SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

/X/ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000.

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

Commission File Number 1-13699

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

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

141 SPRING STREET, LEXINGTON, MASSACHUSETTS 02421
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code (781) 862-6600

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

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, $.01 par value	New York Stock Exchange
Class B Common Stock, $.01 par value	Chicago Stock Exchange
Series A Junior Participating Preferred Stock purchase rights	Pacific Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, as of January 28, 2001, was approximately $11,461,645,787. For purposes of this disclosure, non-affiliates are deemed to be all persons other than members of the Board of Directors of the Registrant.

Number of shares of Common Stock outstanding as of January 28, 2001: 341,012,000, consisting of 100,805,000 shares of Class A Common Stock and 240,207,000 shares of Class B Common Stock.

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

Portions of Raytheon's Annual Report to Stockholders for the fiscal year ended December 31, 2000	Part I, Part II, Part IV
Portions of the Proxy Statement for Raytheon's 2000 Annual Meeting which will be filed with the Commission within 120 days after the close of Raytheon's fiscal year	Part III

PART I

Item 1. Business

GENERAL

Raytheon Company ("Raytheon" or the "Company") is a leader in defense electronics, including missiles; radar; sensors and electro-optics; intelligence, surveillance and reconnaissance; command, control, communication and information systems; naval systems; air traffic control systems; aircraft integration systems; and technical services, with worldwide 2000 sales of $16.9 billion. Raytheon's commercial electronics businesses leverage defense technologies in commercial markets. Raytheon Aircraft is one of the leading providers of business and special mission aircraft and delivers a broad line of jet, turboprop, and piston-powered airplanes to corporate and government customers world-wide.

The Company, formerly known as HE Holdings, Inc. ("HE Holdings"), is the surviving company of the December 17, 1997 merger (the "Hughes Merger") of HE Holdings, Inc. and Raytheon Company, a Delaware corporation ("Former Raytheon"). At the effective time of the Hughes Merger, the separate legal existence of Former Raytheon ceased and HE Holdings was renamed "Raytheon Company." Although, from a legal point of view, HE Holdings, Inc. is the surviving company of the Hughes Merger, the Company's business is largely conducted in the same manner as and under the senior management of Former Raytheon. Accordingly, the historical disclosures in this Form 10-K for years prior to 1998 and any year-to-year comparisons contained herein for years prior to 1998, unless otherwise specifically noted, relate to the operations of Former Raytheon, as a predecessor to the Company by merger, and not to HE Holdings, Inc. as it existed prior to the Hughes Merger.

BUSINESS SEGMENTS

Electronic Systems. The Electronic Systems segment ("ES") focuses on anti-ballistic missile systems; air defense; air-to-air, surface-to-air, and air-to-surface missiles; naval and maritime systems; ship self-defense systems; torpedoes; strike, interdiction and cruise missiles; and advanced munitions. ES also specializes in radar, electronic warfare, infrared, laser, and GPS technologies with programs focusing on land, naval, airborne and spaceborne systems used for surveillance, reconnaissance, targeting, navigation, commercial and scientific applications.

ES produces the Patriot ground-based air defense missile system, which is capable of tracking and intercepting enemy aircraft, cruise missiles, and tactical ballistic missiles. In addition to the U.S., eight nations have selected Patriot as an integral part of their air defense systems. Since the end of the Gulf War in 1991, Raytheon has received

approximately $3.5 billion in international orders for Patriot equipment and services. In addition, ES leads Raytheon's efforts as the prime contractor for the Hawk ground-launched missile, which is in service with the U.S. and 18 allied nations.

ES develops ground-based phased-array radars, including the X-Band Radar (XBR) and Upgrade Early Warning Radar (UEWR) for National Missile Defense, as well as the Ground-Based Radar (GBR) for the Theater High Altitude Area Defense (THAAD) system, part of the U.S. Army's Theater Missile Defense Program. It also is developing next-generation theater missile interceptors for the Navy Area Defense (NAD) and Navy Theater Wide (NTW) systems and the Exoatmospheric Kill Vehicle (EKV) for National Missile Defense.

ES manufactures the primary air-to-air missile for the U.S. Air Force and Navy fighter aircraft - the Advanced Medium Range Air-to-Air Missile (AMRAAM), and is developing the AIM-9X (short-range air-to-air missile). Other missiles produced by ES include Tomahawk, TOW, Stinger, Maverick, Standard, the High Speed Anti-Radiation Missile (HARM), Paveway laser-guided bombs, Extended Range Guided Munitions (ERGM), XM-982, Joint Stand Off Weapon (JSOW), and Javelin (pursuant to a joint venture with Lockheed Martin Corporation).

ES also leads Raytheon's efforts as the prime contractor for the NATO Sea-Sparrow Surface to Air Missile System (NSSMS), as well as producing the air-and surface-launched versions of the Sparrow missile for both the U.S. and foreign Navies. ES produces Phalanx and the Rolling Airframe Missile (RAM), which the U.S. and foreign Navies use as part of the ship self-defense system. ES develops sonars, combat control systems, mine hunting equipment and torpedoes for submarines and ships in U.S. and allied fleets, in addition to designing unmanned underwater vehicles and laser sensors. ES produces a variety of shipboard radar systems. ES also leads Raytheon's development efforts on the U.S. Navy's next generation of surface combatant ships, the DD-21.

ES airborne radars are deployed on four operational tactical fighter aircraft operated by U.S. forces (the F-14, F-15, F/A-18, and the AV-8B) and international customers, as well as radars for the AC-130U gunship and the B-2 Stealth Bomber. ES is also part of a joint venture with Northrop Grumman Corporation providing the next generation airborne radar for the F-22 aircraft. The segment provides the Forward Looking Infrared (FLIR) and designation system for the F-117 Stealth Fighter, the infrared subsystem for the F/A-18 targeting pod, and is developing the Advanced Targeting FLIR for the F/A-18.

ES supplies integrated sensor suites for applications such as the U.S. Department of Defense's ("DoD") Global Hawk Unmanned Aerial Vehicle Reconnaissance System, which includes a synthetic aperture radar and electro-optical/infrared sensors. ES

surveillance and reconnaissance systems are used on a variety of aircraft, such as the British Tornado, the U.S. Air Force U-2 and the U.S. Navy P-3 Orion. ES also provides space sensors for defense and scientific applications.

ES night vision and fire control systems equip combat vehicles like the M1 Abrams tank, Bradley Fighting Vehicle and a host of light armored vehicles, ships and submarines, and aircraft. The segment also puts state of the art technology in the hands of the infantry. Its sensor and electronic systems are used for law enforcement, security, oil spill response, search and rescue and many other commercial and industrial applications. One commercial night vision application is a night driving safety option on the model year 2000 Cadillac(R) DeVille(R)/1/.

The segment's surface radar products include radars for intelligence/data collection, spacetrack, deep space surveillance, missile warning and imaging and command and control radars. Tactical radars include battlefield radars for Forward Area Air Defense Systems and hostile weapons locating radars.

Command, Control, Communication and Information Systems. The Command, Control, Communication and Information Systems segment ("C3I") is involved in command, control and communication systems; air traffic control systems; tactical radios; satellite communication ground control terminals; wide area surveillance systems; ground-based information processing systems; image processing; large scale information retrieval, processing and distribution systems; and global broadcast systems.

An example of C3I's capabilities in the area of advanced information integration is the U.S. Navy's Cooperative Engagement Capability (CEC) program. CEC integrates sensor information from multiple sources to provide ships, aircraft and land-based installations an integrated air picture. The system has now successfully completed many years of comprehensive at-sea testing, including several live fire tests, and is now facing the challenges of integration into the fleet.

C3I led Raytheon's role as the prime contractor for the Brazilian System for the Vigilance of the Amazon (SIVAM) program, which calls for the delivery of an integrated information network linking numerous sensors to regional and national coordination centers. Information will be used to enable the Brazilian Government to protect the environment, improve air safety and weather forecasts, help control epidemics, manage land occupation and usage and ensure effective law enforcement and border control.

C3I also designs and installs air traffic control (ATC) and weather systems at airports worldwide. One example is the Federal Aviation Administration (FAA)/DoD's

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/1/ Cadillac and DeVille are registered trademarks of General Motors Corporation.

Standard Terminal Automation Replacement System (STARS) program, which will modernize and upgrade approximately 331 air traffic control sites across the United States. Some of the countries Raytheon is providing ATC systems and radars for include: Australia, Canada, Cyprus, Germany, Hong Kong, India, Jamaica, The Netherlands, Norway, Oman, the People's Republic of China, Switzerland and Taiwan.

Aircraft Integration Systems. The Aircraft Integration Systems segment ("AIS") focuses on integration of airborne surveillance and intelligence systems and aircraft modifications.

AIS specializes in developing and integrating complex electronic systems for airborne Intelligence, Surveillance, and Reconnaissance (ISR) missions. AIS provides signals intelligence, air-ground surveillance, maritime surveillance, and airborne command post systems to both U.S. Government and foreign customers. In addition, AIS modernizes aging aircraft through structural refurbishment and avionics upgrades including completely new "glass" cockpits with the latest display technologies and FAA-required air traffic management systems that enhance air safety. The segment also designs and installs interiors for executive aircraft and performs Special Operations Forces Support Activity (SOFSA).

Raytheon Technical Services Company. Raytheon Technical Services Company ("RTSC") provides technical services; training programs; and logistics and base operations support throughout the U.S. and in 37 other countries.

RTSC performs complete engineering and depot-level cradle-to-grave support to Raytheon-manufactured equipment and to various commercial and military customers. Services provided include installation and test of upgrades to deployed systems; engineering design, planning, and testing; repair and refurbishment of DoD equipment; software engineering support; data management; preparation of technical manuals; training for allied forces; system and facility installations; field testing and evaluation; field engineering; and system operation and maintenance.

RTSC is a world leader in providing and supporting range instrumentation systems and bases worldwide for the DoD. It also provides missile range calibration services for the U.S. Air Force, trains U.S. Army personnel in battlefield tactics and supports undersea testing and evaluation for the U.S. Navy. RTSC provides operations and engineering support to the Atlantic Underwater Test and Evaluation Center, range technical support, and facilities maintenance at several DoD facilities, including the U.S. Army's missile testing range in the Kwajalein Atoll. It also provides base operations support to DoD facilities on Guam, Johnston Atoll and other locations.

RTSC supplies professional services to a broad range of customers in the areas of space and earth sciences, scientific data management, transportation management, remote

sensing, and computer networking. RTSC also supports the U.S. Government's demilitarization activities in countries of the former Soviet Union and the development and operation of Space Shuttle and Space Station simulators for NASA's Johnson Space Center. It also provides logistics and science support for the National Science Foundation's Antarctica program.

Commercial Electronics. Raytheon's commercial electronics businesses produce, among other things, thin film filters for optical communications products, gallium arsenide MMIC components for direct broadcast satellite television receivers, gallium arsenide power amplifiers for wireless communications products, wireless broadband solutions, thermal imaging products, automobile radar systems, marine electronics for the commercial and military marine market, and other electronic components for a wide range of applications.

Aircraft. Raytheon Aircraft offers a broad product line of aircraft and aviation services in the general aviation market. Raytheon Aircraft manufactures, markets and supports piston-powered aircraft, turboprops and business jets for the world's commercial, regional airlines and military aircraft markets.

Raytheon Aircraft's piston-powered aircraft line includes the single-engine Beech Bonanza and the twin-engine Beech Baron aircraft for business and personal flying. The segment's King Air turboprop series includes the Beech King Air C90B, B200, and 350. The jet line includes the Beechjet 400A lightjet and the Hawker 800XP midsize business jet. Raytheon Aircraft also produces a 19-passenger regional airliner. The Raytheon Premier I entry-level business jet is currently completing a certification test program. A new super midsize business jet, the Hawker Horizon, is currently in development, leading to anticipated airplane certification and delivery in 2003. Raytheon Aircraft also has announced the Hawker 450, a light midsize jet.

The segment supplies aircraft training systems, including the T-6A trainer selected as the next-generation trainer for the U.S. Air Force and Navy under the Joint Primary Aircraft Training System (JPATS). Raytheon Aircraft produces special mission aircraft, including militarized versions of the King Airs and the U-125 search-and-rescue variant of the Hawker 800.

