. The Company determines lot size based on several factors, including the size of firm backlog, the expected annual production on the aircraft, and the anticipated market demand for the product.

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

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

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

We are at risk of losses and adverse publicity stemming from any accident involving aircraft for which we hold design authority.

If a Raytheon aircraft were to crash or be involved in an accident, we could be exposed to significant tort liability. The insurance we carry to cover damages arising from any future accidents may be inadequate. In the event that our insurance is not adequate, we may be forced to bear substantial losses from an accident. In addition, any accident involving a Raytheon aircraft could create a public perception that our aircraft are not safe or reliable, which could harm our reputation, result in reduced sales, and harm our business.

Likewise, accidents and incidents involving Raytheon aircraft may prompt the Federal Aviation Administration (FAA) to issue Airworthiness Concern Sheets (ACS's), Notices of Proposed Rulemaking for Airworthiness Directive action (Notices), and Airworthiness Directives (AD's) themselves. AD's are regulations that require corrective actions or limitations to address FAA safety concerns about a specific model or class of aircraft. ACS's and Notices are public notifications of the FAA's safety concern and both request public comment on the issue. Publication of ACS's, Notices, and AD's could create a public perception that a particular Raytheon aircraft is not safe, reliable, or suitable for an operator's needs. This perception could result in a claim being filed against the Company or lost future sales, or both. Publication of an AD could require design modifications causing Raytheon to incur significant expenditures altering an aircraft design, altering aircraft in production, and altering fielded aircraft under warranty. AD's issued by the FAA are typically followed by similar regulatory requirements in other countries where affected aircraft are certified. Accordingly, if an AD were issued, Raytheon could incur expenses related to corrective action worldwide for the fleet of aircraft impacted by the AD. The publication of ACS's, Notices and AD's could lead to a decline in revenues and have a negative effect on our business, financial condition and results of operations.

The aircraft manufacturing industry is subject to extensive government regulation, and new regulations may increase our operating costs.

In the United States, our commercial aircraft products are required to comply with FAA regulations governing design approvals, production and quality systems, airworthiness,

and continuing operational safety. Internationally, similar requirements exist for design, airworthiness, and operational approvals. These requirements are generally administered by the national aviation authorities of each country and, in the case of Europe, coordinated by the European Aviation Safety Agency (EASA).

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

We have obligations related to outstanding letters of credit, surety bonds and guarantees (Support Agreements) provided in connection with a number of contracts and leases of our engineering and construction business unit (E&C Business), which we sold to Washington Group International in July 2000. In meeting the obligations under the remaining Support Agreements, we have various risks and exposures, including delays, equipment and subcontractor performance, warranty closeout, various liquidated damages issues, collection of amounts due under contracts, and potential adverse claims resolution under various contracts and leases. While these potential obligations, liabilities and risks or the impact of them are difficult to predict, any one or more of these factors could have a material adverse effect on our financial condition.

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

We are defendants in a number of litigation matters. These claims may divert financial and management resources that would otherwise be used to benefit our operations. Although we believe that we have meritorious defenses to the claims made in each and all of the litigation matters to which we have been named a party, and intend to contest each lawsuit vigorously, no assurances can be given that the results of these matters will be favorable to us. An adverse resolution of any of these lawsuits could have a material adverse effect on our financial position, results of operations, and liquidity.

We depend on the recruitment and retention of qualified personnel, and our failure to attract and retain such personnel could seriously harm our business.

Due to the specialized nature of our businesses, our future performance is highly dependent upon the continued services of our key engineering personnel and executive officers. Our prospects depend upon our ability to attract and retain qualified engineering, manufacturing, marketing, sales and management personnel for our operations. Competition for personnel is intense, and we may not be successful in attracting or retaining qualified personnel. Our failure to compete for these personnel could seriously harm our business, results of operations and financial condition.

Some of our workforce is represented by labor unions.

Approximately 11,500 of our employees are unionized, which represented approximately 14% of our employees at December 31, 2004. As a result, we may experience work stoppages, which could adversely affect our business, and we are vulnerable to the demands imposed by our collective bargaining relationships. We cannot predict how stable these relationships, currently with 9 different U.S. labor organizations and 4 different non-U.S. labor organizations, will be or whether we will be able to meet the requirements of these unions without impacting the financial condition of Raytheon. In

addition, the presence of unions may limit our flexibility in dealing with our workforce. Work stoppages and instability in our union relationships could negatively impact our ability to manufacture our products on a timely basis, resulting in strain on our relationships with our customers, as well as a loss of revenues. That would adversely affect our results of operations.

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

Protecting our intellectual property rights is critical to our ability to compete and succeed as a company. We own a large number of United States and foreign patents and patent applications, as well as trademark, copyright and semiconductor chip mask work registrations which are necessary and contribute significantly to the preservation of our competitive position in the market. There can be no assurance that any of these patents and other intellectual property will not be challenged, invalidated or circumvented by third parties. In some instances, we have augmented our technology base by licensing the proprietary intellectual property of others. In the future, we may not be able to obtain necessary licenses on commercially reasonable terms. We enter into confidentiality and invention assignment agreements with our employees, and enter into non-disclosure agreements with our suppliers and appropriate customers so as to limit access to and disclosure of our proprietary information. These measures may not suffice to deter misappropriation or independent third party development of similar technologies. Moreover, the protection provided to our intellectual property by the laws and courts of foreign nations may not be as advantageous to us as the remedies available under United States law.

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

Because we use and generate large quantities of hazardous substances and wastes in our manufacturing operations, we are subject to potentially material liabilities related to personal injuries or property damages that may be caused by hazardous substance releases and exposures. For example, we are investigating and remediating contamination related to our current or past practices at numerous properties and, in some cases, have been named as a defendant in related personal injury or “toxic tort” claims.

We are also subject to increasingly stringent laws and regulations that impose strict requirements for the proper management, treatment, storage and disposal of hazardous substances and wastes, restrict air and water emissions from our manufacturing operations, and require maintenance of a safe workplace. These laws and regulations can impose substantial fines and criminal sanctions for violations, and require the installation of costly pollution control equipment or operational changes to limit pollution emissions and/or decrease the likelihood of accidental hazardous substance releases. We incur, and expect to continue to incur, substantial capital and operating costs to comply with these laws and regulations. In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements could require us to incur costs in the future that would have a negative effect on our financial condition or results of operations.

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

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

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

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

The level of returns and the discount rate on pension and retirement plan assets could affect our earnings in future periods.

Our earnings may be positively or negatively impacted by the amount of income or expense we record for our employee benefit plans. This is particularly true with income or expense for our pension plans. Generally accepted accounting principles (GAAP) require that we calculate income or expense for the plans using actuarial valuations. These valuations are based on assumptions that we make relating to financial and other economic conditions. Changes in key economic indicators can result in changes in the assumptions we use.

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

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

- volume and timing of product orders received and delivered
- levels of product demand

- consumer and government spending patterns
- the timing of contract receipt and funding
- our ability and the ability of our key suppliers to respond to changes in customer orders
- timing of our new product introductions and the new product introductions of our competitors
- changes in the mix of our products
- cost and availability of components and subsystems
- price erosion
- adoption of new technologies and industry standards
- competitive factors, including pricing, availability and demand for competing products
- fluctuations in foreign currency exchange rates
- conditions in the capital markets and the availability of project financing
- regulatory developments
- general economic conditions, particularly the cyclical nature of the general aviation market in which we participate
- our ability to obtain licenses from the U.S. government to sell products abroad.

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

A downgrade in our credit rating could negatively affect our ability to access capital. Credit ratings for the Company were assigned by Fitch at F2 for short-term borrowing and BBB for senior debt, by Moody's at P-3 for short-term borrowing and Baa3 for senior debt, and by S&P at A-2 for short-term borrowing and BBB for senior debt. If the rating agencies downgrade our ratings, particularly below investment grade, it may significantly limit our access to capital and our borrowing costs would increase. In addition, we would likely be required to pay a higher interest rate in future financings and our potential pool of investors and funding sources would likely decrease.

ITEM 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 to manage interest rates associated with the Company's financing arrangements. The Company also enters into foreign currency forward contracts with commercial banks to fix the dollar value of commitments and payments to international vendors and the value of foreign currency denominated receipts. The market-risk sensitive instruments used by the Company for hedging are entered into with commercial and investment banks and are directly related to a particular asset, liability, or transaction for which a firm commitment is in place.

Financial instruments held by the Company which are subject to interest rate risk include notes payable, long-term debt, long-term receivables, investments, and interest rate swap agreements. The aggregate hypothetical loss in earnings for one year of those financial instruments held by the Company at September 25, 2005 and September 26, 2004, which are subject to interest rate risk resulting from a hypothetical increase in interest rates of 10 percent, was approximately \$1 million, after-tax. Fixed rate financial instruments were not evaluated, as the risk exposure is not material. The Company believes its exposure due to changes in foreign exchange rates is not material due to the Company's hedging policy and the fact that the Company does not enter into speculative hedges.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management conducted an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and acting Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 25, 2005. Based on this evaluation, the Chief Executive Officer and acting Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed in the reports the Company files and submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported as and when required.

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

Changes In Internal Controls Over Financial Reporting

During the third quarter of 2005, the Company implemented new manufacturing planning and control software within the Missile Systems segment.

Other than the item noted above, there were no changes in the Company's internal control over financial reporting that occurred during the third quarter of 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to or has property subject to litigation and other proceedings referenced in “Note 14 – 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, 2004, or arising in the ordinary course of business. In the opinion of management, except as otherwise indicated herein or 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, results of operations, or liquidity.

See the “Legal Proceedings” section of the Company’s Annual Report on Form 10-K for the year ended December 31, 2004 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 Government Accountability Office, the Department of Justice, and Congressional Committees. The Department of Justice from time to time has convened grand juries to investigate possible irregularities by the Company.

Previously Reported Matters

As previously reported, in June 2001, a class action lawsuit entitled, Muzinich & Co., Inc. et al v. Raytheon Company, et. al., (Civil Action No. 01-0284-S-BLW) was filed in federal court in Boise, Idaho allegedly on behalf of all purchasers of common stock or senior notes of Washington Group International, Inc. (WGI) during the period April 17, 2000 through March 1, 2001 (the class period). The plaintiff class claims to have suffered harm by purchasing WGI securities because the Company and certain of its officers allegedly violated federal securities laws by purportedly misrepresenting the true financial condition of RE&C in order to sell RE&C to WGI at an artificially inflated price. An amended complaint was filed on October 1, 2001 alleging similar claims. The Company and the individual defendants filed a motion seeking to dismiss the action in mid-November 2001. On April 30, 2002, the Court denied the Company’s and the individual defendants’ motion to dismiss the complaint. 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. Thereafter, defendants filed their answer to the amended complaint denying liability. Without admitting any liability or wrongdoing, in May 2005, the Company reached an agreement to settle this class action on behalf of the Company and the individual defendants. The settlement, which was approved by the

Court on July 11, 2005, includes a cash payment by the Company of \$39 million and will resolve all claims in the case.

As previously reported, in July 2004 the Company and the individual defendants reached a tentative agreement to settle all claims in the In re Raytheon Derivative Litigation (No. 17495-NC) for \$4 million, without admitting any liability or wrongdoing. On July 14, 2005, the court approved the settlement.

As previously reported, in November 2004 the Company and the individual defendants reached a tentative agreement to settle all claims in the In re Raytheon Shareholders Litigation (No. 19018-NC) for \$2 million, without admitting any liability or wrongdoing. On September 9, 2005, the court approved the settlement.

As previously reported, the Company commenced settlement discussions in December 2004 with the South Coast Air Quality Management District in the State of California for alleged violations of District regulations. Without admitting any wrongdoing or liability, the Company settled all of the alleged claims in August 2005.