Raytheon Aerospace manages approximately 1,600 aircraft at over 260 sites around the world and provides contractor logistics and training support for military and government aircraft. Raytheon Aircraft Services operates a network of business aviation service operations at airports across the U.S., and in the U.K. and Mexico.

Raytheon Travel Air sells fractional shares in aircraft and provides aircraft management and transportation services for the owners of the shares. The Travel Air program includes the Hawker 800XP, Beechjet 400A and the King Air B200. Raytheon

Aircraft Charter and Management offers aircraft charter and management services to the U.S. market.

Engineering and Construction

In April 2000, the Company announced its intention to sell its Raytheon Engineers & Constructors subsidiary and discontinue its engineering and construction operating segment. The summary of operating results from discontinued operations, a description of the terms of the sale and information regarding certain ongoing liabilities related to the former engineering and construction segment is contained in the Company's Annual Report to Stockholders for the year ended December 31, 2000 on pages 26 through 31 and in the Notes to the Company's Financial Statements for the years ended December 31, 2000, 1999 and 1998 and is incorporated herein by reference.

Divestitures

Consistent with Raytheon's strategy of divesting non-core assets to focus and streamline core businesses and pay down debt, the Company divested a number of business units in 2000. Excluding the sale of RE&C, cash proceeds from divestitures and sales of investments totaled $330 million.

SALES TO THE UNITED STATES GOVERNMENT

Sales to the United States Government (the "Government"), principally to the Department of Defense, were $11.1 billion in 2000 and $11.7 billion in 1999, representing 65.8% of total sales in 2000 and 67.9% in 1999. Of these sales, $0.5 billion in 2000 and $0.7 billion in 1999 represented purchases made by the Government on behalf of foreign governments.

GOVERNMENT CONTRACTS

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

Generally, Government contracts are subject to oversight audits by Government representatives, and, in addition, they include provisions permitting termination, in whole or in part, without prior notice at the Government's convenience upon the payment of compensation only for work done and commitments made at the time of termination. In the event of termination for convenience, the contractor will receive some allowance for profit on the work performed. The right to terminate for convenience has not had any significant effect upon Raytheon's business in light of its total Government business.

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

The Company's fixed-price contracts are either firm fixed-price contracts or fixed-price incentive contracts. Under firm fixed-price contracts, Raytheon agrees to perform a specific scope of work for a fixed price and as a result benefits from cost savings and carries the burden of cost overruns. Under fixed-price incentive contracts, Raytheon shares with the Government savings accrued from contracts performed for less than target costs and costs incurred in excess of targets up to a negotiated ceiling price (which is higher than the target cost) and carries the entire burden of costs exceeding the negotiated ceiling price. Accordingly under such incentive contracts, the Company's profit may also be adjusted up or down depending upon whether specified performance objectives are met. Under firm fixed-price and fixed-price incentive type contracts, the Company usually receives progress payments monthly from the Government generally in amounts equaling 75% and 80% of costs incurred under (i) DoD contracts and (ii) all other Government contracts, respectively. The remaining amount, including profits or incentive fees, is billed upon delivery and final acceptance of end items under the contract.

The Company's Government business is subject to specific procurement regulations and a variety of socio-economic and other requirements. Failure to comply

with such regulations and requirements could lead to suspension or debarment, for cause, from Government contracting or subcontracting for a period of time. Among the causes for debarment are violations of various statutes, including those related to procurement integrity, export control, government security regulations, employment practices, the protection of the environment, the accuracy of records and the recording of costs.

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

Companies which are engaged in supplying defense-related equipment to the Government are subject to certain business risks, some of which are peculiar to that industry. Among these are: the cost of obtaining trained and skilled employees; the uncertainty and instability of prices for raw materials and supplies; the problems associated with advanced designs, which may result in unforeseen technological difficulties and cost overruns; and the intense competition and the constant necessity for improvement in facilities and personnel training. Sales to the Government may be affected by changes in procurement policies, budget considerations, changing concepts of national defense, political developments abroad and other factors. See "Item 1. Factors that Could Affect Future Results" for a description of additional business risks.

See "Item 1. Sales to the United States Government" for information regarding the percentage of the Company's revenues generated from sales to the Government.

BACKLOG

The Company's backlog of orders at December 31, 2000 was $26.5 billion compared with $25.0 billion at the end of 1999. The 2000 amount includes funded backlog of $17.4 billion from the Government compared with $15.2 billion at the end of 1999.

Approximately $4.3 billion of the overall backlog figure represents the unperformed portion of direct orders from foreign governments. Approximately $2.1 billion of the overall backlog represents non-government foreign backlog.

Approximately $14.5 billion of the $26.5 billion 2000 year-end backlog is not expected to be filled during the following twelve months.

RESEARCH AND DEVELOPMENT

During 2000, Raytheon expended $526.3 million on research and development efforts compared with $508.5 million in 1999 and $582.1 million in 1998. These expenditures principally have been for product development for the Government and for

aircraft products. In addition, Raytheon conducts funded research and development activities under Government contracts which is included in net sales.

SUPPLIERS

Delivery of raw materials and supplies to Raytheon is generally satisfactory. Raytheon is sometimes dependent, for a variety of reasons, upon sole-source suppliers for procurement requirements. However, Raytheon has experienced no significant difficulties in meeting production and delivery obligations because of delays in delivery or reliance on such suppliers.

COMPETITION

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

The Aircraft segment competes primarily with four other companies in the business aviation industry. The principal factors for competition in the industry are price, financing, operating costs, product reliability, cabin size and comfort, product quality, travel range and speed, and product support. The Company believes we possess competitive advantages in the breadth of our product line, the performance of our product line, and the strength of our product support.

PATENTS AND LICENSES

Raytheon has long been an innovative leader in the development of new products and manufacturing technologies. Raytheon and its subsidiaries own a large intellectual property portfolio which includes, by way of example, United States and foreign patents, unpatented know-how, trademarks and copyrights, all of which contribute significantly to the preservation of the Company's strong competitive position in the market. In certain instances, Raytheon has augmented its technology base by licensing the proprietary intellectual property of others. Although these patents and licenses are, in the aggregate, important to the operation of the Company's business, no existing patent, license, or

similar intellectual property right is of such importance that its loss or termination would, in the opinion of management, have a material effect on the Company's business.

Raytheon's patent position and intellectual property portfolio is deemed adequate for the conduct of its businesses. It is Raytheon's policy to enforce its own intellectual property rights and to respect the rights of others. Incidental to the normal course of business, infringement claims may arise or may be threatened both by and against Raytheon. In the opinion of management, these claims will not have a material adverse effect on the Company's operations.

EMPLOYMENT

As of December 31, 2000, Raytheon had approximately 93,700 employees compared with approximately 105,300 employees at the end of 1999. The decrease is mainly due to the divestiture during 2000 of Raytheon Engineers & Constructors and other divestitures.

Raytheon considers its union-management relationships to be positive, with few exceptions. In 2000, Raytheon successfully reached agreement on 15 labor contracts, with one work stoppage of six weeks involving less than 3% of the workforce.

INTERNATIONAL SALES

Raytheon's sales to customers outside the United States (including foreign military sales) were 21% of total sales in 2000 and 23% of total sales in 1999 and 1998. These sales were principally in the fields of air defense systems, air traffic control systems, sonar systems, aircraft products, electronic equipment, computer software and systems, personnel training, equipment maintenance and microwave communication. Foreign subsidiary working capital requirements generally are financed in the countries concerned. Sales and income from international operations are subject to changes in currency values, domestic and foreign government policies (including requirements to expend a portion of program funds in-country) and regulations, embargoes and international hostilities. Exchange restrictions imposed by various countries could restrict the transfer of funds between countries and between Raytheon and its subsidiaries. Raytheon generally has been able to protect itself against most undue risks through insurance, foreign exchange contracts, contract provisions, government guarantees or progress payments.

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

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

FACTORS THAT COULD AFFECT FUTURE RESULTS

This filing and the information we are incorporating by reference contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts included in this filing and the information incorporated by reference, that we expect or anticipate will or may occur in the future, including statements regarding our financial position, business strategy and measures to implement that strategy, such as changes to operations, competitive strengths, goals, expansion and growth of our business and operations, plans, references to future success and other such matters, are forward-looking statements. These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate in the circumstances. However, whether actual results and developments will conform with our expectations and predictions is subject to a number of risks and uncertainties, including the factors discussed below, as well as other factors which might be described from time to time in our filings with the Securities and Exchange Commission.

All of the forward-looking statements we make in this filing and the information we are incorporating by reference are qualified by these cautionary statements. There can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business and operations. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. The following are some of the factors we think could cause our actual results to differ materially from expected and historical results. Other factors besides those listed here could also adversely affect the Company. All subsequent forward-looking statements attributable to the Company or persons acting on behalf of the Company are expressly qualified in their entirety by the factors described below and in the documents containing such forward-looking statements.

Because we have recently sold a number of our business units, our business is less diversified, which could reduce our earnings and might make us more susceptible to negative conditions in our remaining businesses.

Consistent with our strategy of focusing on and streamlining our core businesses and paying down our debt, during 1998, 1999 and 2000, we divested several non-core business units. As a result of these divestitures, we no longer receive revenues from these operations and, without offsetting increases in revenues in our other businesses, our overall revenues would decrease, which would have a negative affect on our financial condition.

In addition, as a result of these divestitures, our business is now less diversified and thus more dependent on our remaining businesses. As a result, we are now more sensitive to conditions and trends in the remaining industries in which we operate. Negative conditions and trends in these remaining industries could cause our financial condition and results of operations to suffer more heavily than would occur when our business lines were more diversified. Our inability to overcome these negative conditions and trends could have a negative impact on our financial condition.

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 multi-year contracts may be authorized in connection with major procurements, Congress generally appropriates funds on a fiscal year basis even though a program may continue for 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 additional funds to 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

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

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

- changes in procurement policies
- budget considerations
- changing concepts of national defense
- political developments abroad

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 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 66% of our net sales in 2000 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 2000, sales to international customers accounted for approximately 21% of our net sales. We expect that international sales will continue to account for a substantial portion of our net sales 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

- general economic and geopolitical conditions, including international hostilities, inflation, trade relationships and military and political alliances

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

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

Licenses are required from government agencies under the Export Administration Act, the Trading with the Enemy Act of 1917 and the Arms Export Control Act of 1976 for export of many of our products. 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. Government's Executive Branch must notify Congress at least 15 to 30 days, depending on the location of the sale, prior to authorizing these sales. During that time, 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 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
- manufacture and bring products to market quickly at cost-effective prices

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

We believe that, in order to remain competitive in the future, we will need to continue to develop new products, which will require the investment of significant financial resources in new product development. 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 technology which gains 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.

Our financial performance is significantly dependent on the timely and successful conversion of our defense products into commercial markets.

In order to leverage technology that we develop for defense applications, we frequently strive to adapt existing defense technology for commercial markets. We may not be successful, however, in converting our defense systems and devices into commercially viable products, and the market for such products may be limited. Any of these results could have a negative impact on our future revenues.

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

Sometimes we enter into contracts on a firm, fixed-price basis. This allows us to benefit from cost savings, but carries 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. As previously disclosed, during 2000 our financial results were negatively impacted by cost overruns on certain fixed price contracts.

In connection with the sale of RE&C on July 7, 2000, the Company has retained certain liabilities and risks.

The retained liabilities and risks include the following:

- Raytheon has retained responsibility for the performance of four large, fixed price international turnkey projects that are close to completion and partially indemnified the buyer on the completion of one other existing contract. The ultimate cost to complete these projects may be higher than the Company has estimated.

- Raytheon has retained certain assets and liabilities of its engineering and construction business, the ultimate value of which may differ from the amount recorded at December 31, 2000.

- Raytheon has continuing exposure under existing guarantees, surety bonds and letters of credit related to a number of ongoing projects. The ultimate impact of these potential obligations on the Company's financial condition is uncertain.

- The purchase and sale agreement provides for a purchase price adjustment based on a cut-off date balance sheet that has not yet been finalized. Any disputes related to a purchase price adjustment are subject to binding arbitration.

While these risks or the impact of these risks are difficult to predict, any one or more of these factors could have a material adverse impact on our financial condition.

We depend on the recruitment and retention of qualified personnel, and our failure to attract and retain 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.

A significant portion of our labor force is unionized, and our failure to maintain stable relationships with our unions could seriously harm our business.

Approximately 16,000 of our employees are unionized, which represented approximately 18% of our employees at December 31, 2000. As a result, we may experience work stoppages from time to time, and we are vulnerable to the demands imposed by our collective bargaining relationships. We cannot predict how stable these relationships, currently with 10 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.

Provisions in our charter documents and rights agreement could make it more difficult to acquire Raytheon and may reduce the market price of our stock.

Our certificate of incorporation and by-laws contain certain provisions, such as a classified board of directors, a provision prohibiting stockholder action by written consent, a provision prohibiting stockholders from calling special meetings and a provision authorizing our Board of Directors to consider factors other than stockholders' short-term interests in evaluating an offer involving a change in control. Also, we have a rights plan, which limits the ability of anyone to acquire more than 15% of our Class A or Class B Common Stock. These provisions could have the effect of delaying or preventing a change in control of Raytheon or the removal of Raytheon management, of deterring potential acquirers from making an offer to our stockholders and of limiting any opportunity to realize premiums over prevailing market prices for Raytheon common stock. Provisions of the Shareholder Rights Agreement and the Hughes Separation Agreement, both of which are incorporated as exhibits to this filing, could also have the effect of deterring changes of control of Raytheon.

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

Our manufacturing operations are highly dependent upon the delivery of materials by outside suppliers in a timely manner. In addition, we depend in part upon subcontractors to assemble major components and subsystems used in our products in a timely and satisfactory manner. While we enter into long-term or volume purchase agreements with a few of our suppliers, we cannot be sure that materials, components, and subsystems will be available in the quantities we require, if at all. We are dependent for some purposes on sole-source suppliers. If any of them 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.

Our dual class capital structure may depress the value of your Class B Common Stock.

We have two distinct classes of common stock - Class A Common Stock and Class B Common Stock. With respect to all actions other than the election or removal of

directors, holders of Class A Common Stock and Class B Common Stock have equal voting rights. With respect to the election or removal of directors only, holders of Class A Common Stock have 80.1% of the total voting power. Holders of Class B Common Stock have the remaining 19.9% of the voting power. If you hold Class B Common Stock, the value of your securities may be depressed by the disparity in voting power. Furthermore, while shares of both our Class A and Class B Common Stock currently trade on the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange, the listing policies of each of these exchanges with respect to corporations with dual-class capitalizations may change in the future, and in the future such policies may not allow for the continued listing of both our Class A and Class B Common Stock.

The Company has announced plans to eliminate the dual class capital structure and reclassify the Class A and Class B Common Stock into a single new class of common stock. The proposed elimination of the dual class capital structure has been approved by the Company's Board of Directors and is subject to approval by majority vote of the outstanding Class A and Class B shares, with each voting class voting separately. Accordingly, there can be no assurance that the proposed elimination will happen.

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

- the impact on recourse obligations at Raytheon Aircraft due to changes in the collateral value of financed aircraft
- regulatory developments
- general economic conditions, particularly the cyclical nature of the general aviation and engineering and construction markets in which we participate

Item 2. Properties

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

At December 31, 2000, the Company utilized approximately 47 million square feet of floor space for manufacturing, engineering, research, administration, sales and warehousing, approximately 97% of which was located in the United States. Of such total, approximately 32% was owned, approximately 63% was leased, and approximately 5% was made available under facilities contracts for use in the performance of United States Government contracts. At December 31, 2000 the Company had approximately 2.2 million square feet of additional floor space that was not in use, including approximately 1.4 million square feet in Company-owned facilities.

There are no major encumbrances on any of the Company's plants or equipment other than financing arrangements which in the aggregate are not material. In the opinion of management, the Company's properties have been well maintained, are in sound operating condition and contain all equipment and facilities necessary to operate at present levels.

At December 31, 2000, our business segments had major operations at the following locations:

- Electronic Systems -- E. Camden, AZ; Tucson, AZ; El Segundo, CA; Goleta, CA; Long Beach, CA; Louisville, KY; Andover, MA; Bedford, MA; Sudbury, MA; Tewksbury, MA; Portsmouth, RI; Dallas, TX; Plano, TX; and Sherman, TX;

- Command, Control, Communication & Information Systems -- Fullerton, CA; Aurora, CO; St. Petersburg, FL; Ft. Wayne, IN; Landover, MD; Townson, MD; Marlboro, MA; State College, PA; Garland, TX; and Falls Church, VA;

- Aircraft Integration Systems -- Lexington, KY; Greenville, TX; and Waco, TX;

- Raytheon Technical Services Company -- Chula Vista, CA; Long Beach, CA; Indianapolis, IN; Burlington, MA; and Norfolk and Reston, VA;

- Commercial Electronics -- Andover, MA; Kiel, Germany; Portsmouth, UK; and Malaga, Spain; and Midland, Ontario;

- Aircraft -- Selma, AL; Salina, KS; and Wichita, KS;

- Corporate -- Lexington, MA.

A summary of the utilized floor space at December 31, 2000, by business segment, follows:

(in square feet with 000's omitted)

	Leased	Owned	Gov't Owned	Total
Electronic Systems	14,523	6,827	1,551	22,901
Command, Control, Communication & Information Systems	3,360	2,763	10	6,133
Aircraft Integration Systems	4,593	216	964	5,773
Raytheon Technical Services	3,067	76	34	3,177
Commercial Electronics	274	618	0	892
Aircraft	3,219	3,945	0	7,164
Corporate (includes domestic and international sales offices)	328	258	0	586
TOTAL	29,364	14,703	2,559	46,626

See "Item 1. Factors that Could Affect Future Results" above and "Item 3. Legal Proceedings" below. Additional information regarding the effect of compliance with environmental protection requirements and the resolution of environmental claims against the Company and its operations is contained in the Company's Annual Report to Stockholders for the year ended December 31, 2000 on page 30 and in Note K to the Company's Financial Statements, respectively, and is incorporated herein by reference.

Item 3. Legal Proceedings

The Company is primarily engaged in providing products and services under contracts with the U.S. Government and, to a lesser degree, under direct foreign sales contracts, some of which are funded by the U.S. Government. These contracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the U.S. Government investigate whether the Company's operations are being conducted in accordance with these requirements. U.S. Government investigations of the Company,

whether relating to these contracts or conducted for other reasons, could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon the Company, or could lead to 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.

During October, November and December 1999, the Company and two of its officers were named as defendants in purported class action lawsuits filed in the United States District Court for the District of Massachusetts on October 14, 1999 by Merrill Roth (No. 99-12143NG), on October 15, 1999 by Robert Johnson (No. 99-12146PBS) and Jeffrey Gelfand (No. 99-121954JLT), on October 18, 1999 by Sidney Meisel (No. 99-12142PBS) and A. Richard Albrecht (No. 99-12178PBS), on October 19, 1999 by Barbara Rice (No. 99-12185NG), on October 26, 1999 by David DeForrest (No. 99-12222PBS) and Maureen Rocks (No. 99-12225PBS), on November 3, 1999 by Deborah Isaac (No. 99-12297PBS), on November 8, 1999 by Jay Fleishman (No. 99-12339PBS), on December 1, 1999 by Lasensky Paper Stock PSP (No. 99-12463NG), and on December 10, 1999 by Osprey Partners Investment Management, LLC (No. 99-12539-PB); in the United States District Court for the Southern District of New York on October 25, 1999 by Raymond Masri (No. 99-10789); and in the United States District Court for the District of Maryland on October 21, 1999 by Edwin Hankin (No. S-99-3211) (collectively the "Complaints"). The Complaints have been consolidated in the United States District Court for the District of Massachusetts (the "Court"). The Court appointed a lead plaintiff and, on June 12, 2000, a Consolidated and Amended Class Action Complaint (the "Consolidated Complaint") was filed, naming four additional former or present officers as defendants and alleging a purported class period of October 7, 1998 through October 12, 1999. On September 8, 2000, the Company and the individual defendants filed a motion to dismiss the Consolidated Complaint, which the plaintiffs opposed. The Court heard argument on the motion to dismiss on February 9, 2001 and has taken the motion under advisement.

The Company also was named as a nominal defendant and all of its directors at the time (except one) were named as defendants in purported derivative lawsuits filed on October 25, 1999 in the Court of Chancery of the State of Delaware in and for New Castle County by Ralph Mirarchi and others (No. 17495-NC), and on November 24, 1999 in Middlesex

County, Massachusetts, Superior Court by John Chevedden (No. 99-5782). On February 28, 2000, Mr. Chevedden filed another derivative action in the Delaware Chancery Court entitled John Chevedden v. Daniel P. Burnham, et al (No. 17838-NC) and on March 22, 2000, Mr. Chevedden's Massachusetts derivative action was dismissed. The Company anticipates that the two Delaware actions (collectively, the "Derivative Complaints") will be consolidated in the future. The Derivative Complaints contain allegations similar to those included in the Complaints and further allege that the defendants purportedly breached fiduciary duties to the Company and allegedly failed to exercise due care and diligence in the management and administration of the affairs of the Company.

Although the Company believes that it and the other defendants have meritorious defenses to the claims made in both the Consolidated Complaint and the Derivative Complaints and intends to contest the lawsuits vigorously, an adverse resolution of the lawsuits could have a material adverse effect on the Company's financial position and results of operations in the period in which the lawsuits are resolved. The Company is not presently able to reasonably estimate potential losses, if any, related to the lawsuits.

Defense contractors are subject to many levels of audit and investigation. Agencies which oversee contract performance include: the Defense Contract Audit Agency, the Department of Defense Inspector General, the General Accounting Office, the Department of Justice and Congressional Committees. The Department of Justice from time to time has convened grand juries to investigate possible irregularities by the Company in governmental contracting.

The U.S. Customs Service has concluded its investigation of the contemplated sale by Raytheon Canada Ltd., a subsidiary of the Company, of troposcatter radio equipment to a customer in Pakistan. The Company has produced documents in response to grand jury subpoenas, and grand jury appearances have taken place. The Company has cooperated fully with the investigation. The Government has not reached a final decision with respect to this matter. An adverse decision relating to this matter ultimately could have a material adverse effect on the Company's results of operations or financial condition.

In November 1999, the Company filed a complaint against Towers, Perrin, Forster & Crosby (TPF&C) in the U.S. District Court for the District of Massachusetts. The complaint arises out of a series of events concerning certain Hughes Electronics pension plans (the "Hughes Plans"), portions of which were acquired by the Company in connection with the merger with Hughes Defense. Specifically, the complaint alleges that the Company was damaged by (i) false representations made to the Company by TPF&C regarding the amount of surplus in the Hughes Plans and (ii) errors committed by TPF&C in providing administrative services to the Hughes Plans. The complaint seeks damages in an amount to be determined at trial. This matter has been transferred to the U.S. District Court for the Central District of California.

The description of the Company's disputes with Hughes Electronics regarding (i) the determination of the final purchase price for Hughes Defense and (ii) a claim by the Company against Hughes Electronics concerning the accuracy and completeness of disclosures made by Hughes Electronics prior to the merger of Raytheon Company and HE Holdings, Inc. contained in the Company's Annual Report to Stockholders for the year ended December 31, 2000 at pages 26-31 and in Note K to the Company's Financial Statements, respectively, is incorporated herein by reference.

The Company is involved in various stages of investigation and cleanup relative to remediation of various environmental sites. All appropriate costs incurred in connection therewith have been accrued. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative cleanup methods and technologies, the uncertainty of insurance coverage and the unresolved extent of the Company's responsibility, it is difficult to determine the ultimate outcome of these matters. However, in the opinion of management, any liability will not have a material effect on the Company's financial position, liquidity or results of operations after giving effect to provisions already recorded.

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

Raytheon Aircraft is a defendant in a number of product liability lawsuits which allege personal injury and property damage and seek substantial recoveries including, in some cases, punitive and exemplary damages. Raytheon Aircraft maintains partial insurance coverage against such claims and maintains a level of uninsured risk determined by management to be prudent. Additional information regarding aircraft product liability insurance is contained in Note K to the Company's Financial Statements included in the Company's Annual Report to Stockholders for the year ended December 31, 2000, and is incorporated herein by reference.