As previously reported, in May 2003 two purported class action lawsuits entitled, *Benjamin Wall v. Raytheon Company et al.* (Civil Action No. 03-10940-RGS) and *Joseph I. Duggan, III v. Raytheon Company et al.* (Civil Action No. 03-10995-RGS), were filed in federal court in Boston, Massachusetts on behalf of participants in the Company's savings and investment plans who invested in the Company's stock between August 19, 1999 and May 27, 2003. The two class action complaints are brought pursuant to the Employee Retirement Income Security Act (ERISA). Both complaints allege that the Company and certain officers and directors breached ERISA fiduciary and co-fiduciary duties arising out of the Company's savings and investment plans' investment in the Company stock. In September 2003, these actions were consolidated. In April 2004, a second consolidated amended complaint (the "Second Consolidated Amended, ERISA Complaint"), was filed on behalf of participants and beneficiaries in the Company's savings and investment plans who invested in the Company's stock since October 7, 1998. In October 2004, the defendants filed a motion to dismiss the Second Consolidated Amended ERISA Complaint. In September 2005, the court denied the motion to dismiss without prejudice to re-file the motion after the completion of further discovery conducted by the parties.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchase of Equity Securities by the Issuer

	Total Number of Shares Purchased (1)	Total Number of Shares Purchased as Part of Publicly Announced Plan	Average Price Paid per Share	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan (2)
July (June 27– July 24, 2005)	18,092	1,140,000	\$ 39.38	\$ 463 million
August (July 25 – August 21, 2005)	1,552	1,610,200	\$ 39.50	\$ 400 million
September (August 22 – Sept. 25, 2005)	3,943	2,288,500	\$ 39.27	\$ 310 million
Total	23,587	5,038,700	\$ 39.37	

- (1) Shares purchased relate to treasury activity under the Company's stock plans. The total number of shares purchased during the fiscal third quarter of 2005 includes: (i) the surrender by employees of 3,512 shares of already owned common stock to pay the exercise price in connection with the exercise of employee stock options, and (ii) the surrender by employees of 20,075 shares to satisfy income tax withholding obligations in connection with the vesting and distribution of common shares related to the restricted stock previously issued to employees.
- (2) On November 30, 2004, the Board of Directors authorized the repurchase, between January 1, 2005 and December 31, 2006, of up to \$700 million of the Company's outstanding common stock. Purchases may take place from time to time at management's discretion depending upon market conditions.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

- 10.1 Raytheon Company 1991 Stock Plan, as amended on September 21, 2005.
- 10.2 Raytheon Company 1995 Stock Option Plan, as amended on September 21, 2005.
- 10.3 Raytheon Company 1997 Nonemployee Directors Restricted Stock Plan, as amended on September 21, 2005.
- 10.4 Raytheon Company 2001 Stock Plan, as amended on September 21, 2005.
- 31.1 Certification of William H. Swanson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Biggs C. Porter pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certificate of William H. Swanson Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certificate of Biggs C. Porter Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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
(Principal Accounting Officer)

October 27, 2005

Raytheon Company
1991 Stock Plan

As amended October 28, 1998
As amended September 21, 2005

Raytheon Company

1991 Stock Plan

Amended October 28, 1998

Amended September 21, 2005

Section 1. Establishment and Purpose

The Raytheon Company 1991 Stock Plan (the "1991 Plan"), for eligible employees is established effective March 27, 1991, subject to stockholder approval at the Corporation's 1991 Annual Meeting. The purpose of the Plan is to attract and retain the best available talent and encourage the highest level of performance by employees in order to enhance the profitable growth of the Corporation and otherwise to serve the best interests of the Corporation and its shareholders. By affording eligible employees the opportunity to acquire proprietary interests in the Corporation and by providing them incentives to put forth maximum efforts for the success of the Corporation's business, the 1991 Plan is expected to contribute to the attainment of those objectives. The maximum number of shares of common stock as to which awards may be granted from time to time under the 1991 Plan shall be 2,000,000. If for any reason, any shares as to which an option has been granted cease to be subject to purchase thereunder or any restricted shares or restricted units are forfeited to the Corporation, or to the extent that any awards under the 1991 Plan denominated in shares or units are paid or settled in cash or are surrendered upon the exercise of an option, then (unless the 1991 Plan shall have been terminated) such shares or units and any shares received by the Corporation upon the exercise of an option, shall become available for subsequent awards under the 1991 Plan (to the same employee who received the original award or to a different employee or employees); provided, however, that shares received by the Corporation upon the exercise of an incentive stock option shall not be available for the subsequent award of additional incentive stock options under the 1991 Plan. Any shares issued by the Corporation in respect of the assumption or substitution of outstanding awards from a corporation or other business entity acquired by the Corporation shall not reduce the number of shares available for awards under the 1991 Plan. No incentive stock option shall be granted hereunder more than ten years after March 26, 1991. The Stock which may be issued under the 1991 Plan may be authorized but unissued Stock or stock now or hereafter held by the Corporation as Treasury Stock; such Stock may be acquired, subsequently or in anticipation of the transaction, in the open market to satisfy the requirements of the 1991 Plan.

Section 2. Definitions

The following terms, as used herein, shall have the meaning specified:

"Board of Directors" means the Board of Directors of Raytheon Company as it may be comprised from time to time.

"Code" shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time. Reference in the 1991 Plan to any section of the Code shall be deemed to include any amendments or successor provision to such section and any regulations under such section.

“Committee” shall mean the Compensation Committee of the Board of Directors appointed to administer the Plan in accordance with Section 3.

“Corporation” means Raytheon Company including its affiliates and subsidiaries.

“Eligible Employees” Awards will be limited to officers and other employees who are regular full-time employees of the Corporation. In determining the employees to whom awards shall be granted and the number of shares or units to be covered by each award, the Committee shall take into account the nature of employees’ duties, their present and potential contributions to the success of the Corporation and such other factors as it shall deem relevant in connection with accomplishing the purposes of the 1991 Plan. A director of the Corporation or of a subsidiary who is not also a regular full-time employee will not be eligible to receive an award.

“Option” shall mean any option granted under the 1991 Plan for the purchase of common stock.

“Participant” means any eligible employee who is approved by the Committee to participate in the 1991 Plan.

“Restricted Award” shall mean a Restricted Unit Award or a Restricted Stock Award.

“Restricted Period” means the designated period of time during which restrictions are in effect with respect to the Restricted Stock or Restricted Units.

“Restricted Stock” means Stock contingently awarded to a Participant under the 1991 Plan subject to the restrictions set forth in Sections 4 and 5.

“Restricted Stock Award” shall mean an award of common stock granted under the restricted award provisions of the 1991 Plan.

“Restricted Units” are units to acquire shares of common stock (or in the sole discretion of the Committee, cash as provided in Section 5.4) which are restricted as provided in Section 5.

“Stock” means shares of common stock of Raytheon Company.

Section 3. Administration of the Plan

The 1991 Plan shall be administered by the Compensation Committee of the Board of Directors of Raytheon Company. No member of this Committee shall be a Participant in this Plan. If any member of the Committee shall at any time not be a “disinterested person” or shall otherwise not qualify to administer the 1991 Plan as contemplated by Rule 16b-3, as amended, or other applicable rules under Section 16(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the 1991 Plan shall be administered by only those members of the Committee who qualify as such disinterested persons or otherwise are so qualified to administer the 1991 Plan in compliance with such rules.

The Committee shall have plenary authority in its discretion, subject to and not inconsistent with the express provisions of the 1991 Plan, to grant options, to determine the purchase price of the common stock covered by each option, the term of each option, the employees to whom, and the time or times at which, options shall be granted and the number of shares to be covered by each option; to designate options as incentive stock options or nonqualified options; to grant restricted shares and restricted units and to determine the term of the restricted period and other conditions applicable to such shares or units, the employees to whom, and the time or times at which, restricted shares or restricted units shall be granted and the number of shares or units to be covered by each grant; to interpret the 1991 Plan; to prescribe, amend and rescind rules and regulations relating to the 1991 Plan; to determine the terms and provisions of the option agreements and the restricted share and restricted unit agreements (which need not be identical) entered into in connection with awards under the 1991 Plan; and to make all other determinations deemed necessary or advisable for the administration of the 1991 Plan. The Committee may delegate to one or more of its members or to one or more agents such administrative duties as it may deem advisable, and the Committee or any person to whom it has delegated duties as aforesaid may employ one or more persons to render advice with respect to any responsibility the Committee or such person may have under the 1991 Plan.

The Committee may employ attorneys, consultants, accountants or other persons and the Committee, the Corporation and its officers and directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon all employees who have received awards, the Corporation and all other interested persons. No member or agent of the Committee shall be personally liable for any action, determination, or interpretation made in good faith with respect to the 1991 Plan or awards made thereunder, and all members and agents of the Committee shall be fully protected by the Corporation in respect of any such action, determination or interpretation.

Section 4. Award and Delivery of Restricted Stock or Restricted Units

4.1 At the time a Restricted Stock Award or Restricted Unit Award is made, the Restricted Period applicable to such Restricted Stock Award or Restricted Unit Award shall be established and shall not be less than one year nor more than ten years. Each Restricted Award may have a different Restricted Period. At the time a Restricted Award is made, conditions may be specified for the incremental lapse of restrictions during the Restricted Period and for the termination of restrictions upon the satisfaction of other conditions in addition to or other than the expiration of the Restricted Period, including but not limited to provisions related to a change of control, with respect to all or any portion of the Restricted Stock or Restricted Units.

4.2 All restrictions shall terminate with respect to all Restricted Stock or Restricted Units upon the Participant's (i) death; or (ii) total disability as evidenced by commencement and continuation for more than one year of benefits under the Corporation's Long Term Disability Plan (or if not a member of the Long Term Disability Plan the Participant would have been eligible for benefits using Long Term Disability Plan standards); or (iii) retirement at age 65 or later unless otherwise specified in the Restricted Award.

4.3 Each Restricted Award shall be evidenced by a written agreement signed by the Participant and the Chief Executive Officer, or, in the case of a Restricted Award to the Chief Executive Officer, by the Participant and by a member of the Committee (the "award letter") which shall state the Restricted Period and such other terms and conditions which may be applicable, including payment by the Participant of the par value of the Restricted Stock upon execution of the award letter (the "Purchase Price") if such payment is required by state law.

Section 5. Restrictions

5.1 A stock certificate representing the number of shares of Restricted Stock granted to a Participant shall be registered in the Participant's name but shall be held in custody by the Corporation for the Participant's account. The Participant shall generally have the rights and privileges of a stockholder as to such Restricted Stock including the right to vote such Restricted Stock, except that the following restrictions shall apply: (i) the Participant shall not be entitled to delivery of the certificate until the expiration or termination of the Restricted Period and the satisfaction of any other conditions specified in the award letter; (ii) none of the Restricted Stock may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of during the Restricted Period and until the satisfaction of any other conditions specified in the award letter; and (iii) except as set forth in Section 4 or as set forth in the award letter executed pursuant to Section 4, all of the Restricted Stock shall be forfeited and all rights of the Participant to such Restricted Stock including any stock dividends on such Restricted Stock shall terminate without further obligation on the part of the Corporation unless the Participant has remained a regular full-time employee of the Corporation until the expiration or termination of the Restricted Period and the satisfaction of any other conditions specified in the award letter applicable to such Restricted Stock.

The Participant shall have the same rights and privileges, and be subject to the same restrictions, with respect to any Stock received pursuant to Section 8.

5.2 At the discretion of the Corporation, cash dividends with respect to the Restricted Stock may be either currently paid or withheld by the Corporation for the Participant's account, and interest shall be paid on the amount of cash dividends withheld at a rate and subject to such terms as determined by the Corporation. Cash dividends so withheld shall not be subject to forfeiture. Stock dividends with respect to the Restricted Stock (if the distribution of such does not generate federal income tax liability to the Participant) shall be held in the Participant's account and shall be subject to forfeiture. Stock dividends which are taxable to the Participant may, in the discretion of the Committee, be distributed to the Participant. Upon the forfeiture of any Restricted Stock, such forfeited Stock and any stock dividends on such forfeited Stock held for Participant's account shall be transferred to the Corporation without further action by the Participant and any amounts paid by the Participant upon the issuance of the Restricted Stock shall be returned to the Participant with interest.

5.3 Upon the expiration or termination of the Restricted Period and the satisfaction of any other conditions prescribed by the Committee or at such earlier time as provided for in Section 4 or in the award letter applicable to such Restricted Stock, the restrictions applicable to

the Restricted Stock shall terminate and a stock certificate for the number of shares with respect to which the restrictions have terminated shall be delivered, free of all such restrictions, except any that may be imposed by law, to the Participant or the Participant's beneficiary or estate, as the case may be. The Corporation shall not be required to deliver any fractional share of common stock but will pay, in lieu thereof, the fair market value (determined as of the date the restrictions terminate) of such fractional share to the Participant or the Participant's beneficiary or estate, as the case may be. No payment will be required from the Participant upon the delivery of any Restricted Stock, except any payment of par value which may be required by state law and except that any amount necessary to satisfy applicable federal, state or local tax requirements shall be satisfied by withholding an equivalent amount of Stock (valued at fair market value on the date the restrictions terminate) or paid promptly by the Participant upon notification of the amount due and prior to or concurrently with the delivery of a certificate representing such Stock.

5.4 In the case of an award of Restricted Units, no shares of common stock shall be issued at the time the award is made, and the Corporation shall not be required to set aside a fund for the payment of any such award.