The insurance policies for product liability coverage held by Raytheon Aircraft do not exclude punitive damages, and it is the position of Raytheon Aircraft and its counsel that punitive damage claims are therefore covered. Historically, the defense of punitive damage claims has been undertaken and paid by insurance carriers. Under the law of some states, however, insurers are not required to respond to judgments for punitive damages. Nevertheless, to date no judgments for punitive damages have been sustained.

Various claims and legal proceedings generally incidental to the normal course of business are pending or threatened against the Company. While the Company cannot

predict the outcome of these matters, in the opinion of management, any liability arising from them will not have a material effect on the Company's financial position, liquidity or results of operations after giving effect to provisions already recorded.

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

None.

Item 4(A). Executive Officers of the Registrant

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

Daniel P. Burnham: Chairman and Chief Executive Officer since July 31, 1999. Prior thereto, Mr. Burnham served as President and Chief Executive Officer from December 1, 1998 to July 31, 1999 and as President and Chief Operating Officer from July 1, 1998 to December 1, 1998. Prior to joining the Company, Mr. Burnham was Vice Chairman of AlliedSignal, Inc. from October 1997 and President of AlliedSignal Aerospace and an Executive Vice President of AlliedSignal, Inc. from 1992 until becoming Vice Chairman in 1997. Age: 54

Franklyn A. Caine: Senior Vice President and Chief Financial Officer since April 1999. Prior to assuming his present position, Mr. Caine was Executive Vice President and Chief Financial Officer of Wang Laboratories, Inc. from 1994. Age: 51

Philip W. Cheney: Vice President - Engineering since May 1998. Prior to assuming his present position, Dr. Cheney was Vice President - Commercial Electronics from July 1994. Prior thereto, Dr. Cheney was Vice President - Engineering from February 1990. Age: 65

Kenneth C. Dahlberg: Executive Vice President - Business Development and President, Raytheon International, Inc. since January 2000. Prior to assuming his present positions, Mr. Dahlberg was Executive Vice President and President and Chief Operating Officer of Raytheon Systems Company since December 1997. Prior thereto, Mr. Dahlberg was Senior Vice President of Hughes Aircraft Company from September 1994 and Vice President of Hughes Electronics Corporation from May 1993. Age: 56

Dennis M. Donovan: Senior Vice President - Human Resources since October 1998. Prior to assuming his present position, Mr. Donovan was Vice President - Human Resources of GE Power Systems from 1991. Age: 52

Richard A. Goglia: Vice President and Treasurer since January 1999. Prior to assuming such position, Mr. Goglia was Director, International Finance from March 1997; and Senior Vice President--Corporate Finance, GE Capital Corporation from 1989. Age: 49

Thomas D. Hyde: Senior Vice President and General Counsel since January 2000. Prior to assuming his present position, Mr. Hyde was Senior Vice President, Secretary and General Counsel from September 1998; Senior Vice President and General Counsel from February 1998; and Vice President and General Counsel from February 1994. Age: 52

James L. Infinger: Vice President and Chief Information Officer since October 1997. Prior to assuming his present position Mr. Infinger was Senior Vice President and Chief Information Officer of CompUSA, Inc. from June 1994. Age: 43

Francis S. Marchilena: Executive Vice President and President - Command, Control, Communication & Information Systems since June, 2000. Prior to assuming his present position Mr. Marchilena was Senior Vice President and General Manager of the Command, Control and Communication Systems Segment of the former Raytheon Systems Company. Age: 55

Edward S. Pliner: Vice President and Corporate Controller since April 2000. Prior to assuming his present position, Mr. Pliner was Partner of PricewaterhouseCoopers LLP from September 1995. Age: 43

William H. Swanson: Executive Vice President and President - Electronic Systems since January 2000. Prior to assuming his present position, Mr. Swanson was Executive Vice President and Chairman and Chief Executive Officer of Raytheon Systems Company from December 1997; Executive Vice President and General Manager - Raytheon Electronic Systems Division from March 1995; and Senior Vice President and General Manager - Missile Systems Division from 1990. Age: 52

Hansel E. Tookes, II: Executive Vice President and Chairman and Chief Executive Officer of Raytheon Aircraft Company since August 2000. Prior to assuming his present position, Mr. Tookes was President and Chief Executive Officer of Raytheon Aircraft Company from January 2000 and President and Chief Operating Officer of Raytheon Aircraft Company from September 1999. Prior thereto, Mr. Tookes was President of Pratt & Whitney's Large Military Engines group from 1996 and Executive Vice President of Aircraft Products of Hamilton Standard from 1994. Age: 53

PART II

Item 5. Market For Registrant's Common Equity and Related Stockholder Matters

At December 31, 2000, there were 249,475 record holders of the Company's Class A common stock and 17,689 record holders of the Company's Class B common stock. Additional information required by this Item 5 is contained on page 52 of Raytheon's Annual Report to Stockholders for the year ended December 31, 2000 and in Note O to Raytheon's Financial Statements for the years ended December 31, 2000, 1999 and 1998 and is incorporated herein by reference.

On March 7, 2000 the Company issued an aggregate $2.25 billion of notes consisting of the following: $200 million principal face amount floating rate notes due 2002 (the "Floating Rate Notes"); an aggregate $800 million principal face amount notes due 2003 (the "7.90% Notes"); an aggregate $850 million principal face amount notes due 2006 (the "8.20% Notes"); an aggregate $400 million principal face amount notes due 2010 (the "8.30% Notes" and, together with the Floating Rate Notes, 7.90% Notes and 8.20% Notes the "Notes"). The group of underwriters of the Notes was lead by Credit Suisse First Boston and Morgan Stanley Dean Witter. The offering price of the Floating Rate Notes was 100%, resulting in proceeds to the Company of 99.75% ($199,500,000) after underwriting discounts and commissions of .250% ($500,000). The offering price of the 7.90% Notes was 99.830%, resulting in proceeds to the Company of 99.480% ($795,840,000) after underwriting discounts and commissions of .520% ($4,160,000). The offering price of the 8.20% Notes was 99.979%, resulting in proceeds to the Company of 99.379% ($844,721,500) after underwriting discounts and commissions of .621% ($5,278,500). The offering price of the 8.30% Notes was 99.862%, resulting in proceeds to the Company of 99.212% ($396,848,000) after underwriting discounts and commissions of .788% ($3,152,000).

The Notes were offered and sold to (i) Qualified Institutional Buyers as defined in Rule 144A of the Securities Act in transactions exempt from registration pursuant to Rule 144A, (ii) a limited number of other institutional "accredited investors" (as defined in Rule 501(a)(1), (2), (3) and (7) under Regulation D of the Securities Act in private sales exempt from registration under the Securities Act in minimum denominations of $100,000, and/or (iii) to non-U.S. persons outside the United States in reliance on Regulation S of the Securities Act in transactions meeting the requirements of Regulation S. The proceeds of the Notes were used to reduce commercial paper and bank borrowings with various maturities and bearing interest at various rates.

Pursuant to the terms of a Registration Rights Agreement executed in connection with the issuance of the Debentures, the Company filed an exchange offer registration statement on Form S-4 in July 2000 covering the offer by the Company to exchange

floating rate exchange notes due 2002, 7.90% exchange notes due 2003, 8.20% exchange notes due 2006 and 8.30% exchange notes due 2010 registered under the Securities Act of 1933 for the outstanding Floating Rate Notes, 7.90% Notes, 8.20% Notes and 8.30% Notes, respectively.

Item 6. Selected Financial Data

The information required by this Item 6 is included in the "Five Year Statistical Summary" contained in the Company's Annual Report to Stockholders for the year ended December 31, 2000 on page 25 and is incorporated herein by reference.

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

The information required by this Item 7 is contained in the Company's Annual Report to Stockholders for the year ended December 31, 2000 on pages 26 through 31 and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required by this Item 7A is contained in the Company's Annual Report to Stockholders for the year ended December 31, 2000 on pages 30 and 31 and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

Selected quarterly financial data and the financial statements and supplementary data of the Registrant are contained in the Company's Annual Report to Stockholders for the year ended December 31, 2000 in Note O and on pages 32 through 50, respectively, and are incorporated herein by reference. Schedules required under Regulation S-X are filed as "Financial Statement Schedules" pursuant to Item 14 hereof.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding the directors of the Company is contained in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on April 25, 2001 under the captions "The Board of Directors and Board Committees" and "Election of Directors" and is incorporated herein by reference. Information regarding the executive officers of the Company is contained in Part I, Item 4(A) of this Form 10-K.

Item 11. Executive Compensation

This information is contained in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on April 25, 2001 under the caption "Executive Compensation" and, except for the information required by Items 402(k) and 402(l) of Regulation S-K, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

This information is contained in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on April 25, 2001 under the caption "Stock Ownership" and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

This information is contained in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on April 25, 2001 under the caption "Certain Relationships and Related Transactions" and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Financial Statements and Schedules

(1) The following financial statements of Raytheon Company and Subsidiaries Consolidated, as contained in Raytheon's 2000 Annual Report to Stockholders, are hereby incorporated by reference:

Balance Sheets at December 31, 2000 and 1999

Statements of Income for the Years Ended

December 31, 2000, 1999 and 1998

Statements of Stockholders' Equity for the Years Ended
December 31, 2000, 1999 and 1998

Statements of Cash Flows for the Years Ended
December 31, 2000, 1999 and 1998

(2) The following financial statement schedule is included herein:

Schedule II, Reserves for the Three Years Ended
December 31, 2000

Schedules I, III and IV are omitted because they are not required, not applicable or the information is otherwise included.

(b) Reports on Form 8-K

Raytheon Company Current Report on Form 8-K filed with the Securities and Exchange Commission on February 25, 2000

Raytheon Company Current Report on Form 8-K filed with the Securities and Exchange Commission on December 1, 2000

(c) Exhibits

2.1 Agreement and Plan of Merger dated as of January 16, 1997 by and between Raytheon Company and HE Holdings, Inc., filed as an exhibit to Former Raytheon's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 17, 1997, is hereby incorporated by reference.

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3.1 Raytheon Company Restated Certificate of Incorporation, restated as of February 11, 1998 filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 1997, is hereby incorporated by reference.

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10.22 Second Amendment, dated as of October 31, 2000, to the Second Amended and Restated Purchase and Sale Agreement, dated as of March 10, 2000, among Raytheon Aircraft Receivables Corporation, Raytheon Aircraft Credit Corporation, the Bank of America, N.A., the Chase Manhattan Bank, Citibank, N.A. and Credit Suisse First Boston.*

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21 Subsidiaries of Raytheon Company.*

23.1 Consent of Independent Accountants.*

23.2 Reports of Independent Accountants.*

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

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RAYTHEON COMPANY

/s/ Franklyn A. Caine

Franklyn A. Caine
Senior Vice President and Chief Financial Officer for the Registrant

Dated: March 5, 2001

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

SIGNATURES	TITLE	DATE
/s/ Daniel P. Burnham Daniel P. Burnham	Chairman and Chief Executive Officer (Principal Executive Officer)	March 5, 2001
/s/ Barbara M. Barrett Barbara M. Barrett	Director	March 5, 2001
/s/ Ferdinand Colloredo-Mansfeld Ferdinand Colloredo-Mansfeld	Director	March 5, 2001
/s/ John M. Deutch John M. Deutch	Director	March 5, 2001
Thomas E. Everhart	Director	
/s/ John R. Galvin John R. Galvin	Director	March 5, 2001

Signature	Title	Date
/s/ L. Dennis Kozlowski - ----------------------- L. Dennis Kozlowski	Director	March 5, 2001
/s/ Henrique de Campos Meirelles - -------------------------------- Henrique de Campos Meirelles	Director	March 5, 2001
/s/ Dennis J. Picard - -------------------- Dennis J. Picard	Director	March 5, 2001
/s/ Frederic M. Poses - --------------------- Frederic M. Poses	Director	March 5, 2001
/s/ Warren B. Rudman - -------------------- Warren B. Rudman	Director	March 5, 2001
- ------------------------ Michael C. Ruettgers	Director	
/s/ William R. Spivey - --------------------- William R. Spivey	Director	March 5, 2001
- ------------------- Alfred M. Zeien	Director	
/s/ Edward S. Pliner - -------------------- Edward S. Pliner	Vice President and Corporate Controller (Chief Accounting Officer)	March 5, 2001

RAYTHEON COMPANY

SCHEDULE II - RESERVES

FOR THE THREE YEARS ENDED DECEMBER 31, 2000

(In millions)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		Additions			
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions Note (1)	Balance at end of period
Year ended December 31 2000:					
Allowance for doubtful accounts receivable	$26.6	$3.9	-	$7.6	$22.9
Year ended December 31 1999:					
Allowance for doubtful accounts receivable	$20.8	$8.3	-	$2.5	$26.6
Year ended December 31 1998:					
Allowance for doubtful accounts receivable	$21.7	$3.6	-	$4.5	$20.8

Note (1) - Uncollectible accounts and adjustments, less recoveries

EXHIBIT INDEX

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EXHIBIT 10.15

Raytheon

Keith J. Peden
Vice President and Deputy
Director Human Resources
781 860 2380
781 860 2912 fax

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

April 7, 2000

Mr. Hansel Tookes II
834 Glenmoor
Wichita, KS 67206

Re: Retention Bonus

Dear Hansel:

Raytheon Company ("Raytheon") is exploring various alternatives with respect to Raytheon Aircraft Company ("RAC") which may include a Change In Control ("CIC"). This letter sets forth the special incentive arrangement and conditions for which you will be eligible in connection with your continued employment and cooperation in the event of a CIC as that term is defined below.

Raytheon will decide in its sole discretion if and when it will proceed with a restructuring or transaction that may involve a CIC, and the terms and conditions of such a transaction. Nothing contained herein shall obligate Raytheon to enter into any transaction at this or any other time.

1. Change In Control. For the purposes of this Retention Bonus Agreement, a "Change In Control" is defined exclusively as the consummation of:

(i) the sale of more than fifty percent (50%) of the gross asset value of RAC, or

(ii) any consolidation or merger of RAC or sale of voting securities of RAC, other than a consolidation or merger with or sale of voting securities to Raytheon or an Affiliate of Raytheon (a "Stock Transaction"), such that, after any such Stock Transaction, Raytheon, or an Affiliate of Raytheon, owns less than 50% of the combined voting power of the voting securities of RAC outstanding immediately after such stock transaction, provided, however, that any spin-out, spin-off, initial public offering or similar transaction involving RAC shall not constitute a Stock Transaction.

For purposes hereof, "Affiliate" shall mean, with respect to any specified person, a person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the person specified, and the term "control" and any term derived therefrom shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through ownership of voting securities, by contract, or otherwise.

2. You agree to assist and fully cooperate with Raytheon and RAC in all matters related to Raytheon's efforts to effect a CIC, and to do and perform all tasks reasonably requested of you to support and bring about such CIC.

3. <u>2000 Results Based Incentive ("RBI") Bonus.</u> You shall be eligible for an RBI Bonus consistent with the terms of the performance measures of the 2000 RBI Bonus Plan, as adjusted if the CIC occurs during the RBI measuring period.

4. <u>Transaction Incentive:</u> At this point, the Company is exploring a number of possibilities regarding the future of RAC. We believe that the success of any such transaction will be positively influenced by your efforts. Set forth below is a summary of the incentives the Company commits to related to the impact of a CIC on your personal circumstances.

(a) <u>CIC Event and You Remain With Raytheon:</u> If the transaction involving RAC constitutes a CIC as defined in Paragraph 1(i) and after the Closing Date you continue as an executive of Raytheon, you will be entitled to the following:

(i) three (3) times the sum of your annual base salary and targeted 2000 RBI Bonus pursuant to the terms of your offer letter [Note: payment of this bonus is in lieu of the severance/retirement transition payment set forth in your offer letter]; and

(ii) payment of the Transaction Value Incentive ("TVI") pursuant to the schedule in Paragraph 5 below.

(b) <u>CIC Event and Raytheon Has No Continuing Interest in New Entity:</u> If the transaction involving RAC constitutes a CIC as defined in Paragraph 1(i), you are no longer an executive with Raytheon or an Affiliate after the Closing Date, and Raytheon does not have a financial interest in the new entity, you shall be entitled to the following:

(i) three (3) times the sum of your annual base salary and targeted 2000 RBI Bonus pursuant to the terms of your offer letter [Note: payment of this bonus is in lieu of the severance/retirement transition payment set forth in your offer letter];

(ii) the retirement benefit provision of your offer letter, including an offset of any pension benefit accrued from the new entity;

(iii) the restrictions on your restricted shares shall lapse as of the Closing Date and be payable within twenty (20) days of that date; and

(iv) payment of the TVI pursuant to the schedule in Paragraph 5 below.

(c) <u>CIC Event and Raytheon Has a Continuing Interest in New Entity:</u> If the transaction involving RAC constitutes a CIC as defined in Paragraph 1(ii),

and Raytheon continues to have a financial interest in the new entity, and you are assigned to a position with the new entity comparable to the one you currently hold, you shall be entitled to the following:

(i) three (3) times the sum of your annual base salary and targeted 2000 RBI Bonus pursuant to the terms of your offer letter [Note: payment of this bonus is in lieu of the severance/retirement transition payment set forth in your offer letter];

(ii) the retirement benefit provision of your offer letter, including an offset of any additional pension benefit accrued from the new entity;

(iii) the restrictions on your current restricted shares shall lapse according to the following schedule:

(A) the restrictions on twenty-five percent (25%) of these shares shall lapse on the Closing Date and be valued as of the closing price on that date, and will be paid within twenty (20) days thereafter;

(B) the restrictions on twenty-five percent (25%) of these shares shall lapse as of the first anniversary of the Closing Date and be valued at the closing price on that date, and will be paid within twenty (20) days thereafter; and

(C) the restrictions on fifty percent (50%) of these shares shall lapse as of the second anniversary of the Closing Date and be valued as of the closing price on that date, and will be paid within twenty (20) days thereafter.

(iv) payment of the TVI pursuant to the schedule in Paragraph 5 below.

If at the Closing Date you refuse an offer of a comparable position with the new entity and do not remain as an executive of Raytheon, you will be entitled to only the benefits set forth in Paragraphs 4(b)(i), (ii) and (iv).

If, prior to the second anniversary of the Closing Date, you are terminated by the new entity without cause, or you voluntarily leave the employment of the new entity as a direct result of a significant reduction in the duties, responsibilities and reporting requirements from the position you are assigned immediately following the Closing Date, the restrictions on the remaining shares shall lapse effective the last day worked, valued as of the closing price on that date and paid within twenty (20) days thereafter.

For purposes of this paragraph, "cause" is defined as:

(i) failure to perform any of the material duties of the position with the acquiring entity, including special projects and assignments, after notice and a reasonable opportunity to correct performance; or

(ii) breach of any material provision of the acquiring entity's standards of business behavior and ethics; or

(iii) conviction of, or plea of nolo contendere to, any felony or misdemeanor which has a material impact on your ability to perform the duties of your position.

(d) CIC Event and You Are Offered a Non-Comparable Position With New Entity: If the RAC transaction constitutes a CIC as defined in Paragraph 1(i), and Raytheon continues to have a financial interest in the new entity, and you are assigned to a position with the new entity that is not comparable to the one you currently hold, you will be entitled to the benefits set forth in Paragraph 4(b) above.

5. Transaction Value Incentive. In addition to the Retention Bonus set forth in Paragraph 4, you shall also be eligible for a TVI award based on the following schedule:

Aggregate Consideration ("AC")	TVI
	$100,000.00
	$200,000.00
	$300,000.00
	$400,000.00
	$500,000.00

For purposes of this Agreement, the term "Aggregate Consideration" shall mean the total fair market value (at the time of closing) of all consideration (including cash, securities, property, any debt on the Company's financial statements at closing and other indebtedness and obligations assumed by the new entity and any other form of consideration) paid or payable, or otherwise to be distributed, directly or indirectly, to Raytheon or RAC in connection with the sale.

6. Excise Tax Payment. In the event that you are subject to federal excise tax as a result of receipt of the payments set forth in Paragraphs 4 and/or 5, you shall receive the benefits outlined in Attachment A related to excise tax treatment.

7. Confidentiality. You agree to keep confidential this agreement and not to disclose either the fact of the agreement or the terms thereof, except where necessary to members of your immediate family, tax or legal advisors, and as required in response to a valid subpoena or court order.

8. Arbitration of Claims. The parties agree that any disputes arising during the term of your employment with Raytheon and/or RAC, including but not limited to any claims arising under the terms of this Agreement, shall be subject to final and binding arbitration as the sole and exclusive forum for dispute resolution. Arbitration under this section shall be conducted pursuant to the rules of the American Arbitration Association applicable to employment disputes.

Please acknowledge your acceptance of the terms and conditions of this Retention Bonus Agreement by signing below.

Very truly yours,

Raytheon Company

By /s/ Keith J. Peden

Keith J. Peden
Vice President and Deputy Director
Human Resources

AGREED AND ACCEPTED:

/s/ Hansel Tookes II Date: 22 August 2000

- ------------------------------------- ------------------------

Hansel Tookes II

ATTACHMENT A

TAX PAYMENTS

1 Excise Tax Payments. (i) If it is determined that any payment by the Company to you pursuant to Paragraphs 4 and/or 5 of the foregoing letter agreement ("Payment") would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by you with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then you shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by you of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, you retain an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions, if it is determined that you are entitled to a Gross-Up Payment, but that, after taking into account the Payments and the Gross-Up Payment, you would not receive a net after-tax benefit of at least $50,000 (taking into account both income taxes and any Excise Tax) as compared to the net after-tax proceeds to you resulting from an elimination of the Gross-Up Payment and a reduction of the Payments, in the aggregate, to an amount (the "Reduced Amount") such that the receipt of Payments would not give rise to any Excise Tax, then no Gross-Up Payment shall be made to you, and the Payments, in the aggregate, shall be reduced to the Reduced Amount.

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

the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to you or for your benefit.

(iii) You shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given to the Senior Vice President, Human Resources, 141 Spring Street, Lexington, MA 02421, as soon as practicable but no later than ten business days after you are informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. You shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies you in writing prior to the expiration of such period that it desires to contest such claim, you shall:

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

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

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

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

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold you harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Subsection (iii), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct you to pay the tax claimed and sue for a refund or to contest the claim in any permissible manner, and you agree to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs you to pay such claim and sue for a refund, the Company shall advance the amount of such payment to you, on an interest-free basis, and shall indemnify and hold you harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties

with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for your taxable year with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and you shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

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

2 <u>Tax Withholding</u>. The Company may withhold from any amounts payable under the foregoing letter agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

EXHIBIT 10.20

REAFFIRMATION OF
AMENDED AND RESTATED REPURCHASE AGREEMENT

REAFFIRMATION OF AMENDED AND RESTATED REPURCHASE AGREEMENT, dated as of March 10, 2000, (this "Reaffirmation") of the Amended and Restated Repurchase Agreement, dated as of March 18, 1999 (the "Repurchase Agreement"), made by Raytheon Aircraft Company, a Kansas corporation ("RAC"), in favor of the Purchasers referred to therein and Bank of America National Trust and Savings Association, as managing facility agent (in such capacity, the "Managing Facility Agent") for such Purchasers.