Upon the expiration or termination of the Restricted Period and the satisfaction of any other conditions prescribed by the Committee or at such earlier time as provided for in Section 4, the Corporation shall deliver to the employee or the employee's beneficiary or estate, as the case may be, one share of common stock for each Restricted Unit with respect to which the restrictions have lapsed ("vested unit") and cash equal to any dividend equivalents credited with respect to each such vested unit and the interest thereon; provided, however, that the Committee may, in its sole discretion, elect to pay cash or part cash and part common stock in lieu of delivering only common stock for the vested units. If a cash payment is made in lieu of delivering common stock, the amount of such cash payment shall be equal to the mean between the highest and lowest sales prices of the common stock as reported in the New York Stock Exchange Composite Tape for the date on which the Restricted Period lapsed with respect to such vested unit, or if there are no sales on such date, on the next preceding day on which there were sales. Upon the occurrence of Change in Control (as defined in Section 11 (b)), all outstanding vested units (including Restricted Units whose restrictions have lapsed as a result of the occurrence of such Change in Control) and credited dividend equivalents shall be payable as soon as practicable but in no event later than ninety days after such Change in Control in cash, in shares of common stock, or part in cash and part in common stock, as the Committee, in its sole discretion, shall determine. To the extent that an employee receives cash in payment for his or her vested units, such employee shall receive an amount equal to the fair market value of the shares of common stock he or she would have received had he or she been delivered common stock.

Section 6. Termination of Employment

Unless otherwise determined by the Compensation Committee, or otherwise provided in the award letter, if a Participant to whom Restricted Stock has been granted ceases to be an employee of the Corporation prior to the end of the Restricted Period and the satisfaction of any other conditions specified in the award letter, for any reason other than the reasons specified in Section 4, the Participant shall immediately forfeit all Restricted Stock and stock dividends

thereon. Nothing in the 1991 Plan or in any Restricted Award or option granted pursuant to the 1991 Plan shall confer upon any employee any right to continue in the employ of the Corporation or interfere in any way with the right of the Corporation to terminate such employment at any time.

Section 7. Options

Each employee to whom an Option is granted under the 1991 Plan shall, as consideration therefor, remain in continuous employ of the Corporation for twelve months from the date of the granting of such Option before the employee can exercise any part thereof, and said options shall, subject to the limitations on incentive stock options set forth below, be exercisable in full at the expiration of twelve months from the date of grant. Notwithstanding the foregoing, in the case of Options granted under the 1991 Plan in substitution of outstanding options or awards granted by a corporation or other business entity acquired by the Corporation (a "Substitute Option"), the date of granting of such Substitute Option shall be deemed to be the date of the original grant of the option being substituted (a "Substituted Option") by the corporation or other business entity acquired by the Corporation and an employee's service in the continuous employ of such acquired corporation or business entity since the grant of the Substituted Option shall be included for purposes of determining the length of said employee's service in the continuous employ of the Corporation. When an employee to whom an Option has been granted takes an authorized leave of absence (which does not constitute a cessation of employment pursuant hereto), the period of time elapsed during such leave of absence, shall be included in computing the dates upon which any part of the Option becomes exercisable, except to the extent that the Committee in its discretion otherwise determines. The Committee may, in its sole discretion, cancel in whole or in part, the unexercised portion of any Option at any time that it determines that the optionee is not performing satisfactorily the duties to which he or she was assigned on the effective date of the grant of the Option to him or her, or duties of at least equal responsibility.

Except as otherwise provided below, no option shall be exercised unless at the time of such exercise the holder of the Option is in the employment of the Corporation. Employees who are on authorized leave of absence or who are on salary continuance or vacation subsequent to the last day worked as defined herein are not "in the employment of the Corporation or one of its subsidiaries" for purposes of this Section. Employees who retire while on vacation, leave of absence or salary continuance, shall be deemed to have retired at the close of business on the last day worked.

Each incentive option granted hereunder shall by its terms provide: (a) that such Option shall not be exercised after expiration of ten years from the effective date of granting such Option and (b) that the aggregate fair market value (determined at the time the option is granted) of the stock with respect to which incentive stock options are exercisable for the first time by any individual employee during any calendar year (under all incentive stock option plans of Raytheon Company and its subsidiary corporations) shall not exceed \$100,000. No incentive stock option shall be granted if the exercise thereof would cause the optionee to become the holder of ten percent or more of the Corporation's common stock. Incentive options may contain such additional provisions as may be required in order to be "incentive stock options" under the Code.

Nonqualified options shall not be exercisable after expiration of eleven years from the effective date of grant. Subject to the foregoing, an Option granted under the Plan shall be exercisable in whole or at any time at the expiration of one year from the date of grant or in part from time to time thereafter but in no case may an option be exercised for a fraction of a share.

Incentive options granted hereunder and nonqualified options granted to individuals other than Company Officers shall not be transferable, otherwise than by will or the laws of descent and distribution, and may be exercised during the life of the holder thereof only by him or her. Nonqualified options granted hereunder to a Company Officer may be transferred to a member of such Company Officer's Immediate Family or trusts established solely for the benefit of such Immediate Family members. The holder of an Option or his or her legal representatives, legatees, or distributees, or permitted transferees, as the case may be, shall have none of the rights of a stockholder with respect to any shares subject to such Option until such shares have been issued to him or her under the terms of this Plan.

7.1 Procedure for Exercise

(a) An Option may be exercised only by submitting to the Office of the Vice President – Human Resources a completed copy of an exercise form preceded (except as otherwise provided by paragraph (b) of this Section 7.1) by wire transfer of immediately available funds or accompanied (except as otherwise provided by paragraph (b) of this section 7.1) by a certified or cashier's check payable to the order of the Company or shares of the Corporation's common stock held by the Participant for at least six months with a current fair market value equal to the full amount of the total price of the shares for which the Option is to be exercised. The Option will be deemed to have been exercised only when the completed form with such payment has been received by the Office of the Vice President – Human Resources. A request for exercise which is received by the Office of the Vice President – Human Resources after the expiration of such Option or after the expiration of the time within exercise which is permitted pursuant to the Plan, whichever is earlier, shall not be valid exercise.

Certificates for shares tendered must be endorsed or accompanied by signed stock powers with the signature guaranteed by a U.S. commercial bank or trust company or by a brokerage firm having membership on the New York Stock Exchange. Shares tendered in payment will be valued at the average of the high and low trade prices for the day preceding the date of exercise as published in *The Wall Street Journal*. Any deficiency in the option exercise price shall be paid by certified or cashier's check.

(b) In lieu of payment by wire transfer, certified or cashier's check or other shares of the Corporation's common stock held by the Participant for at least six months as described in paragraph (a) of this Section 7, an Optionee may, unless prohibited by applicable law, elect to effect payment by including with the written notice referred to in paragraph (a) of this Section 7 irrevocable instructions to deliver for sale to a registered securities broker acceptable to the Corporation a number of the shares subject to the Option being exercised sufficient, after brokerage commissions, to cover the aggregate exercise price of such Option and, if the Optionee further elects, the Optionee's withholding obligations with respect to such exercise referred to in Section 13, together with irrevocable instructions to such broker to sell such shares and to remit directly to the Company such aggregate exercise price and, if the Optionee has so elected, the amount of such withholding obligation. The Corporation shall not be required to deliver to such

securities broker any stock certificate for such shares (which delivery may be by book-entry) until it has received from the broker such exercise price and, if the Optionee has so elected, such withholding obligation amount.

7.2 Time of Granting Options

The granting of an Option pursuant to the Plan shall be deemed to take place at the time when the Committee shall take action authorizing the grant of such Option or at such subsequent time as the Committee shall designate, provided, however, that all grants shall be deemed to be conditioned upon the optionee being an employee of the Corporation on the effective date of the grant.

7.3 Termination of Employment

If a holder of an Option shall retire, take leave of absence, or shall cease to be employed by the Corporation for any reason other than death after he or she shall have been continuously so employed for twelve months from and after the date of the granting of an Option, he or she may, but only within the period of time listed below immediately succeeding the last day worked prior to such retirement, leave of absence or cessation, exercise such option:

<u>Reason for Absence from Work</u>	<u>Time Following Last Day Worked Within Which Option May Be Exercised</u>
Retirement	Three Years
Medical Leave of Absence	During Such Leave
Personal Leave of Absence	Three Months
Discharge for cause or other severance of employment determined by Committee to warrant termination of option	None
Layoff	One Year
Quit	Three Months

In no event may an Option be exercised following its expiration or cancellation.

For purposes of the 1991 Plan, "last day worked" means the last day on which the holder was responsible for performing his or her assigned duties for the Corporation. Any period of accrued vacation or salary continuance for which the holder may be eligible as of his or her retirement or cessation of employment shall not extend the period in which options must be exercised. Transfer of employment between corporations in the group comprised of the Corporation and its subsidiaries shall not be deemed a cessation of employment. Whether a leave of absence for other than medical reasons, duly authorized by the Corporation shall constitute a cessation of employment for purposes of the 1991 Plan shall be determined by the Committee, which determination unless overruled by the Board of Directors, shall be final and conclusive. The grant of an Option will not confer upon a holder of an Option any right with respect to continuance of employment by the Corporation, nor will it interfere in any way with his or her right, or his or her employer's right, to terminate his or her employment at any time.

7.4 Death of Holder

In the event of the death of a holder of an Option while in the employ of the Corporation, or during a period following the last day worked within which the Option of such holder was permitted to be exercised, the Option shall be exercisable only within twelve months following such death (but not later than the expiration date of the Option) and then only (a) by his or her estate or by the person or persons who acquired the right to exercise such Option by bequest or inheritance or by reason of the death of the decedent, and (b) if and to the extent that he or she was entitled to exercise the Option at the date of his or her death.

7.5 Option Price

The purchase price under each incentive stock option shall be not less than one hundred percent of the fair market value of such shares at the time such Option is granted. Other options

may be granted at such prices above or below the fair market value of the shares as the Committee may determine.

Section 8. Changes in Capitalization

In the event of any change in the outstanding shares of Stock by reason of a stock dividend or split, recapitalization, merger or consolidation, reorganization, combination or exchange of shares or other similar corporate change, the maximum aggregate number of shares available under the 1991 Plan and the number of shares covered by each previously granted Option and Restricted Award, if any, shall be proportionally adjusted by the Board of Directors with such determination being conclusive.

Section 9. Effective Date

The 1991 Plan is effective as of March 27, 1991, subject to the approval of the stockholders at the Corporation's 1991 Annual Meeting. The Committee may, at its discretion, grant Options and Restricted Stock Awards under the 1991 Plan subject to such stockholder approval of the 1991 Plan. Options and Restricted Stock Awards, issuance or delivery of stock upon exercise of options or upon expiration of restrictions on Restricted Stock shall be expressly subject to the conditions that, to the extent required by law at the time of exercise of Options or grant of Restricted Stock Awards, issuance or delivery, (i) the shares of Stock shall be duly listed upon the New York Stock Exchange; and (ii) if the Corporation deems it necessary or desirable, a Registration Statement under the Securities Act of 1933 with respect to such stock shall be effective.

Section 10. Designation of Beneficiary

A Participant may, with the consent of the Committee, designate a person or persons to receive Restricted Stock to which the Participant is entitled in the event of the Participant's death. Such designation shall be made in writing upon forms supplied by and delivered to the Committee, and may be revoked in writing. If a Participant fails effectively to designate a beneficiary, the Participant's Restricted Stock shall be distributed in accordance with his will or, if intestate, the laws of descent and distribution.

Section 11. Lapse at Discretion of the Committee; Lapse Upon Termination Following a Change in Control

(a) The Committee shall have the authority to accelerate the time at which the restrictions on Restricted Stock and Restricted Units will lapse or to remove any of such restrictions whenever it may decide in its absolute discretion that, by reason of changes in applicable tax, securities, or other laws or other changes in circumstances arising after the date of the Award, such action is in the best interest of the Company, and equitable to the Participant, his heirs, or designated beneficiaries.

(b) The restrictions on Restricted Stock and Restricted Stock Units shall lapse and Nonqualified Stock Options issued hereunder become exercisable immediately upon a Change in

Control of the Corporation. “Change in Control” of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

- (i) Any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Person”), other than those Persons in control of the Corporation as of the date hereof or a trustee or other fiduciary holding securities under an employee benefit plan of the Corporation or a corporation owned directly or indirectly by the stockholders of the Corporation in substantially the same proportions as their ownership of stock of the Corporation, becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing 25% or more of the combined voting power of the Corporation’s then outstanding securities; or
- (ii) A change in the Board such that individuals who as of the date hereof constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; *provided, however*, that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Corporation’s stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board; or
- (iii) The consummation of: (a) a plan of complete liquidation of the Corporation; (b) an agreement for the sale or disposition of all or substantially all of the Corporation’s assets; (c) a merger, consolidation or reorganization of the Corporation with or involving any other corporation, other than a merger, consolidation or reorganization that would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Corporation (or such surviving entity) outstanding immediately after such merger, consolidation or reorganization.

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

Section 12. Compliance with Securities and Exchange Commission Requirements

No certificate for shares of Stock distributed pursuant to the Plan shall be executed and delivered until the Company shall have taken such action, if any, as is then required to comply with the provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of

1934, as amended, or any other applicable laws, and the requirements of any exchange on which the Stock may, at the time, be listed.