WHEREAS, pursuant to the Amended and Restated Purchase and Sale Agreement, dated as of March 18, 1999 (as hereto amended, modified or otherwise supplemented) (the "Purchase Agreement"), among Raytheon Aircraft Receivables Corporation, a Kansas corporation (the "Seller"), Raytheon Aircraft Credit Corporation ("Raytheon Credit"), as Servicer (as defined therein), the financial institutions and special purpose corporations from time to time parties thereto (the "Purchasers"), Bank of America National Trust and Savings Association, as Managing Facility Agent (in such capacity, the "Managing Facility Agent") and Documentation Agent for the Purchasers, Bank of America National Trust and Savings Association and the Chase Manhattan Bank, as Co-Administrative Agents for the Purchasers (each in such capacity, a "Co-Administrative Agent"), The Chase Manhattan Bank, as Syndication Agent (in such capacity, the "Syndication Agent"), Citibank, N.A. and Credit Suisse First Boston, as Co-Syndication Agents (each in such capacity, a "Co-Syndication Agent"), and each Administrative Agent referred to therein, RAC entered into the Repurchase Agreement;

WHEREAS, the Purchase Agreement is being amended and restated by the Second Amended and Restated Purchase and Sale Agreement (the "Amended Purchase Agreement"), dated as of March 10, 2000, among Raytheon Aircraft Receivables Corporation, a Kansas corporation (the "Seller"), Raytheon Aircraft Credit Corporation ("Raytheon Credit"), as Servicer (as defined therein), the financial institutions and special purpose corporations from time to time parties thereto (the "Purchasers"), Bank of America, N.A., formerly known as Bank of America National Trust and Savings Association, as Managing Facility Agent for the Purchasers (in such capacity, the "Managing Facility Agent"), The Chase Manhattan Bank and Bank of America, N.A., as Co-Administrative Agents for the Purchasers (in such capacity, a "Co-Administrative Agent"), The Chase Manhattan Bank, as Syndication Agent (in such capacity, the "Syndication Agent"), Citibank, N.A. and Credit Suisse First Boston, as Co-Syndication Agents (in such capacity, a "Co-Syndication Agent") and each Administrative Agent referred therein;

WHEREAS, it is a condition precedent to the effectiveness of the Amended Purchase Agreement that RAC shall have executed and delivered this Reaffirmation to the Managing Facility Agent;

WHEREAS, RAC desires to consent to the amendments to the Purchase Agreement and to reaffirm its obligations under the Repurchase Agreement;

NOW THEREFORE, in consideration of the foregoing and to induce the Managing Facility Agent, the Co-Agents, the Agents and the Purchasers to enter into the Second

Amended and Restated Purchase and Sale Agreement and to induce the Purchasers to make their respective purchasers from the Seller under the Second Amended and Restated Purchase and Sale Agreement, RAC hereby agrees as follows:

1. Defined Terms. Capitalized terms used herein but not defined shall have the meanings given to such terms in the Repurchase Agreement.

2. Consent and Reaffirmation. RAC hereby consents to the amendments to the Purchase Agreement and to the execution of the Amended Purchase Agreement by Raytheon Credit and the Seller and hereby reaffirms it obligations under the Repurchase Agreement.

3. Amendment to Section 3. Section 3 of the Repurchase Agreement is hereby amended by deleting "tenth" from the first sentence of such section and inserting in lieu thereof "twentieth".

(End of Page)

IN WITNESS WHEREOF, RAC has caused this Reaffirmation to be duly executed and delivered by its proper and duly authorized officer as of the day and year first written above.

RAYTHEON AIRCRAFT COMPANY

By:_____________________________
Name:
Title:

Acknowledged By:

BANK OF AMERICA, N.A.,
as Managing Facility Agent

By:_____________________________
Name:
Title

EXHIBIT 10.21

EXECUTION COPY

FIRST AMENDMENT

FIRST AMENDMENT, dated as of June 27, 2000 (this "Amendment"), to the SECOND AMENDED AND RESTATED PURCHASE AND SALE AGREEMENT, dated as of March 10, 2000 (the "Purchase and Sale Agreement"), among RAYTHEON AIRCRAFT RECEIVABLES CORPORATION, a Kansas corporation (the "Seller"), RAYTHEON AIRCRAFT CREDIT CORPORATION ("Raytheon Credit"), as Servicer (as defined herein), the financial institutions and special purpose corporations from time to time parties thereto (the "Purchasers"), BANK OF AMERICA, N.A., as Managing Facility Agent for the Purchasers (in such capacity, the "Managing Facility Agent"), THE CHASE MANHATTAN BANK and BANK OF AMERICA, N.A., as Co-Administrative Agents for the Purchasers (each in such capacity, a "Co-Administrative Agent"), THE CHASE MANHATTAN BANK, as Syndication Agent (in such capacity, the "Syndication Agent"), CITIBANK, N.A. and CREDIT SUISSE FIRST BOSTON, as Co-Syndication Agents (each in such capacity, a "Co-Syndication Agent") and each Administrative Agent referred to therein.

W I T N E S S E T H:

WHEREAS, pursuant to the Purchase and Sale Agreement, the Purchasers have agreed to purchase, and have purchased, certain Receivables from the Seller;

WHEREAS, the Seller has requested that the Purchasers and the Managing Facility Agent amend the Purchase and Sale Agreement in certain ways; and

WHEREAS, the Purchasers, the Seller, the Servicer, the Managing Facility Agent, RAC and Raytheon desire to amend the Purchase and Sale Agreement in the manner specified herein.

NOW, THEREFORE, the parties hereto hereby agree as follows:

Defined Terms. Terms defined in the Purchase and Sale Agreement and used herein shall have the meanings given to them in the Purchase and Sale Agreement.

Amendments to Definition of Consolidated Net Income (Subsection 1.1 of the Purchase and Sale Agreement). The definition of "Consolidated Net Income" appearing in subsection 1.1 of the Purchase and Sale Agreement is hereby amended by (i) deleting the word "and" appearing before the third clause thereof and by inserting, in lieu thereof, a comma and (ii) by adding to the end thereof, before the period mark, the following:

"and (iv) for the fiscal quarter of Raytheon and its consolidated Subsidiaries ending July 2, 2000, such Consolidated Net Income shall be increased by $191,000,000 representing one-time charges recorded in connection with Raytheon Engineers and Constructors".

3. Affirmation of Repurchase Agreement. RAC hereby consents to the foregoing amendment to the Purchase and Sale Agreement set forth herein and reaffirms its obligations under the Repurchase Agreement.

4. Affirmation of Guarantee. The Guarantor hereby consents to the foregoing amendment to the Purchase and Sale Agreement set forth herein and reaffirms its obligations under the Guarantee.

5. Conditions to Effectiveness. This Amendment shall become effective on the date (the "Amendment Effective Date") on which the Seller, the Servicer, RAC, Raytheon, the Managing Facility Agent, each Co-Administrative Agent and the Majority Purchasers shall have executed and delivered this Amendment to the Managing Facility Agent.

6. Representation and Warranties. (a) By the Seller. To induce the Managing Facility Agent, the Co-Administrative Agent and the Purchasers to enter into this Amendment, the Seller hereby represents and warrants to the Managing Facility Agent, the Co-Administrative Agents and the Purchasers as of the Amendment Effective Date that:

Reaffirmation. As of the date hereof and after giving effect to this Amendment, the representations and warranties set forth in Section 4 of the Purchase and Sale Agreement and Sections 3.1(b) and 3.2 of the Intercompany Purchase Agreement are true and correct in all material respects; and

No Amortization Event. After giving effect to this Amendment, no Amortization Event shall have occurred and be continuing.

By the Servicer. To induce the Managing Facility Agent, the Co-Administrative Agent and the Purchasers to enter into this Amendment, the Servicer hereby represents and warrants to the Managing Facility Agent, the Co-Administrative Agents and the Purchasers as of the Amendment Effective Date that:

Reaffirmation. As of the date hereof and after giving effect to this Amendment, the representations and warranties set forth in Section 4 of the Purchase and Sale Agreement and Sections 3.1(b) and 3.2 of the Intercompany Purchase Agreement are true and correct in all material respects; and

No Amortization Event. After giving effect to this Amendment, no Amortization Event shall have occurred and be continuing.

By RAC. To induce the Managing Facility Agent, the Co-Administrative Agent and the Purchasers parties hereto to enter into this Amendment, RAC hereby represents and warrants to the Managing Facility Agent, the Co-Administrative Agents and the Purchasers as of the Amendment Effective Date that as of the date hereof and after giving effect to this Amendment, the representations and warranties set forth in Section 9 of the Repurchase Agreement are true and correct in all material respects.

By Raytheon. To induce the Managing Facility Agent, the Co-Administrative Agent and the Purchasers to enter into this Amendment, Raytheon hereby represents and warrants to the Managing Facility Agent, the Co-Administrative Agents and the Purchasers as of the Amendment Effective Date that as of the date hereof and after giving effect to this Amendment, the representations and warranties set forth in Section 9 of the Guarantee are true and correct in all material respects.

2. Payment of Expenses. Raytheon agrees to pay or reimburse the Managing Facility Agent and each Co-Administrative Agent for all its respective out-of-pocket costs and expenses incurred in connection with the development, preparation and execution of, and any amendment, supplement or modification to, this Amendment and any other documents prepared in connection herewith or therewith, and the consummation and administration of the transactions contemplated hereby and thereby, including, without limitation, the reasonable fees and disbursements of counsel to the Managing Facility Agent and the Co-Administrative Agents.

3. Counterparts. This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Amendment signed by all the parties shall be lodged with the Seller and the Managing Facility Agent.

4. Severability; Headings. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. The section and subsection headings used in this Amendment are for convenience of reference only and are not to affect the construction hereof or to be taken into consideration in the interpretation hereof.

10. Continuing Effect of Other Documents. This Amendment shall not constitute an amendment or waiver of any other provision of the Purchase and Sale Agreement not expressly referred to herein and shall not be construed as a waiver or consent to any further or future action on the part of the Seller or the Servicer that would require a waiver or consent of the Purchasers, the Managing Facility Agent or the Co-Administrative Agents. Except as expressly amended, modified and supplemented hereby, the provisions of each Purchase Document and the other documents executed pursuant to the Purchase Documents are and shall remain in full force and effect.

11. GOVERNING LAW. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered in New York, New York by their proper and duly authorized officers as of the day and year first above written.

RAYTHEON AIRCRAFT RECEIVABLES CORPORATION,
as Seller

By:
Name:
Title:

RAYTHEON AIRCRAFT CREDIT CORPORATION,
as Servicer

By:
Name:
Title:

BANK OF AMERICA, N.A.,
as Managing Facility Agent and Co-Administrative Agent

By:
Name:
Title: Vice President

THE CHASE MANHATTAN BANK,
as Co-Administrative Agent and Syndication Agent

By:
Name:
Title:

First Amendment to the
Second Amended and Restated
Purchase and Sale Agreement

UBS AG, STAMFORD BRANCH,
solely as Administrative Agent

By:
Name:
Title:

By:
Name:
Title:

First Amendment to the
Second Amended and Restated
Purchase and Sale Agreement

BANK HAPOALIM

By:
Name:
Title:

By:
Name:
Title

SPC: RECEIVABLES CAPITAL CORPORATION

By:
Name:
Title:

SPC BANK: BANK OF AMERICA, N.A.

By:
Name:
Title:

BANK OF NOVA SCOTIA

By:

Name:

Title:

THE BANK OF NEW YORK

By:
Name:
Title:

SPC: BANNER RECEIVABLES CORPORATION

By:
Name:
Title:

SPC BANK: BANK OF TOKYO - MITSUBISHI, LTD.

By:
Name:
Title:

BAYERISCHE LANDESBANK

By:
Name:
Title:

By:
Name:
Title:

CANADIAN IMPERIAL BANK OF COMMERCE,
NEW YORK AGENCY

By:
Name:
Title:

THE CHASE MANHATTAN BANK

By:
Name:
Title:

SPC: CHARTA CORPORATION

By: CITICORP NORTH AMERICA, INC.,
as Attorney-in-Fact

By:
Name:
Title:

SPC BANK: CITIBANK, N.A.

By:
Name:
Title:

SPC: FOUR WINDS FUNDING CORPORATION

By: Commerzbank AG, New York Branch,
as Attorney-in-Fact

By:
Name:
Title:

By:
Name:
Title:

SPC BANK: COMMERZBANK AG, NEW YORK BRANCH

By:
Name:
Title:

By:
Name:
Title:

SPC: ALPINE SECURITIZATION CORP.

By: CREDIT SUISSE FIRST BOSTON, NEW YORK
BRANCH, as Attorney-in-Fact

By:
Name:
Title:

By:
Name:

Title:

SPC BANK: CREDIT SUISSE FIRST BOSTON, NEW YORK BRANCH

By:
Name:
Title:

By:
Name:
Title:

DEN DANSKE BANK AKTIESELSKAB, CAYMAN ISLANDS
BRANCH

By:
Name:
Title:

By:
Name:
Title:

SPC: FALCON ASSET SECURITIZATION CORPORATION

By:
Name:
Title:

SPC BANK: BANK ONE, NA

By:
Name:
Title:

THE INDUSTRIAL BANK OF JAPAN TRUST COMPANY

By:
Name:
Title:

SPC: THREE RIVERS FUNDING CORPORATION

By:
Name:
Title:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

By:
Name:
Title:

NATIONAL WESTMINSTER BANK Plc
NEW YORK BRANCH

By:
Name:
Title:

NATIONAL WESTMINSTER BANK Plc
NASSAU BRANCH

By:
Name:
Title:

WACHOVIA BANK, N.A.

By:
Name:
Title:

SPC: QUINCY CAPITAL CORPORATION

By:
Name:
Title:

SPC BANK: WESTDEUTSCHE LANDESBANK
GIROZENTRALE, NEW YORK BRANCH

By:
Name:
Title:

By:
Name:
Title:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By:
Name:
Title:

SPC: EAGLEFUNDING CAPITAL CORP.

By:
Name:
Title:

SPC BANK: FLEETBOSTON

By:
Name:
Title:

SOCIETE GENERALE

By:

Name:
Title:

SPC: VARIABLE FUNDING CAPITAL CORPORATION

By: First Union Capital Markets, a division of Wheat First Security Inc., as attorney-in-fact

By:
Name:
Title:

SPC BANK: FIRST UNION NATIONAL BANK

By:
Name:
Title:

SPC: ATLANTIC ASSET SECURITIZATION CORP.

By: CREDIT LYONNAIS NEW YORK BRANCH,
as Attorney-in-Fact

By:

Name:
Title:

SPC BANK: CREDIT LYONNAIS NEW YORK BRANCH

By:
Name:
Title:

KBC BANK NV

By:
Name:
Title:

By:
Name:
Title:

SPC: BAVARIA UNIVERSAL FUNDING CORPORATION

By:
Name:
Title:

SPC BANK: BAYERISCHE HYPO-UND VEREINSBANK AG

By:
Name:
Title:

By:
Name:
Title:

DEUTSCHE BANK AG, NEW YORK A/O CAYMAN ISLAND BRANCHES

By:
Name:
Title:

By:
Name:
Title:

BANCA COMMERCIALE ITALIANA,
NEW YORK BRANCH

By:
Name:
Title:

By:

Name:
Title:

BANCA POPOLARE DI MILANO

By:
Name:
Title:

By:
Name:
Title:

BANCA NATIONALE DEL LAVORO

By:
Name:
Title:

First Amendment to the
Second Amended and Restated
Purchase and Sale Agreement

BNP PARIBAS

By:
Name:
Title:

By:
Name:
Title:

THE FUJI BANK, LIMITED

By:
Name:
Title:

RAYTHEON COMPANY

By:
Name:
Title:

RAYTHEON COMPANY

By:
Name:
Title:

EXHIBIT 10.22

EXECUTION COPY

SECOND AMENDMENT

SECOND AMENDMENT, dated as of October 31, 2000 (this "Amendment"), to the SECOND AMENDED AND RESTATED PURCHASE AND SALE AGREEMENT, dated as of March 10, 2000 (the "Purchase and Sale Agreement"), among RAYTHEON AIRCRAFT RECEIVABLES CORPORATION, a Kansas corporation (the "Seller"), RAYTHEON AIRCRAFT CREDIT CORPORATION ("Raytheon Credit"), as Servicer (as defined herein), the financial institutions and special purpose corporations from time to time parties thereto (the "Purchasers"), BANK OF AMERICA, N.A., as Managing Facility Agent for the Purchasers (in such capacity, the "Managing Facility Agent"), THE CHASE MANHATTAN BANK and BANK OF AMERICA, N.A., as Co-Administrative Agents for the Purchasers (each in such capacity, a "Co-Administrative Agent"), THE CHASE MANHATTAN BANK, as Syndication Agent (in such capacity, the "Syndication Agent"), CITIBANK, N.A. and CREDIT SUISSE FIRST BOSTON, as Co-Syndication Agents (each in such capacity, a "Co-Syndication Agent") and each Administrative Agent referred to therein.

W I T N E S S E T H:

WHEREAS, pursuant to the Purchase and Sale Agreement, the Purchasers have agreed to purchase, and have purchased, certain Receivables from the Seller;

WHEREAS, the Seller has requested that the Purchasers purchase Receivables the maturity date of which and the date of delivery of the Financed Aircraft related thereto are no later than six months after the invoice date for such Receivable; and

WHEREAS, Purchasers are agreeable to such request provided that the aggregate outstanding Principal Balances of such Receivables shall not exceed $75,000,000 on any Settlement Date.

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. Defined Terms. Terms defined in the Purchase and Sale Agreement and used herein shall have the meanings given to them in the Purchase and Sale Agreement.

2. Amendment to Definition of Eligible Receivable (Subsection 1.1 of the Purchase and Sale Agreement). The definition of "Eligible Receivable" appearing in subsection 1.1 of the Purchase and Sale Agreement is hereby amended by (i) deleting "December 31, 2000" where it appears at the end of clause (g)(ii) and clause (t)(ii) of such definition and (ii) inserting, in lieu thereof, "six months after the invoice date for such Receivable".

3. Amendment to Concentration Limits (Section 2.7 of the Purchase and Sale Agreement). Section 2.7(a) of the Purchase and Sale Agreement is hereby amended by (i) deleting "." at the end of clause (xvii) thereof and (ii) inserting, in lieu thereof, the following:

; or

(xviii) the aggregate outstanding Principal Balances of Receivables referred to in clause (g)(ii) of the definition of "Eligible Receivable" would exceed $75,000,000 on such Settlement Date.

4. Amendment to Definition of Eligible Receivable (Subsection 1.1 of the Intercompany Purchase Agreement). The definition of "Eligible Receivable" appearing in subsection 1.1 of the Intercompany Purchase Agreement is hereby amended by inserting at the end thereof the following:

To the extent not otherwise provided for in this definition of "Eligible Receivable", any Receivable which qualifies as an "Eligible Receivable" as such term is defined in the Purchase and Sale Agreement shall be an "Eligible Receivable" for purposes of this Agreement.

5. Affirmation of Repurchase Agreement. RAC hereby consents to the foregoing amendments to the Purchase and Sale Agreement set forth herein and reaffirms its obligations under the Repurchase Agreement.

6. Affirmation of Guarantee. The Guarantor hereby consents to the foregoing amendments to the Purchase and Sale Agreement set forth herein and reaffirms its obligations under the Guarantee.

7. Conditions to Effectiveness. This Amendment shall become effective on the date (the "Amendment Effective Date") on which the Seller, the Servicer, RAC, Raytheon, the Managing Facility Agent, each Co-Administrative Agent and the Majority Purchasers shall have executed and delivered this Amendment to the Managing Facility Agent.

8. Representation and Warranties. (a) By the Seller. To induce the Managing Facility Agent, the Co-Administrative Agents and the Purchasers to enter into this Amendment, the Seller hereby represents and warrants to the Managing Facility Agent, the Co-Administrative Agents and the Purchasers as of the Amendment Effective Date that:

(i) Reaffirmation. As of the date hereof and after giving effect to this Amendment, the representations and warranties set forth in Section 4 of the Purchase and Sale Agreement and Sections 3.1(b) and 3.2 of the Intercompany Purchase Agreement are true and correct in all material respects; and

(ii) No Amortization Event. After giving effect to this Amendment, no Amortization Event shall have occurred and be continuing.

(b) By the Servicer. To induce the Managing Facility Agent, the Co-Administrative Agents and the Purchasers to enter into this Amendment, the Servicer hereby represents and warrants to the Managing Facility Agent, the Co-Administrative Agents and the Purchasers as of the Amendment Effective Date that:

(i) Reaffirmation. As of the date hereof and after giving effect to this Amendment, the representations and warranties set forth in Section 4 of the Purchase and Sale Agreement and Sections 3.1(b) and 3.2 of the Intercompany Purchase Agreement are true and correct in all material respects; and

(ii) No Amortization Event. After giving effect to this Amendment, no Amortization Event shall have occurred and be continuing.

(c) By RAC. To induce the Managing Facility Agent, the Co-Administrative Agents and the Purchasers parties hereto to enter into this Amendment, RAC hereby represents and warrants to the Managing Facility Agent, the Co-Administrative Agents and the Purchasers as of the Amendment Effective Date that as of the date hereof and after giving effect to this Amendment, the representations and warranties set forth in Section 9 of the Repurchase Agreement are true and correct in all material respects.

(d) By Raytheon. To induce the Managing Facility Agent, the Co-Administrative Agents and the Purchasers to enter into this Amendment, Raytheon hereby represents and warrants to the Managing Facility Agent, the Co-Administrative Agents and the Purchasers as of the Amendment Effective Date that as of the date hereof and after giving effect to this Amendment, the representations and warranties set forth in Section 9 of the Guarantee are true and correct in all material respects.

9. Payment of Expenses. Raytheon agrees to pay or reimburse the Managing Facility Agent and each Co-Administrative Agent for all its respective out-of-pocket costs and expenses incurred in connection with the development, preparation and execution of, and any amendment, supplement or modification to, this Amendment and any other documents prepared in connection herewith or therewith, and the consummation and administration of the transactions contemplated hereby and thereby, including, without limitation, the reasonable fees and disbursements of counsel to the Managing Facility Agent and the Co-Administrative Agents.

10. Counterparts. This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Amendment signed by all the parties shall be lodged with the Seller and the Managing Facility Agent.

11. Severability; Headings. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. The section and subsection

headings used in this Amendment are for convenience of reference only and are not to affect the construction hereof or to be taken into consideration in the interpretation hereof.

12. Continuing Effect of Other Documents. This Amendment shall not constitute an amendment or waiver of any other provision of the Purchase and Sale Agreement not expressly referred to herein and shall not be construed as a waiver or consent to any further or future action on the part of the Seller or the Servicer that would require a waiver or consent of the Purchasers, the Managing Facility Agent or the Co-Administrative Agents. Except as expressly amended, modified and supplemented hereby, the provisions of each Purchase Document and the other documents executed pursuant to the Purchase Documents are and shall remain in full force and effect.

13. GOVERNING LAW. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

(End of Page)

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered in New York, New York by their proper and duly authorized officers as of the day and year first above written.

RAYTHEON AIRCRAFT RECEIVABLES CORPORATION,
as Seller

By: ____
Name:
Title:

RAYTHEON AIRCRAFT CREDIT CORPORATION,
as Seller

By: ____
Name:
Title:

BANK OF AMERICA, N.A.,
as Managing Facility Agent and Co-Administrative Agent

By: ____
Name:
Title:

THE CHASE MANHATTAN BANK,
as Co-Administrative Agent and Syndication Agent

By: ____
Name:
Title:

UBS AG, STAMFORD BRANCH,
solely as Administrative Agent

By: ___________________________________
Name:
Title:

By: ___________________________________
Name:
Title:

BANK HAPOALIM

By: ____________________________________
Name:
Title:

By: ____________________________________
Name:
Title:

SPC: RECEIVABLES CAPITAL CORPORATION

By: ___________________________________
Name:
Title:

SPC BANK: BANK OF AMERICA, N.A.

By: ___________________________________
Name:
Title:

BANK OF NOVA SCOTIA

By: ___________________________________
Name:
Title:

THE BANK OF NEW YORK

By: ___________________________________
Name:
Title:

SPC: BANNER RECEIVABLES CORPORATION

By: ___________________________________
Name:
Title:

SPC BANK: BANK OF TOKYO - MITSUBISHI, LTD.

By: ___________________________________
Name:
Title:

BAYERISCHE LANDESBANK

By: ___________________________________
Name:
Title:

By: ___________________________________
Name:
Title:

CANADIAN IMPERIAL BANK OF COMMERCE,
NEW YORK AGENCY

By: ___________________________________
Name:
Title:

THE CHASE MANHATTAN BANK

By: ___________________________________
Name:
Title:

SPC: CHARTA CORPORATION

By: CITICORP NORTH AMERICA, INC.,
as Attorney-in-Fact

By: ___________________________________
Name:
Title:

SPC BANK: CITIBANK, N.A.