Section 13. Compliance with Tax Laws

To the extent required by applicable federal, state or local laws or regulations, the Corporation may withhold from any cash to be distributed to a Participant pursuant to the Plan or from salary or other compensation payable to the Participant amounts sufficient to comply with the Corporation's obligations under such laws or regulations. The Corporation may require the Participant, as a condition to delivering shares upon exercise of nonqualified stock options (whether for cash or stock) or as a condition to delivery of restricted stock which becomes deliverable pursuant to the Plan, to pay to the Corporation amounts sufficient to meet the Corporation's obligations under such laws or regulations.

Section 14. Termination and Amendment

The Board of Directors of the Corporation may suspend, terminate, modify or amend the 1991 Plan, provided that any amendment that would increase the aggregate number of shares of Stock which may be issued under the 1991 Plan, materially increase the benefits accruing to Participants under the 1991 Plan, or materially modify the requirements as to eligibility for participation in the 1991 Plan, must be approved by the Corporation's stockholders, except that any such increase or modification that may result from adjustments authorized by Section 8 shall not require such approval. If the 1991 Plan is terminated, the terms of the 1991 Plan shall, notwithstanding such termination, continue to apply to Awards granted prior to such termination. In addition, no suspension, termination, modification or amendment of the Plan may, without the consent of the Participant to whom a Stock Option or Restricted Stock Award shall theretofore have been granted, adversely affect the rights of such Participant under such Award Stock Option or Restricted Stock Award.

Section 15. Duration

The 1991 Plan shall remain in effect until all Stock Options have been exercised or expired and until all Restricted Stock shall have been delivered without restrictions or forfeited under the 1991 Plan provided that no Stock Options shall be granted and no Restricted Stock Awards shall be made under the Plan after March 26, 2001.

RAYTHEON COMPANY
1995 STOCK OPTION PLAN

As amended October 28, 1998

As amended September 21, 2005

RAYTHEON COMPANY

1995 STOCK OPTION PLAN
As amended October 28, 1998
As amended September 21, 2005

1. **Definitions.** As used in this Raytheon Company 1995 Stock Option Plan the following terms have the following meanings:

1.1 "Change in Control" of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

- (i) Any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person"), other than those Persons in control of the Company as of the date hereof or a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities; or
- (ii) A change in the Board of Directors of the Company (the "Board") such that individuals who as of the date hereof constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; *provided, however*, that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board; or
- (iii) The consummation of: (a) a plan of complete liquidation of the Company; (b) an agreement for the sale or disposition of all or substantially all of the Company's assets; (c) a merger, consolidation or reorganization of the Company with or involving any other corporation, other than a merger, consolidation or reorganization that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger, consolidation or reorganization.

However, in no event shall a Change in Control be deemed to have occurred for purposes of this Agreement if Optionee is included in a Person that consummates the Change in Control. An Optionee shall not be deemed to be included in a Person by reason of ownership of (i) less than 3% of the equity in the Person or (ii) an equity interest in the Person which is otherwise not

significant as determined prior to the Change of Control by a majority of the non-employee continuing directors of the Company.

1.2 “Code” means the Internal Revenue Code of 1986, as amended.

1.3 “Committee” means the Compensation Committee of the Company’s Board of Directors, consisting exclusively of directors who at the relevant time are “outside directors” within the meaning of §162(m) of the Code.

1.4 “Company” means Raytheon Company, a Delaware corporation.

1.5 “Company Officer” means the Chairman of the Board, the President, and any Executive Vice President, Senior Vice President or Vice President of the Corporation.

1.6 “Fair Market Value” means the value of a share of Stock of the Company on any date as determined by the Board.

1.7 “Grant Date” means the date on which an Option is granted, as specified in Section 7.

1.8 “Immediate Family” means any child, stepchild, grandchild, parent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships.

1.9 “Incentive Stock Option” means an Option grant that is intended to meet the requirements of Section 422 of the Code.

1.10 “Non-Statutory Stock Option” means an Option grant that is not intended to be an Incentive Stock Option.

1.11 “Option” means an option to purchase shares of the Stock granted under the Plan.

1.12 “Option Agreement” means an agreement between the Company and an Optionee setting forth the terms and conditions of an Option.

1.13 “Option Period” means the period from the date of the grant of an Option to the date when the Option expires as stated in the terms of the Option Agreement.

1.14 “Option Price” means the price paid by an Optionee for an Option under this Plan.

1.15 “Option Share” means any share of Stock of the Company transferred to an Optionee upon exercise of an Option pursuant to this Plan.

1.16 “Optionee” means a person eligible to receive an Option, as provided in Section 6, to whom an Option shall have been granted under the Plan.

1.17 “Plan” means this 1995 Stock Option Plan of the Company.

1.18 "Related Corporation" means a Parent Corporation or a Subsidiary Corporation, each as defined in Section 424 of the Code.

1.19 "Stock" means common stock, \$0.01 par value, of the Company.

2. **Purpose.** This 1995 Stock Option Plan is intended to encourage ownership of Stock by key employees of the Company and its Related Corporations and to provide additional incentive for them to promote the success of the Company's business. With respect to any Incentive Stock Options that may be granted hereunder, the Plan is intended to be an incentive stock option plan within the meaning of Section 422 of the Code.

3. **Term of the Plan.** Options under the Plan may be granted not later than March 21, 2005.

4. **Stock Subject to the Plan.** At no time shall the number of shares of Stock then outstanding which are attributable to the exercise of Options granted under the Plan, plus the number of shares then issuable upon exercise of outstanding options granted under the Plan, exceed 20,000,000 shares, subject, however, to the provisions of Section 15 of the Plan. No Optionee may be granted in any year Options to purchase more than 200,000 shares of Stock, subject to adjustment pursuant to Section 15. Shares to be issued upon the exercise of Options granted under the Plan may be either authorized but unissued shares or shares held by the Company in its treasury. If any Option expires or terminates for any reason without having been exercised in full, the shares not purchased thereunder shall again be available for Options thereafter to be granted.

5. **Administration.** The Plan shall be administered by the Committee. Subject to the provisions of the Plan (including, without limitation, the provisions of Section 19), the Committee shall have complete authority, in its discretion, to make the following determinations with respect to each Option to be granted by the Company: (a) the key employee to receive the Option; (b) the time of granting the Option; (c) the number of shares subject thereto; (d) the Option Price (subject to Section 8 below); (e) the Option Period; and (f) whether the Option is an Incentive Stock Option or a Non-Statutory Stock Option. Incentive Stock Options granted under this Plan shall be designated specifically as such. In making such determinations, the Committee may take into account the nature of the services rendered by the respective employees, their present and potential contributions to the success of the Company and its subsidiaries, and such other factors as the Committee in its discretion shall deem relevant. Subject to the provisions of the Plan, the Committee shall also have complete authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it, to determine the terms and provisions of the respective Option Agreements (which need not be identical), and to make all other determinations necessary or advisable for the administration of the Plan. The Committee's determinations on the matters referred to in this Section 5 shall be conclusive.

6. **Eligibility.** An Option may be granted only to a key employee of one or more of the Company and its subsidiaries. A director of one or more of the Company and its subsidiaries who is not also an employee of one or more of the Company and its subsidiaries shall not be eligible to receive Options.

7. Time of Granting Options. The granting of an Option shall take place at the time specified by the Committee. Only if expressly so provided by the Committee shall the Grant Date be the date on which an Option Agreement shall have been duly executed and delivered by the Company and the Optionee.

8. Option Price. The Option Price under each Option shall be as determined by the Committee but shall not be less than 100% of the Fair Market Value of the Stock on the Grant Date.

9. Option Period. No Incentive Stock Option may be exercised later than the tenth anniversary of the Grant Date. No Non-Statutory Stock Option may be exercised later than one day after the tenth anniversary of the Grant Date. An Option may become exercisable in such installments, cumulative or non-cumulative, or may be immediately exercisable, as the Committee may determine.

10. Maximum Size of Incentive Stock Option as Such. To the extent that the aggregate Fair Market Value of Stock for which an Incentive Stock Option becomes exercisable by an Optionee for the first time in any calendar year exceeds \$100,000, the portion of such Incentive Stock Option which exceeds such \$100,000 limitation shall be treated as a Non-Statutory Stock Option, and not an incentive option under Section 422 of the Code. For purposes of this Section 10, all Incentive Stock Options granted to an Optionee by the Company, as well as any options that have been granted to the Optionee under any other stock incentive plans of the Company or any related corporation which are intended to comply with the provisions of Section 422 of the Code, shall be considered in the order in which they were granted, and the Fair Market Value shall be determined as of the Grant Dates.

11. Exercise of Option.

11.1 An Option may be exercised only by giving written notice, in the manner provided in Section 21 hereof, specifying the number of shares as to which the Option is being exercised, accompanied (except as otherwise provided in Subsection 11.2 of this Section 11) by full payment for such shares in the form of check or bank draft payable to the order of the Company or other shares of the Stock with a current Fair Market Value equal to the Option Price of the shares to be purchased. Receipt by the Company of such notice and payment shall constitute the exercise of the Option or a part thereof. Within 20 days thereafter, the Company shall deliver or cause to be delivered to the Optionee a certificate or certificates for the number of shares then being purchased. Such shares shall be fully paid and nonassessable. If such shares are not at that time effectively registered under the Securities Act of 1933, as amended, the Optionee shall include with such notice a letter, in form and substance satisfactory to the Company, confirming that such shares are being purchased for the Optionee's own account for investment and not with a view to distribution.

11.2 In lieu of payment by check, bank draft or other shares of Stock accompanying the written notice of exercise as described in Subsection 11.2 of this Section 11, an Optionee may, unless prohibited by applicable law, elect to effect payment by including with the written notice referred to in Subsection 11.2 irrevocable instructions to deliver for sale to a registered securities broker acceptable to the Company a number of the shares subject to the Option being exercised

sufficient, after brokerage commissions, to cover the aggregate exercise price of such Option and, if the Optionee further elects, the Optionee's withholding obligations with respect to such exercise referred to in Sections 12 or 20, together with irrevocable instructions to such broker to sell such shares and to remit directly to the Company such aggregate exercise price and, if the Optionee has so elected, the amount of such withholding obligation. The Company shall not be required to deliver to such securities broker any stock certificate for such shares until it has received from the broker such exercise price and, if the Optionee has so elected, such withholding obligation amount.

12. Notice of Disposition of Stock Prior to Expiration of Specified Incentive Stock Option Holding Period. The Company may require that the person exercising an Incentive Stock Option give a written representation to the Company, satisfactory in form and substance to its counsel and upon which the Company may reasonably rely, that he or she will report to the Company any disposition of shares purchased upon exercise prior to the expiration of the holding periods specified by Section 422(a)(1) of the Code. If and to the extent that the disposition imposes upon the Company federal, state, local or other withholding tax requirements, or any such withholding is required to secure for the Company an otherwise available tax deduction, the Company shall have the right to require that the person making the disposition remit to the Company an amount sufficient to satisfy those requirements.

13. Transferability of Options. Incentive options granted hereunder and nonqualified options granted to individuals other than Company Officers shall not be transferable, otherwise than by will or the laws of descent and distribution, and may be exercised during the life of the holder thereof only by him or her. Nonqualified options granted hereunder to a Company Officer may be transferred to a member of such Company Officer's Immediate Family or trusts established solely for the benefit of such Immediate Family members. The holder of an Option or his or her legal representatives, legatees, distributees, or permitted transferees, as the case may be, shall have none of the rights of a stockholder with respect to any shares subject to such Option until such shares have been issued to him or her under this Plan.

14. **Termination of Employment or Service.** Each Option shall terminate and may no longer be exercised if the Optionee ceases to perform services for the Company or a Related Corporation in accordance with the following:

14.1 If an Optionee ceases to be an active employee of the Company or any Related Corporation other than by reason of death or retirement, absent in any case a determination by the Committee to the contrary, any Options which were exercisable by the Optionee on the date of cessation of active employment may be exercised any time (a) before their expiration date or (b) within the respective periods listed below in this Section 14.1, depending upon the reason for cessation of active employment, whichever is earlier, but only to the extent that the Options were exercisable when active employment ceased. Notwithstanding the foregoing, in the event an Optionee fails to exercise an Incentive Stock Option within three months after the date of termination, such Option will be treated as a Non-Statutory Stock Option pursuant to Section 422 of the Code. The respective periods following cessation of active employment referred to in clause (a) of the first sentence of this Section 14.1 are as follows:

<u>Reason for Cessation of Active Employment</u>	<u>Period Following Last Day of Active Employment Within Which Option May Be Exercised</u>
Medical leave of absence	During such leave
Personal leave of absence	Three months
Discharge for cause or other severance of employment determined by Committee to warrant termination of option	None
Layoff or similar involuntary termination without cause	One Year
Voluntary termination (non-retirement)	Three Months

14.2 If an Optionee's employment terminates because of death, Options may be exercised at any time before the expiration date or within one year after the date of termination, whichever is earlier, but only (a) if and to the extent that the Optionee was entitled to exercise the Option at the date of the Optionee's death and (b) by the Optionee's estate or by the person(s) who acquired the right to exercise such Option by bequest or inheritance or by reason of the death of the Optionee.

14.3 If an Optionee's employment terminates because of retirement, any Options which were exercisable by the Optionee on the date of termination of employment may be exercised any time before their expiration date or within three years after the date of termination, whichever is earlier, but only to the extent that the Options were exercisable when employment ceased (absent a determination by the Committee to the contrary at the time any such Options were granted or prior to their expiration date), as provided hereunder. Notwithstanding the foregoing, in the event an Optionee fails to exercise an Incentive Stock Option within three months after the date of his or her retirement, such Option will be treated as a Non-Statutory Stock Option.

15. **Anti-Dilution Adjustments.** Pro rata adjustment shall be made in the maximum number of shares of Stock subject to the Plan or that may be awarded to any individual in any year to give effect to any stock dividends, stock splits, stock combinations, recapitalizations and other similar changes in the capital structure of the Company. Pro rata adjustments shall be made in the number, kind and price of shares of Stock covered by any outstanding Option hereunder to give effect to any stock dividends, stock splits, stock combinations, recapitalizations and similar changes in the capital structure of the Company, or a merger, dissolution or reorganization of the Company, after the date the Option is granted, so that the Optionee is treated in a manner equivalent to that of holders of the underlying Stock.

16. **Change in Control.** Upon a Change in Control, each outstanding Option shall immediately become fully exercisable, and a registration statement under the Securities Act of

1933, as amended, with respect to shares covered by all outstanding Options, whether to be issued by the Company or by any successor corporation, shall be effective at all times during which the Options may be exercised and, to facilitate resale of the shares, during the twelve months after the last exercise of the Options.

17. **Reservation of Stock.** The Company shall at all times during the term of the Options reserve and keep available such number of shares of the Stock as will be sufficient to satisfy the requirements of this Plan and shall pay all fees and expenses necessarily incurred by the Company in connection therewith.

18. **Limitation of Rights in the Option Shares.** The Optionee shall not be deemed for any purpose to be a stockholder of the Company with respect to any of the Option Shares except to the extent that the Option shall have been exercised with respect thereto and, in addition, a certificate shall have been issued therefor and delivered to the Optionee.

19. **Termination and Amendment of the Plan.** The Committee may at any time terminate the Plan or make such amendment to the Plan as it shall deem advisable, provided that, except as provided in Section 14, the Committee may not, without the approval by the holders of a majority of the Stock, change the classes of persons eligible to receive Options, increase the maximum number of shares available for option under the Plan or extend the period during which Options may be granted or exercised. No termination or amendment of the Plan may, without the consent of the Optionee to whom any Option shall theretofore have been granted, adversely affect the rights of such Optionee under such Option.

20. **Withholding.** The Company's obligations to deliver shares of Stock upon exercise of an Option shall be subject to the Optionee's satisfaction of all applicable federal, state and local income and employment tax withholding obligations. The Committee may, at or after grant, permit an Optionee to satisfy such tax withholding requirements by delivery to the Company of shares retained from the Option grant creating the tax obligation having a value equal to the amount to be withheld. The value of shares of Stock to be withheld or delivered shall be based on the Committee's determination of the Fair Market Value of a share of Stock on the date the amount of tax to be withheld is to be determined.

21. **Notices.** Any communication or notice required or permitted to be given under the Plan shall be in writing, and mailed by registered or certified mail or delivered in hand, if to the Company, to 870 Winter Street, Waltham, Massachusetts 02451, Attention: Senior Vice President - Human Resources and, if to the Optionee, to the address as the Optionee shall last have furnished to the communicating party.

RAYTHEON COMPANY

1997 NONEMPLOYEE DIRECTORS RESTRICTED STOCK PLAN

Effective November 26, 1996

Amended effective May 4, 2005

Amended effective September 21, 2005

RAYTHEON COMPANY

1997 NONEMPLOYEE DIRECTORS RESTRICTED STOCK PLAN

1. DEFINITIONS

The following terms shall have the following meanings unless the context indicates otherwise:

1.1 “*Board*” shall mean the Board of Directors of the Company.

1.2 “*Change in Control*” of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

- (i) Any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Person”), other than those Persons in control of the Company as of the date hereof or a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, become the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company’s then outstanding securities; or
- (ii) A change in the Board such that individuals who as of the date hereof constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; *provided, however*, that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company’s stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board; or
- (iii) The consummation of: (a) a plan of complete liquidation of the Company; (b) an agreement for the sale or disposition of all or substantially all of the Company’s assets; (c) a merger, consolidation or reorganization of the Company with or involving any other corporation, other than a merger, consolidation or reorganization that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger, consolidation or reorganization.

However, in no event shall a Change in Control be deemed to have occurred for purposes of this Plan if Participant is included in a Person that consummates the Change in Control. A Participant shall not be deemed to be included in a Person by reason of ownership of (i) less than 3% of the

equity in the Person or (ii) an equity interest in the Person which is otherwise not significant as determined prior to the Change of Control by a majority of the non-employee continuing directors of the Company.

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

1.3 “*Committee*” shall mean the Compensation Committee of the Board, or such other Board committee as may be designated by the Board to administer the Plan; *provided, however*, that such committee shall be composed solely of two or more directors each of whom qualifies as a “nonemployee director” (as defined in Rule 16b-3 under the Exchange Act).

1.4 “*Common Stock*” shall mean the Common Stock, \$.01 par value per share, of the Company.

1.5 “*Company*” shall mean Raytheon Company or any company successor thereto by merger, consolidation or reorganization.

1.6 “*Director*” shall mean a member of the Board.

1.7 “*Effective Date*” shall mean November 26, 1996.

1.8 “*Eligible Director*” shall mean a Director of the Company who is not at the relevant time an Employee.

1.9 “*Employee*” shall mean a salaried employee (as described in Treasury Regulation Section 1.421-7(h)) of the Company or any Subsidiary.

1.10 “*Exchange Act*” shall mean the Securities Exchange Act of 1934, as amended from time to time, including applicable regulations thereunder.

1.12 “*Participant*” shall mean any Eligible Director to whom a Stock Award has been granted by the Committee under the Plan.

1.13 “*Plan*” shall mean the Raytheon Company 1997 Nonemployee Directors Restricted Stock Plan.

1.14 “*Stock Award*” shall mean the grant by the Company to an Eligible Director of Common Stock pursuant to Section 6 below.

1.15 “*Stock Award Agreement*” shall mean a written agreement between the Company and the Participant that establishes the terms, conditions, restrictions and/or limitations applicable to a Stock Award in addition to those established by this Plan and by the Committee’s exercise of its administrative powers.

1.16 “*Subsidiary*” shall mean a corporation, business trust or similar incorporated or unincorporated entity of which the Company directly or indirectly owns more than 50% of the voting power or value.

1.17 “*Treasury Regulation*” shall mean the regulation promulgated under the Code by the United States Department of the Treasury, as amended from time to time.

1.18 “*Vesting Date*” shall mean the vesting date specified in accordance with Section 6.6 below.

2. **PURPOSE AND TERM OF PLAN**

2.1 **Purpose.** The purpose of the Plan is to further the growth, development and financial success of the Company by enabling it to attract and retain nonemployee directors of outstanding ability and, by providing nonemployee directors the opportunity to become owners in Common Stock, to more closely align the interests of the Company’s directors with that of its shareholders.

2.2 **Term.** The plan shall become effective as of the Effective Date, and shall terminate on the day which precedes the 10th anniversary of the Effective Date, unless terminated earlier by the Board pursuant to Section 8.1 below.

3. **ELIGIBILITY**

3.1 **Eligibility.** All Eligible Directors shall participate in the Plan as of the Effective Date.

4. **ADMINISTRATION**

4.1 **Responsibility.** The Committee shall have the responsibility to control, operate, manage and administer the Plan in accordance with its terms.

4.2 **Authority of the Committee.** The Committee shall have all the discretionary authority that may be necessary or helpful to enable it to discharge its responsibilities with respect to the Plan, including but not limited to:

- (1) to determine eligibility for participation in the Plan;
- (2) to determine eligibility for and the number of shares of Common Stock subject to a Stock Award granted under the Plan;
- (3) to supply any omission;
- (4) to issue administrative guidelines as an aid to administer the Plan and make changes in such guidelines as it from time to time deems proper;
- (5) to make rules for carrying out and administering the Plan and make changes in such rules as it from time to time deems proper;

- (6) to the extent permitted under the Plan, grant waivers of Plan terms, conditions, restrictions, and limitations;
- (7) to accelerate the transferability of any Stock Award when such action or actions would be in the best interest of the Company; and
- (8) to take any and all other actions it deems necessary or advisable for the proper operation or administration of the Plan.

4.3 Action by the Committee. The Committee shall act in accordance with the By-laws of the Company and with such authority as may be granted by the Board. In addition, the Committee may authorize any one or more of its members to execute and deliver documents on behalf of the Committee.

4.4 Delegation of Authority. The Committee may delegate some or all of its authority under the Plan to any person or persons; *provided, however*, that any such delegation shall be in writing.

5. SHARES SUBJECT TO PLAN

5.1 Available Shares. The aggregate number of shares of Common Stock which shall be available for grants of Stock Awards under the Plan during its term shall be 300,000. Such shares of Common Stock available for issuance under the Plan may be either authorized but unissued shares, shares of issued stock held in the Company's treasury, or both, at the discretion of the Company, and subject to any adjustments made in accordance with Section 5.2 below. Any Stock Awards which terminate by expiration, forfeiture, cancellation or otherwise without the issuance of such shares shall again be available for grants of Stock Awards under the Plan. The number of shares of Common Stock available for issuance under the Plan shall not be reduced to reflect any dividends or dividend equivalents that are reinvested into additional shares of Common Stock.

5.2 Adjustment to Shares. If there is any change in the number of outstanding shares of Common Stock through the declaration of stock dividends, stock splits or the like, the number of shares of Common Stock (i) available for grants of Stock Awards under Section 5.1 above, and (ii) underlying outstanding grants of Stock Awards, shall be automatically adjusted. If there is any change in the number of outstanding shares of Common Stock through any change in the capital account of the Company, or through a merger, consolidation, separation (including a spin-off or other distribution of stock or property), reorganization (whether or not such reorganization comes within the meaning of such term in Code Section 368(a)) or partial or complete liquidation, the Committee shall make (i) appropriate adjustments in the number of shares of Common Stock which may be issued under the Plan and (ii) any other adjustments and/or modifications to outstanding Stock Awards as it deems appropriate. In the event of any other change in the capital structure or in the Common Stock, the Committee shall also be authorized to make such appropriate adjustments in the number of shares of Common Stock available for issuance under the Plan and any other adjustments and/or modifications to outstanding Stock Awards as it deems appropriate.

6. STOCK AWARDS

6.1 **In General.** The Committee is authorized to grant Stock Awards to Eligible Directors on or after the Effective Date. Stock Awards in any given calendar year need not be equal in amount as to all Eligible Directors.

6.2 **Terms and Conditions of Stock Awards.** Stock Awards shall be subject to such terms, conditions, restrictions and/or limitations, if any, as the Committee deems appropriate, including, but not limited to, restrictions on transferability and continued service as a member of the Board; provided, however, that such terms, conditions, restrictions and/or limitations are not inconsistent with the Plan. The Committee may accelerate the date a Stock Award becomes transferable under such circumstances as it deems appropriate.

6.3 **Stock Award Agreement.** Any Stock Award granted under the Plan shall be evidenced by a Stock Award Agreement which shall be signed by the Committee and the Participant.

6.4 **Rights as Shareholders.** Notwithstanding any term, condition, restriction and/or limitation with respect to a Stock Award granted under the Plan but subject to the restrictions of Section 6.5 below, an Eligible Director who has been granted a Stock Award shall be entitled to all of the rights of a shareholder with respect to the shares underlying the Stock Award from the date of grant, including voting rights and the rights to receive dividends and other distributions. All shares of Common Stock or other securities paid on a Stock Award shall be held by the Company and shall be subject to the same restrictions as the Stock Award to which they relate.

6.5 **Automatic Restrictions.** Unless otherwise provided by the Committee in the Stock Award Agreement, each Stock Award shall be subject to a restriction on transferability until the Vesting Date. During the period commencing on the date of grant and ending on the Vesting Date, or unless and until the provisions of the Plan relating to removal of restrictions have been satisfied, the shares underlying the Stock Award may not be sold, assigned, pledged, encumbered, hypothecated or transferred.

6.6 **Vesting Date.** Unless otherwise provided by the Committee in the Stock Award Agreement and subject to Section 6.7 below, the Vesting Date for all shares underlying Stock Awards granted to an Eligible Director shall be the date of the Annual Meeting of Shareholders of the Company in the third calendar year following the year of the Stock Award.

6.7 **Removal of Restrictions.** Unless otherwise provided in the Stock Award Agreement, the restrictions on the shares underlying Stock Awards shall be removed and lapse upon the earlier of (i) the applicable Vesting Date or (ii) upon the occurrence of the death of the Eligible Director or his or her ceasing to be a Director following a Change in Control. The foregoing notwithstanding, shares underlying Stock Awards shall remain subject to the restrictions on transferability set forth in this Section 6 for at least six months following the date of such grant.

6.8 **Forfeiture.** Except as otherwise provided in the Stock Award Agreement, an Eligible Director's Stock Award shall be forfeited to the Company upon the Eligible Director's

termination of service on the Board prior to his or her Vesting Date for any reason other than those set forth in Section 6.7 above.

7. **ISSUANCE, POSSESSION AND DELIVERY OF STOCK AWARDS**

7.1 **Stock Certificate.** Each Stock Award granted under the Plan shall be evidenced by the issuance of a Common Stock certificate registered on the transfer ledgers of the Company in the name of the Eligible Director who was granted the Stock Award effective as of the date such Stock Award was granted to the Eligible Director pursuant to the Plan. Each such certificate shall bear an appropriate legend referring to the restrictions applicable to the Stock Award.

7.2 **Retention of Stock Certificate by Company.** Possession of any certificates representing shares underlying a Stock Award shall be retained by the Company for the benefit of each Eligible Director until the restrictions thereon have lapsed and been removed in accordance with Section 6.7 above. Thereupon, the Company shall promptly deliver the certificates for such shares to the Eligible Director; *provided, however*, if ever any federal, state or local income or employment tax is required to be withheld from such shares, such certificates shall be delivered only after the Eligible Director has paid (or made provision for the payment of) the requisite amount.

7.3 **Fractional Shares.** The Company shall promptly pay to an Eligible Director the cash equivalent of any fractional shares which would otherwise be acquired by the Eligible Director under the terms of the Plan.

7.4 **Compliance with Securities Laws.** Notwithstanding anything contained in the Plan to the contrary, the issuance or delivery of any such shares of Stock may be postponed for such period as may be required to comply with any applicable requirements of any national securities exchange or any requirements under any other law or regulation applicable to the issuance or delivery of such shares. The Company shall not be obligated to issue or deliver any such shares if the issuance or delivery thereof shall constitute a violation of any provision of any law or of any regulation of any governmental authority or any national securities exchange.

8. **MISCELLANEOUS**

8.1 **Amendment and Termination.** The Board may suspend or terminate the Plan at any time with or without prior notice. In addition, the Board may, from time to time and with or without prior notice, amend the Plan in any manner; *provided, however*, that no amendment of the Plan, without the approval of the shareholders of the Company, shall increase (except as provided in Section 5.2 above) the number of shares of Common Stock available for Stock Awards under the Plan. Termination or amendment of the Plan by the Board shall not adversely affect any then-existing Stock Award Agreement without the Participant's prior written consent.

8.2 **Amendments to Stock Award Agreement.** The Committee may at any time amend in writing any Stock Award Agreement by mutual agreement between the Committee and the Participant or such other persons as may then have an interest therein.

8.3 Listing of Shares and Related Matters. If at any time the Committee shall determine that the listing, registration or qualification of the shares of Common Stock subject to any Stock Award on any securities exchange or under any applicable law, or the consent or approval of any governmental regulatory authority, is necessary or desirable as a condition of, or in connection with, the granting of a Stock Award or the issuance of shares of Common Stock thereunder, such Stock Award may not be granted unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

8.4 Governing Law. The Plan shall be governed by and construed in accordance with the laws of the State of Delaware without reference to principles of conflict of laws, except as superseded by applicable federal law.

8.5 No Right, Title, or Interest in Company Assets. A Participant shall not have any rights as a shareholder in his or her name. To the extent any person acquires a right to receive payments from the Company under the Plan, such rights shall be no greater than the rights of an unsecured creditor of the Company and the Participant shall not have any rights in or against any specific assets of the Company.

8.6 No Guarantee of Tax Consequences. No person connected with the Plan in any capacity, including, but not limited to, the Company and any Subsidiary and their directors, officers, agents and employees makes any representation, commitment, or guarantee that any tax treatment, including, but not limited to, federal, state and local income, estate and gift tax treatment, will be applicable with respect to amounts deferred under the Plan, or paid to or for the benefit of a Participant under the Plan, or that such tax treatment will apply to or be available to a Participant on account of participation in the Plan.

8.7 Other Benefits. No Stock Award granted under the Plan shall be considered compensation for purposes of computing benefits under any retirement plan for the Company or any Subsidiary nor affect any benefits or compensation under any other benefit or compensation plan of the Company or any Subsidiary now or subsequently in effect.

RAYTHEON COMPANY

2001 STOCK PLAN

Effective February 1, 2001

Amended effective May 4, 2005

Amended effective September 21, 2005

RAYTHEON
2001 STOCK PLAN

ARTICLE I

1. **Plan Name.** This plan shall be known as the Raytheon 2001 Stock Plan.

ARTICLE II

2. **Purpose.** This Plan is intended to encourage ownership of Stock by key employees of Raytheon Company and its Affiliates and to provide additional incentive for them to promote the success of the Company's business. With respect to any Incentive Stock Options that may be granted hereunder, the Plan is intended to be an incentive stock option plan within the meaning of Section 422 of the Code.

ARTICLE III

3. **Effective Date; Term.** The Plan is effective as of the date on which the Plan is adopted by the Board, subject to approval of the stockholders as required by law. No Award shall be granted under the Plan after the close of business on the day immediately preceding the tenth (10th) anniversary of the effective date of the Plan. Subject to other applicable provisions of the Plan, all Awards made under the Plan prior to such termination of the Plan shall remain in effect until such Awards have been satisfied or terminated in accordance with the Plan and the terms of such Awards.

ARTICLE IV

4. **Definitions.** As used in the Plan, the following terms have the following meanings:

4.1 **Affiliate** means any entity, whether now or hereafter existing, which controls, is controlled by, is under common control with, the Company (including, but not limited to, joint ventures, limited liability companies, partnerships) or any entity with respect to which the Committee determines that the Company has a material business interest.

4.2 **Award** means any stock options (including ISO's and NSO's), SAR's (including free-standing and tandem SAR's), Restricted Stock Awards, Stock Units, or any combination of the foregoing granted pursuant to the Plan, except, however, when the term is being used under the Plan with respect to a particular category of grant in which case it shall only refer to that particular category of grant.

4.3 **Board** means the Board of Directors of the Company.

4.4 **Cause** means, for purposes of this Plan: (i) the Participant's intentional, persistent failure, dereliction, or refusal to perform such duties as are reasonably assigned to him

or her by the officers or directors of the Company; (ii) the Participant's fraud, dishonesty or other deliberate injury to the Company in the performance of his or her duties on behalf of, or for, the Company; (iii) the willful commission by the Participant of a criminal or other act that causes substantial economic damage to the Company or substantial injury to the business reputation of the Company; (iv) the Participant's material breach of his or her employment or engagement agreement, if any; or (v) the Participant's breach of any material provision of the Participant's Grant Agreement specifying the terms of the particular Award. For purposes of the Plan, no act, or failure to act, on the part of any person shall be considered "willful" unless done or omitted to be done by the person other than in good faith and without reasonable belief that the person's action or omission was in the best interest of the Company.

4.5 ***Change in Control*** shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

- (i) Any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person"), other than those Persons in control of the Company as of the date hereof or a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, become the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities; or
- (ii) A change in the Board such that individuals who as of the date hereof constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; *provided, however*, that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board; or
- (iii) The consummation of: (a) a plan of complete liquidation of the Company; (b) an agreement for the sale or disposition of all or substantially all of the Company's assets; (c) a merger, consolidation or reorganization of the Company with or involving any other corporation, other than a merger, consolidation or reorganization that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger, consolidation or reorganization.

However, in no event shall a Change in Control be deemed to have occurred for purposes of this Plan if Participant is included in a Person that consummates the Change in Control. A Participant shall not be deemed to be included in a Person by reason of ownership of (i) less than 3% of the equity in the Person or (ii) an equity interest in the Person which is otherwise not

significant as determined prior to the Change of Control by a majority of the non-employee continuing directors of the Company.

4.6 **Code** means the Internal Revenue Code of 1986, as amended, and any related rules, regulations and interpretations.

4.7 **Committee** means the Management Development and Compensation Committee (MDCC) of the Company's Board of Directors, consisting exclusively of directors who at the relevant time are "outside directors" within the meaning of §162(m) of the Code and "non-employee directors" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934.

4.8 **Company** means Raytheon Company, a Delaware corporation.

4.9 **Company Officer** means the Chairman of the Board, the President, and any Executive Vice President, Senior Vice President or Vice President (elected or appointed) of the Company.

4.10 **Director** means a member of the Board of Directors of Raytheon Company.

4.11 **Fair Market Value** means the value of a share of Stock of the Company on any date as the Committee shall in good faith determine.

4.12 **Grant Agreement** means the agreement between the Company and the Participant pursuant to which the Company authorizes an Award hereunder. Each Grant Agreement entered into between the Company and a Participant with respect to an Award granted under the Plan shall incorporate the terms of this Plan and shall contain such provisions, consistent with the provisions of the Plan, as may be established by the Committee.

4.13 **Grant Date** means the date on which the Committee formally acts to grant an Award to a Participant or such other date as the Committee shall so designate at the time of taking such formal action.

4.14 **Immediate Family** means any child, stepchild, grandchild, parent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships.

4.15 **Incentive Stock Option** or "ISO" means an Option grant that is intended to meet the requirements of Section 422 of the Code.

4.16 **Medical Leave of Absence** means a leave of absence for medical reasons approved in writing by the Company's disability management group which will terminate as of the earlier of the date the Participant is found by the disability management group to be no longer disabled or the date the employee is terminated from employment in accordance with Company policy.

- 4.17 **Non-Statutory Stock Option** or “NSO” means an Option grant that is not intended to be an Incentive Stock Option.
- 4.18 **Option** means an option to purchase shares of the Stock granted under the Plan.
- 4.19 **Optionee** means a person eligible to receive an Option, as provided in Section 8.1, to whom an Option shall have been granted under the Plan.
- 4.20 **Option Period** means such period (not to exceed ten (10) years from the granting of an ISO) from the Grant Date to the date on which the option expires as may be determined by the Committee and set forth in the Grant Agreement.
- 4.21 **Option Price** means the price paid by an Optionee for an Option under this Plan.
- 4.22 **Option Share** means any share of Stock of the Company transferred to an Optionee upon exercise of an Option pursuant to this Plan.
- 4.23 **Participant** means a director, officer, employee or consultant who is granted an Award under the Plan.
- 4.24 **Personal Leave of Absence** means a leave of absence for personal reasons for a period of no more than one year approved in writing by the Senior Vice President, Human Resources, or his delegate.
- 4.25 **Plan** means this Raytheon 2001 Stock Plan.
- 4.26 **Plan Year** means the Calendar Year, except that the first Plan Year shall commence on the Effective Date, as described in Section 3 and shall end on the December 31 first following the Effective Date.
- 4.27 **Related Corporation** means a parent corporation or a subsidiary corporation, each as defined in Section 424 of the Code.
- 4.28 **Restricted Stock Award** means any Award of shares of restricted Stock granted pursuant to Article XI of the Plan.
- 4.29 **Retirement** means, for purposes of this Plan, the Termination of Service with the Company, other than for Cause, at any time after attaining age fifty-five (55) and having completed at least ten (10) years of service, or Termination of Service under circumstances which the Committee deems equivalent to retirement.
- 4.30 **SAR** means a stock appreciation right, as awarded under Article X.
- 4.31 **Stock** means the common stock, \$0.01 par value, of the Company, provided that, in the event the Company has outstanding Class A and Class B common stock, Stock means the Class B common stock.

4.32 **Stock Unit** means credits to a bookkeeping reserve account solely for accounting purposes, where the amount of the credit shall equal the Fair Market Value of a share of Stock on the date of grant (unless the Committee provides otherwise in the Grant Agreement), and which shall be subsequently increased or decreased to reflect the Fair Market Value of a share of Stock. Stock Units do not require segregation of any of the Company's assets. Stock Units are awarded under Article XI.

4.33 **Termination of Service** means cessation of performance of services for the Company or an Affiliate by an employee or consultant and the departure from active status as a Director by a non-employee Director. For purposes of maintaining a Participant's continuous status as an employee and accrual of rights under any Award granted pursuant to the Plan, transfer of an employee among the Company and its Affiliates shall not be considered a Termination of Service with the Company provided that no more than 30 days elapse between termination from the Company and commencement of employment elsewhere in the Company or with an Affiliate.

4.34 **Vesting Period** means that period of time during which the shares of Stock (or a portion thereof) underlying an Award are subject to a risk of forfeiture.

ARTICLE V

5. **Stock Subject to the Plan.**

5.1 Shares of Stock in an amount to be determined by the Committee but not to exceed thirty-four million (34,000,000) shares of Stock, shall be subject to Award under the Plan. The Company shall reserve such number of shares of Stock for Awards under the Plan, subject to adjustments as provided in Article XII of the Plan. If any Award, or portion of an Award, under the Plan expires or terminates unexercised, becomes unexercisable or is forfeited or otherwise terminated, surrendered or canceled as to any shares of Stock without the delivery of such shares or other consideration, the shares of Stock subject to such Award shall thereafter be available for further Awards under the Plan. Shares issued under the Plan may be shares of Stock of original issue, shares of treasury stock, or shares of Stock that have been reacquired by the Company.

5.2 Subject to adjustments as provided in Article XII, the maximum number of shares of Stock subject to Awards of any combination that may be granted during any one fiscal year of the Company to any one individual shall be limited to seven hundred thousand (700,000) shares. The foregoing per-individual limit shall not be adjusted to effect a restoration of shares of Stock with respect to which the related Award is terminated, surrendered or canceled.

5.3 Subject to adjustments as provided in Article XII, the maximum number of shares of Stock subject to Award as incentive stock options shall be limited to fourteen million (14,000,000) shares.

ARTICLE VI

6. **Proceeds.** The proceeds received by the Company from the sale of Stock pursuant to Awards granted under the Plan will be used for general corporate purposes.

ARTICLE VII

7. **Administration.**

7.1 **General.** The Plan shall be administered by the Committee. The Committee's determinations under the Plan (including without limitation determinations of the persons to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the agreements evidencing same) need not be uniform and may be made by the Committee selectively among persons who receive, or are eligible to receive, Awards under the Plan, whether or not such persons are similarly situated.

7.2 **Procedure.** The Committee shall meet at such times and places and upon such notice as it may determine. A majority of the members of the Committee shall constitute a quorum. Any acts by the Committee may be taken at any meeting at which a quorum is present and shall be by majority vote of those members entitled to vote. Additionally, any acts reduced to writing or approved in writing by all of the members of the Committee shall be valid acts of the Committee. Members of the Committee who are either eligible for Awards or have been granted Awards may vote on any matters affecting the administration of the Plan or the grant of Awards pursuant to the Plan, except that no such member shall act upon the granting of an Award to himself or herself, but any such member may be counted in determining the existence of a quorum at any meeting of the Committee during which action is taken with respect to the granting of an Award to him or her.

7.3 **Duties.** The Committee shall have full power and authority to administer and interpret the Plan and to adopt such rules, regulations, agreements, guidelines and instruments for the administration of the Plan and for the conduct of its business as the Committee deems necessary or advisable, all within the Committee's sole and absolute discretion. The Committee shall have full power and authority to take all other actions necessary to carry out the purpose and intent of the Plan, including without limitation the power to accelerate or otherwise change the time in which an Award may be exercised or becomes payable, and to waive, in whole or in part, any restriction or condition with respect to such Award, including but not limited to, any restriction or condition with respect to vesting or exercisability of an Award following a Participant's Termination of Service or death.

Notwithstanding any other provision in the Plan to the contrary, except with respect to Awards of Incentive Stock Options (ISO's), the Committee may, at a time prior to the exercise, lapse of restrictions or expiration of an Award, permit a Participant to (i) defer receipt of the payment of cash or property or other delivery of Stock that would otherwise be due by virtue of the exercise, lapse of restrictions or expiration of an Award; or (ii) convert or exchange an Award for another Award under the Plan or under any other plan or arrangement. If any such actions are permitted, the Committee shall, in its sole discretion, establish rules and procedures to accomplish such actions.

7.4 ***Delegation of Authority to Grant Awards.*** The Committee, in its discretion, may delegate to the Chief Executive Officer of the Company all or part of the Committee's authority and duties with respect to granting Awards, provided such delegation is in writing and maintained in the Company's records. The Committee may revoke or amend the terms of such a delegation at any time, but such revocation shall not invalidate prior actions of the Chief Executive Officer of the Company that were consistent with the terms of the Plan.

7.5 ***Limited Liability.*** To the maximum extent permitted by law, no member of the Committee shall be liable for any action taken or decision made in good faith relating to the Plan or any Award.

7.6 ***Indemnification.*** To the maximum extent permitted by law and by the Company's charter and by-laws, the members of the Committee shall be indemnified by the Company in respect of all their activities under the Plan, provided that such indemnity shall not apply to willful acts of misconduct.

7.7 ***Effect of Committee's Decision.*** All actions taken and decisions and determinations made by the Committee on all matters relating to the Plan pursuant to the powers vested in it hereunder shall be in the Committee's sole and absolute discretion and shall be conclusive and binding on all parties concerned, including the Company, its stockholders, any participants in the Plan and any other employee of the Company, and their respective successors in interest.

ARTICLE VIII

8. **Eligibility and Participation**

8.1 ***Eligibility.*** Directors, officers, employees and consultants of the Company or its Affiliates who, in the opinion of the Committee, are responsible for the continued growth and development and future financial success of the business shall be eligible to participate in the Plan.

8.2 ***Participation.*** An eligible individual shall become a Participant in this Plan when he or she is granted an Award hereunder, as evidenced by a Grant Agreement executed by the Company and the Participant and shall no longer be a Participant when all Awards to a Participant have been completed, terminated or otherwise disposed of.

ARTICLE IX

9. **Stock Options**

9.1 ***General.*** Subject to the other applicable provisions of the Plan, the Committee may from time to time grant to eligible Participants Awards of ISO's or NSO's. The ISO or NSO Awards granted shall be subject to the following terms and conditions.

9.2 **Time of Granting Options.** The granting of an Option shall take place at the time specified in writing by the Committee.

9.3 **Grant of Option.** The grant of an Option shall be evidenced by a Grant Agreement, executed by the Company and the Participant, describing the number of shares of Stock subject to the Option, whether the Option is an ISO or NSO, the Exercise Price of the Option, the Vesting Period for the Option and such other terms and conditions that the Committee deems, in its sole discretion, to be appropriate, provided that such terms and conditions are not inconsistent with the Plan. The Grant Date shall be specified in the Grant Agreement.

9.4 **Price.** The price per share of Stock payable upon the exercise of each Option (the "Exercise Price") shall be set forth in the Grant Agreement and shall not be less than 100% of the Fair Market Value of the shares of Stock on the date the Option is granted.

9.5 **Terms of Options.** The term during which each Option may be exercised shall be determined by the Committee; provided, however, that in no event shall an ISO be exercisable more than ten (10) years from the date it is granted. Prior to the exercise of the Option and delivery of the share certificates represented thereby, the Participant shall have none of the rights of a stockholder with respect to any shares represented by an outstanding Option.

9.6 **Restrictions on Incentive Stock Options.** ISO Awards granted under the Plan shall comply in all respects with Code section 422 and, as such, shall meet the following additional requirements:

(a) **Grant Date.** An ISO must be granted within ten (10) years of the earlier of the Plan's adoption by the Board of Directors or approval by the Company's shareholders.

(b) **Exercise Price and Term.** The Exercise Price of an ISO shall not be less than 100% of the Fair Market Value of the shares on the date the Option is granted and the term of the Option shall not exceed ten (10) years. Notwithstanding the immediately preceding sentence, the Exercise Price of any ISO granted to a Participant who owns, within the meaning of Code section 422(b)(6), after application of the attribution rules in Code section 424(d), more than ten percent (10%) of the total combined voting power of all classes of shares of Stock of the Company shall be not less than 110% of the Fair Market Value of the Stock on the Grant Date and the term of such ISO shall not exceed five (5) years.

(c) **Maximum Grant.** The aggregate Fair Market Value (determined as of the Grant Date) of shares of Stock with respect to which all ISO's first become exercisable by any Participant in any calendar year under this or any other plan of the Company and its Parent and Subsidiary corporations may not exceed \$100,000 or such other amount as may be permitted from time to time under Code section 422. To the extent that such aggregate Fair Market Value shall exceed \$100,000, or other applicable amount, such Options shall be treated as NSO's. In such case, the Company may designate the shares of Stock that are to be treated as stock acquired pursuant to the exercise of an ISO by issuing a separate certificate for such shares and identifying the certificate as ISO shares in the stock transfer records of the Company.

(d) Participant. ISO's shall only be issued to employees of the Company or a Related Corporation.

(e) Tandem Options Prohibited. An ISO may not be granted in tandem with a NSO in such a manner that the exercise of one affects a Participant's right to exercise the other.

(f) Designation. No option shall be an ISO unless so designated by the Committee at the time of grant or in the Grant Agreement evidencing such Option.

(g) Other Terms and Conditions. Options may contain such other provisions, not inconsistent with the provisions of the Plan, as the Committee shall determine is appropriate from time to time.

9.7 Exercisability

(a) Except as otherwise provided by the Committee in the applicable Grant Award or otherwise, during the lifetime of the Participant, the Option shall be exercisable only by the Participant or, during the period the Participant is under a legal disability, by the Participant's guardian or legal representative. Unless specified to the contrary herein or in the applicable Grant Agreement, Options cannot be exercised by a Participant subsequent to his or her Termination of Service.

(b) An Option may be exercised in whole at any time, or in part from time to time, within the Option Period to the extent the Option is exercisable on the date of exercise.

(c) Except as otherwise provided by the Committee in the applicable Grant Award or otherwise, each Option shall terminate and may no longer be exercised if the Optionee ceases to perform services for the Company or an Affiliate in accordance with the following:

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

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

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

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

(d) The Option may not be exercised for more shares (subject to adjustment as provided in Section 12.1) after the Participant's termination of employment or engagement, or cessation of service as a director, as the case may be, than the Participant was entitled to purchase thereunder at the time of the Participant's termination of employment or engagement.

9.8 Exercise of Option. An Option may be exercised only by giving written notice, in the manner provided in Section 15.9 hereof, specifying the number of shares as to which the Option is being exercised, accompanied (except as otherwise provided in Section 9.9) by full payment for such shares in the form of check or bank draft payable to the order of the Company or other shares of the Stock with a current Fair Market Value equal to the Option Price of the shares to be purchased. Receipt by the Company of such notice and payment shall constitute the exercise of the Option or a part thereof. Within 20 days thereafter, the Company shall deliver or cause to be delivered to the Optionee a certificate or certificates (or other evidence of ownership) for the number of shares then being purchased. Such shares shall be fully paid and nonassessable. If such shares are not at that time effectively registered under the

Securities Act of 1933, as amended, the Optionee shall include with such notice a letter, in form and substance satisfactory to the Company, confirming that such shares are being purchased for the Optionee's own account for investment and not with a view to distribution.

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

9.10 **Transferability.** Except as otherwise provided herein or in the Grant Agreement, Stock Options granted to individuals other than Company Officers shall not be transferable, otherwise than by will or the laws of descent and distribution, and may be exercised during the life of the holder thereof only by him or her. Non-Statutory Options granted hereunder to a Company Officer may be transferred to a member of such Company Officer's Immediate Family or trusts or other entities established solely for the benefit of such Immediate Family members, so long as the transferee is a person entitled to rely on the Form S-8 filed by the Company with respect to the Plan. The holder of an Option or his or her legal representatives, legatees, distributees, or permitted transferees, as the case may be, shall have none of the rights of a stockholder with respect to any shares subject to such Option until such shares have been issued to him or her under this Plan.

ARTICLE X

10. **Stock Appreciation Rights.**

10.1 **Award of SAR's.** Subject to the other applicable provisions of the Plan, the Committee may at any time and from time to time grant SAR's to eligible participants, either on a freestanding basis (without regard to or in addition to the grant of an Option) or on a tandem basis (related to the grant of an underlying Option), as it determines. SAR's granted in tandem with or in addition to an Option may be granted either at the same time as the Option or at a later time; provided, however, that a tandem SAR shall not be granted with respect to any outstanding ISO Award without the consent of the Participant. SAR's shall be evidenced by Grant Agreements, executed by the Company and the Participant, stating the number of shares of Stock subject to the SAR and the terms and conditions of such SAR, in such form as the Committee may from time to time determine. The term during which each SAR may be exercised shall be determined by the Committee. The Participant shall have none of the rights of a stockholder with respect to any shares of Stock represented by a SAR.

10.2 **Restrictions on Tandem SAR's.** ISO's may not be surrendered in connection with the exercise of a tandem SAR unless the Fair Market Value of the Stock subject to the ISO is greater than the Exercise Price for such ISO. SAR's granted in tandem with Options shall be exercisable only to the same extent and subject to the same conditions as the related Options are exercisable. The Committee may, in its discretion, prescribe additional conditions to the exercise of any such tandem SAR.

10.3 **Amount of Payment Upon Exercise of SAR's.** A SAR shall entitle the Participant to receive, subject to the provisions of the Plan and the Grant Agreement, a payment having an aggregate value equal to the product of (i) the excess of (A) the Fair Market Value on the exercise date of one share of Stock over (B) the base price per share specified in the Grant Agreement (which shall be determined by the Committee but which shall not be less than 100 % of the Fair Market Value of one share of Stock on the date of grant of the SAR), times (ii) the number of shares specified by the SAR, or portion thereof, which is exercised. In the case of exercise of a tandem SAR, such payment shall be made in exchange for the surrender of the unexercised related Option (or any portions thereof which the Participant from time to time determines to surrender for this purpose).

10.4 **Form of Payment Upon Exercise of SAR's.** Payment by the Company of the amount receivable upon any exercise of a SAR may be made by the delivery of Stock or cash, or any combination of Stock and cash, as determined in the sole discretion of the Committee from time to time. If upon settlement of the exercise of a SAR a Participant is to receive a portion of such payment in shares of Stock, the number of shares shall be determined by dividing such portion by the Fair Market Value of a share of Stock on the exercise date. No fractional share shall be used for such payment and the Committee shall determine whether cash shall be given in lieu of such fractional share or whether such fractional share shall be eliminated.

10.5 **Transferability.** SAR's may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided in the Grant Agreement.

ARTICLE XI

11. **Restricted Stock Awards and Stock Unit Awards**

11.1 **Grants.** Subject to the other applicable provisions of the Plan, the Committee may at any time grant Restricted Stock Awards or Stock Units to Participants in such amounts and for such consideration, including no consideration or such minimum consideration as may be required by law, as it determines. Such Awards shall be granted pursuant to a Grant Agreement.

11.2 **Terms and Conditions.** A Restricted Stock Award entitles the recipient to acquire shares of Stock and a Stock Unit Award entitles the recipient to be paid the Fair Market Value of the Stock on the date on which restrictions lapse. Stock Units may be settled in Stock, cash or a combination thereof, as determined by the Committee. Restricted Stock Awards and Stock Unit Awards are subject to Vesting Periods and other restrictions and conditions as the Committee may include in the Grant Agreement. Such restrictions or conditions may be based

on continuing employment or engagement (or other business relationship) and/or achievement of pre-established performance goals. The Committee shall specify in the Grant Agreement the dates and/or the description of how pre-established performance goals shall be deemed to have been obtained and any other conditions upon which Restricted Stock Awards or Stock Units shall become vested. If the Participant or the Company fails to achieve the designated goals or the Participant incurs a Termination of Service prior to the expiration of the Vesting Period, the Participant shall forfeit all shares of Stock or cash subject to the Award which have not vested as of such date. Restricted Stock Awards or Stock Units, if not sooner terminated, shall vest upon Participant's death.

11.3 **Restricted Stock Awards.**

(a) Each Restricted Stock Award shall specify the applicable restrictions, on such shares of Stock, the duration of such restrictions, and the time or times at which such restrictions shall lapse with respect to all or a specified number of shares of Stock that are part of the Award. Notwithstanding the foregoing, the Committee may reduce or shorten the duration of any restriction applicable to any shares of Stock awarded to any Participant under the Plan.

(b) Share certificates with respect to restricted shares of Stock shall be issued (or the shares shall be held in a book entry position through the transfer agent's direct registration service) at the time of grant of the Restricted Stock Award, subject to forfeiture if the restrictions do not lapse, or upon lapse of the restrictions. If share certificates are issued at the time of grant of the Restricted Stock Award, the certificates shall bear an appropriate legend with respect to the restrictions applicable to such Restricted Stock Award (as described in Section 11.2) or, alternatively, the Participant may be required to deposit the certificates with the Company during the period of any restriction thereon and to execute a blank stock power or other instrument of transfer. If shares are in a book entry position with the transfer agent's direct registration service, the restrictions shall be appropriately noted.

(c) Except as otherwise provided by the Committee, during such period of restriction following the issuance of share certificates, the Participant shall have all of the rights of a holder of Stock, including but not limited to the rights to receive dividends (or amounts equivalent to dividends) and to vote with respect to the restricted shares. Upon lapse of restrictions on a Restricted Stock Award, the Committee may provide that, to the extent not already received, the Participant will be entitled to receive any amounts per share pursuant to any dividend or distribution paid by the Company on its Stock to stockholders of record after grant of the Restricted Stock Award and prior to the issuance of the share certificates (or holding in a book entry position through the transfer agent).

11.4 **Stock Unit Award.**

(a) The grant of Stock Units shall be evidenced by a Grant Agreement, executed by the Company and the Participant, that incorporates the terms of the Plan and states the number of Stock Units evidenced thereby and the terms and conditions of such Stock Units in such form as the Committee may from time to time determine. The Grant Agreement shall provide for payment of the Stock Unit Awards upon expiration of a term certain.

(b) Stock Unit awards shall be subject to such rules and regulations as the Committee may prescribe and/or such determinations, orders, or decisions as the Committee may make.

(c) Except as otherwise provided in the Grant Agreement, the Participant shall have none of the rights of a stockholder with respect to any shares of Stock represented by a Stock Unit as a result of the grant of a Stock Unit to the Participant.

11.5 **Transferability.** Unvested Restricted Stock Awards or Stock Units may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided in the Grant Agreement.

ARTICLE XII

12. **Corporate Transactions**

12.1 **Adjustment of Number and Price of Shares.** Pro rata adjustment shall be made in the maximum number of shares of Stock subject to the Plan or that may be awarded to any individual in any year to give effect to any stock dividends, stock splits, stock combinations, recapitalizations and other similar changes in the capital structure of the Company. Pro rata adjustments shall be made in the number, kind and price of shares of Stock covered by any outstanding Award hereunder to give effect to any stock dividends, stock splits, stock combinations, recapitalizations and similar changes in the capital structure of the Company, or a merger, dissolution or reorganization of the Company, after the date the Award is granted, so that the recipient of the Award is treated in a manner equivalent to that of holders of the underlying Stock. No Options will be repriced, replaced or regranted, through cancellation or by lowering the exercise price of previously granted Awards, without the express approval of the shareholders.

12.2 **Change in Control.** Upon a Change in Control:

(a) Any Options and SAR's outstanding as of the date of such Change in Control, and which are not then exercisable and vested, shall become fully exercisable and vested.

(b) The restrictions and deferral limitations applicable to any Restricted Stock and Stock Units shall lapse, such Restricted Stock shall become free of all restrictions and become fully vested and transferable, and such Stock Units shall be payable in full.

(c) The Committee may also make additional adjustments and/or settlements of outstanding Awards as it deems appropriate and consistent with the Plan's purposes, including without limitation settlement of all Options and Stock Appreciation Rights for a cash payment equal to the excess (if any) of the Fair Market Value of the Stock subject thereto over the aggregate exercise or base price thereof.

12.3 **Substitution of Options.** In the event that, by reason of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation,

the Board shall authorize the issuance or assumption of a stock option or stock options in a transaction to which Code section 424(a) applies, then, notwithstanding any other provision of the Plan, the Committee may grant an Option upon such terms and conditions as it may deem appropriate for the purpose of assumption of the old option, or substitution of a new Option for the old option, in conformity with the provisions of Code section 424(a) and the rules and regulations thereunder, as they may be amended from time to time.

12.4 **Fractional Shares.** No adjustment or substitution provided for in this Article shall require the Company to issue or to sell a fractional share under any Grant Agreement and the total adjustment or substitution with respect to each Grant Agreement shall be limited accordingly.

12.5 **Rescission and Revocation of Awards.** A Participant may request in writing that the Committee rescind or revoke an Award and such request shall specify the reasons that rescission or revocation is sought. The Committee, in its absolute discretion, may grant, deny or otherwise rule on the request.

ARTICLE XIII

13. **Reservation of Stock.** The Company shall at all times during the term of the Options reserve and keep available such number of shares of the Stock as will be sufficient to satisfy the requirements of this Plan and shall pay all fees and expenses necessarily incurred by the Company in connection therewith.

ARTICLE XIV

14. **Amendment and Termination**

14.1 **Amendment.** The Committee may amend the Plan at any time and from time to time, provided that (i) no amendment shall deprive any person of any rights granted under the Plan before the effective date of such amendment, without such person's consent, (ii) no amendment can increase the maximum number of shares of Stock subject to award under the Plan, and (iii) amendments may be subject to shareholder approval to the extent needed to comply with applicable law.

Notwithstanding the foregoing, the Committee may amend the Plan and/or any Award granted under the Plan at any time and from time to time, without the consent of affected Participants and their beneficiaries, to the extent necessary to cause the Plan or Award to comply with applicable law, stock exchange rules or accounting rules.

14.2 **Termination.** The Committee reserves the right to terminate the Plan in whole or in part at any time, without the consent of any person granted any rights under the Plan.

ARTICLE XV

15. Other Conditions

15.1 Compliance with Governmental Regulations. Notwithstanding any provision of the Plan or the terms of any Grant Agreement entered into pursuant to the Plan, the Company shall not be required to issue any shares hereunder prior to registration of the shares subject to the Plan under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, if such registration shall be necessary, or before compliance by the Corporation or any Participant with any other provisions of either of those acts or of regulations or rulings of the Securities and Exchange Commission thereunder, or before compliance with other federal and state laws and regulations and rulings thereunder, including the rules of any applicable securities exchange or quotation system. The Company shall use its best efforts to effect such registrations and to comply with such laws, regulations and rulings forthwith upon advice by its counsel that any such registration or compliance is necessary.

15.2 Company Charter and Bylaws. This Plan is subject to the charter and by-laws of the Company, as they may be amended from time to time.

15.3 No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other person. To the extent that any Participant or other person acquires a right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company.

15.4 No Guarantee of Employment. Participation in this Plan shall not be construed to confer upon any Participant the legal right to be retained in the employ of the Company or give any person any right to any payment whatsoever, except to the extent of the benefits provided for hereunder. Each Participant shall remain subject to discharge to the same extent as if this Plan had never been adopted. Nothing in this Plan shall prevent, interfere with or limit in any way the right of the Company to terminate a Participant's employment at any time, whether or not such termination would result in: (i) the failure of any Award to vest; (ii) the forfeiture of any unvested or vested portion of any Award under the Plan; and/or (iii) any other adverse effect on the Participant's interests under the Plan.

15.5 No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company or its Affiliates from adopting or continuing in effect other compensation arrangements (whether such arrangements be generally applicable or applicable only in specific cases) as the Committee, in its discretion determines desirable, including without limitation the granting of stock options, stock awards, stock appreciation rights or phantom stock units otherwise than under the Plan.

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

15.7 ***Limitation of Rights in the Option Shares.*** The Optionee shall not be deemed for any purpose to be a stockholder of the Company with respect to any of the Option Shares except to the extent that the Option shall have been exercised with respect thereto and, in addition, a certificate shall have been issued therefor and delivered to the Optionee.

15.8 ***Withholding.*** No later than the date as of which an amount first becomes includible in the gross income of the Participant for federal income tax purposes with respect to any Award under the Plan, the participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Company, withholding obligations may be settled with Common Stock, including Common Stock that is part of the Award that gives rise to the withholding requirement; provided, that not more than the legally required minimum withholding may be settled with Common Stock. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the participant. The Committee may establish such procedures as it deems appropriate, including making irrevocable elections, for the settlement of withholding obligations with Common Stock.

15.9 ***Notices.*** Any communication or notice required or permitted to be given under the Plan shall be in writing, and mailed by registered or certified mail or delivered in hand, if to the Company, to 870 Winter Street, Waltham, Massachusetts 02451, Attention: Senior Vice President, Human Resources and, if to the Optionee, to the address as the Optionee shall last have furnished to the communicating party.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

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

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

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

Date: October 27, 2005

/s/ William H. Swanson

William H. Swanson

Chairman and Chief Executive Officer

Principal Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Biggs C. Porter, Vice President and Corporate Controller, acting 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and their preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: October 27, 2005

/s/ Biggs C. Porter

Biggs C. Porter

Vice President and Corporate Controller,

Acting Chief Financial Officer

Principal Financial Officer

**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 25, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William H. Swanson, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William H. Swanson

William H. Swanson
Chairman and Chief Executive Officer
October 27, 2005

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

**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 25, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Biggs C. Porter, Vice President and Corporate Controller, acting 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/ Biggs C. Porter

Biggs C. Porter

Vice President and Corporate Controller,

Acting Chief Financial Officer

October 27, 2005

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