By: ___________________________________
Name:
Title:

SPC: FOUR WINDS FUNDING CORPORATION

By: Commerzbank AG, New York Branch,
as Attorney-in-Fact

By: ___________________________________
Name:
Title:

By: ___________________________________
Name:
Title:

SPC BANK: COMMERZBANK AG, NEW YORK BRANCH

By: ___________________________________
Name:
Title:

By: ___________________________________
Name:
Title:

SPC: ALPINE SECURITIZATION CORP.

By: CREDIT SUISSE FIRST BOSTON, NEW YORK BRANCH,
as Attorney-in-Fact

By: ___________________________________
Name:
Title:

By: ___________________________________
Name:
Title:

SPC BANK: CREDIT SUISSE FIRST BOSTON, NEW YORK
BRANCH

By: ___________________________________
Name:
Title:

By: ___________________________________
Name:
Title:

DEN DANSKE BANK AKTIESELSKAB, CAYMAN ISLANDS BRANCH

By: ___________________________________
Name:
Title:

By: ___________________________________
Name:
Title:

SPC: FALCON ASSET SECURITIZATION CORPORATION

By: ____________________________________
Name:
Title:

By: ____________________________________
Name:
Title:

SPC BANK: BANK ONE, NA

By: ____________________________________
Name:
Title:

THE INDUSTRIAL BANK OF JAPAN TRUST COMPANY

By: ___________________________________
Name:
Title:

SPC: THREE RIVERS FUNDING CORPORATION

By: ___________________________________
Name:
Title:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

By: ___________________________________

Name:

Title:

NATIONAL WESTMINSTER BANK Plc
NEW YORK BRANCH

By: ___________________________________
Name:
Title:

NATIONAL WESTMINSTER BANK Plc
NASSAU BRANCH

By: ___________________________________
Name:
Title:

By: ___________________________________
Name:
Title:

WACHOVIA BANK, N.A.

By: ___________________________________
Name:
Title:

SPC: QUINCY CAPITAL CORPORATION

By: ___________________________________
Name:
Title:

SPC BANK: WESTDEUTSCHE LANDESBANK
GIROZENTRALE, NEW YORK BRANCH

By: ___________________________________
Name:
Title:

By: ___________________________________
Name:
Title:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: ____________________________________
Name:
Title:

SPC: EAGLEFUNDING CAPITAL CORP.

By:
==================================
Name:
Title:

SPC BANK: FLEETBOSTON

By:
==================================
Name:
Title:

SOCIETE GENERALE

By:
    ==================================
    Name:
    Title:

SPC: VARIABLE FUNDING CAPITAL CORPORATION

By: First Union Capital Markets, a division of Wheat First
Security Inc., as attorney-in-fact

By:
===
Name:
Title:

SPC BANK: FIRST UNION NATIONAL BANK

By:
===
Name:
Title:

SPC: ATLANTIC ASSET SECURITIZATION CORP.

By: CREDIT LYONNAIS NEW YORK BRANCH,
as Attorney-in-Fact

By: ___________________________________
Name:
Title:

SPC BANK: CREDIT LYONNAIS NEW YORK BRANCH

By:
======================================
Name:
Title:

KBC BANK NV

By: ________________________________
Name:
Title:

By:
================================
Name:
Title:

SPC: BAVARIA UNIVERSAL FUNDING CORPORATION

By: ___________________________________
Name:
Title:

SPC BANK: BAYERISCHE HYPO-UND VEREINSBANK AG

By: ___________________________________
Name:
Title:

By: ___________________________________
Name:
Title:

DEUTSCHE BANK AG, NEW YORK A/O CAYMAN
ISLAND BRANCHES

By: ___________________________________
Name:
Title:

By: ___________________________________
Name:
Title:

BANCA COMMERCIALE ITALIANA, NEW YORK
BRANCH

By: ___________________________________
Name:
Title:

By: ___________________________________
Name:
Title:

BANCA POPOLARE DI MILANO

By: ___________________________________
Name:
Title:

By:
==================================
Name:
Title:

BANCA NATIONALE DEL LAVORO

By: ___________________________________
Name:
Title:

BNP PARIBAS

By: ___________________________________
Name:
Title:

By: ___________________________________
Name:
Title:

THE FUJI BANK, LIMITED

By: ___________________________________
Name:
Title:

RAYTHEON COMPANY

By: ___________________________________

Name:

Title:

RAYTHEON AIRCRAFT COMPANY

By: ___________________________________
Name:
Title:

EXHIBIT 10.24

REAFFIRMATION OF AMENDED AND RESTATED GUARANTEE

REAFFIRMATION OF AMENDED AND RESTATED GUARANTEE, dated as of March 10, 2000, (this "Reaffirmation") of the Amended and Restated Guarantee, dated as of March 18, 1999 (the "Guarantee"), made by Raytheon Company, a Delaware corporation ("Raytheon", together with its successors and assigns permitted therein, the "Guarantor"), in favor of the Purchasers referred to therein and Bank of America National Trust Association, as managing facility agent (in such capacity, the "Managing Facility Agent") for such Purchasers.

WHEREAS, pursuant to the Amended and Restated Purchase and Sale Agreement, dated as of March 18, 1999 (as hereto amended, modified or otherwise supplemented) (the "Purchase Agreement"), among Raytheon Aircraft Receivables Corporation, a Kansas corporation (the "Seller"), Raytheon Aircraft Credit Corporation ("Raytheon Credit"), as Servicer (as defined therein), the financial institutions and special purpose corporations from time to time parties thereto (the "Purchasers"), Bank of America National Trust and Savings Association, as Managing Facility Agent (in such capacity, the "Managing Facility Agent") and Documentation Agent for the Purchasers, Bank of America National Trust and Savings Association and The Chase Manhattan Bank, as Co-Administrative Agents for the Purchasers (each in such capacity, a "Co-Administrative Agent"), The Chase Manhattan Bank, as Syndication Agent (in such capacity, the "Syndication Agent"), Citibank, N.A. and Credit Suisse First Boston, as Co-Syndication Agents (each in such capacity, a "Co-Syndication Agent"), and each Administrative Agent referred to therein, Raytheon entered into the Guarantee;

WHEREAS, the Purchase Agreement is being amended and restated by the Second Amended and Restated Purchase and Sale Agreement (the "Amended Purchase Agreement"), dated as of March 10, 2000, among Raytheon Aircraft Receivables Corporation, a Kansas corporation (the "Seller"), Raytheon Aircraft Credit Corporation ("Raytheon Credit"), as Servicer (as defined therein), the financial institutions and special purpose corporations from time to time parties thereto (the "Purchasers"), Bank of America, N.A., formerly known as Bank of America National Trust and Savings Association, as Managing Facility Agent for the Purchasers (in such capacity, the "Managing Facility Agent"), The Chase Manhattan Bank and Bank of America, N.A., as Co-Administrative Agents for the Purchasers (in such capacity, a "Co-Administrative Agent"), The Chase Manhattan Bank, as Syndication Agent (in such capacity, the "Syndication Agent"), Citibank, N.A. and Credit Suisse First Boston, as Co-Syndication Agents (in such capacity, a "Co-Syndication Agent") and each Administrative Agent referred therein;

WHEREAS, it is a condition precedent to the effectiveness of the Amended Purchase Agreement that Raytheon shall have executed and delivered this Reaffirmation to the Managing Facility Agent;

WHEREAS, Raytheon desires to consent to the amendments to the Purchase Agreement and to reaffirm its obligations under the Guarantee;

NOW THEREFORE, in consideration of the foregoing and to induce the Managing Facility Agent, the Co-Agents, the Agents and the Purchasers to enter into the Second Amended and Restated Purchase and Sale Agreement and to induce the Purchasers to make their respective purchasers from the Seller under the Second Amended and Restated Purchase and Sale Agreement, Raytheon hereby agrees as follows:

1. Defined Terms. Capitalized terms used herein but not defined shall have the meanings given to such terms in the Guarantee.

2. Consent and Reaffirmation. Raytheon hereby consents to the amendments to the Purchase Agreement and to the execution of the Amended Purchase Agreement by Raytheon Credit and the Seller and hereby reaffirms it obligations under the Guarantee.

(End of Page)

IN WITNESS WHEREOF, Raytheon has caused this Reaffirmation to be duly executed and delivered by its proper and duly authorized officer as of the day and year first written above.

RAYTHEON COMPANY

By:____________________________
Name:
Title:

Acknowledged By:

BANK OF AMERICA, N.A.,
as Managing Facility Agent

By:____________________________
Name:
Title:

Exhibit 13

Five-Year Statistical Summary

(In millions except share amounts and total employees)	2000	1999	1998	1997	1996
Results of Operations					
Net sales	$ 16,895	$ 17,201/(1)/	$ 17,364	$ 11,537	$ 10,122
Operating income	1,625	1,592/(2)/	2,259/(4)/	1,040/(6)/	1,014/(8)/
Interest expense, net	736	703	697	343	142
Income from continuing operations	498	502/(3)/	1,019/(5)/	507/(7)/	649/(8)/
Net income	141	404/(3)/	844/(5)/	511/(7)/	757/(8)/
Diluted earnings per share from continuing operations	$ 1.46	$ 1.47/(3)/	$ 2.98/(5)/	$ 2.10/(7)/	$ 2.70/(8)/
Diluted earnings per share	0.41	1.19/(3)/	2.47/(5)/	2.11/(7)/	3.15/(8)/
Dividends declared per share	0.80	0.80	0.80	0.80	0.80
Average diluted shares outstanding (in thousands)	341,118	340,784	341,861	241,886	240,165
Financial Position at Year-End					
Current assets	$ 8,013	$ 8,602	$ 8,464	$ 8,911	$ 5,560
Property, plant, and equipment, net	2,491	2,387	2,237	2,812	1,697
Total assets	26,777	27,289	27,223	27,668	10,623
Current liabilities	4,865	7,133	6,114	10,380	4,178
Long-term liabilities (excluding debt)	2,035	1,899	2,149	2,496	370
Long-term debt	9,054	7,298	8,163	4,406	1,500
Total debt	9,931	9,769	8,988	10,050	3,715
Stockholders' equity	10,823	10,959	10,797	10,386	4,575
General Statistics					
Total backlog	$ 26,530	$ 24,978	$ 20,157/(9)/	$ 18,615	$ 8,942
U.S. government backlog included above	17,374	15,239	13,472/(9)/	12,360	5,614
Capital expenditures	431	524	468	441	379
Depreciation and amortization	694	699	734	424	345
Total employees	93,700	97,600	99,500	109,600	65,600

The Company has restated its financial statements for discontinued operations as more fully discussed in Note B to the financial statements. During 2000, the Company recorded favorable adjustments to restructuring-related reserves and net gains on sales of operating units that were more than offset by restructuring charges and unfavorable contract adjustments.

(1) Includes charges of $180 million.
(2) Includes charges of $195 million and restructuring and special charges of $197 million, offset by $65 million of favorable adjustments to restructuring-related reserves.
(3) Includes charges of $195 million pretax and restructuring and special charges of $211 million pretax, offset by favorable adjustments to restructuring-related reserves of $65 million pretax and a net gain on sales of operating units and investments of $23 million pretax. The impact of these items combined was a net charge of $195 million after-tax, or $0.57 per diluted share.
(4) Includes special charges of $167 million.
(5) Includes special charges of $167 million pretax and a net gain on sales of operating units of $141 million pretax. The impact of these items combined was a net charge of $41 million after-tax, or $0.12 per diluted share.
(6) Includes restructuring and special charges of $370 million.
(7) Includes restructuring and special charges of $370 million pretax and a net gain on sales of operating units of $72 million pretax. The impact of these items combined was a net charge of $194 million after-tax, or $0.80 per diluted share.
(8) Includes a special charge of $34 million pretax, $22 million after-tax, or $0.09 per diluted share.
(9) During 1998, the Company changed its method of reporting backlog at certain locations in order to provide a consistent method of reporting across and within the Company's businesses. Backlog includes the full value of contract awards when received, excluding awards and options expected in future periods. Prior to the change, contract values which were awarded but incrementally funded were excluded from reported backlog for some parts of the business. The one-time impact of this change was a $1.1 billion increase to backlog, related principally to U.S. government contracts. Prior periods have not been restated for this change.

Certain prior year amounts have been reclassified to conform to the current year presentation. The Company acquired Texas Instruments' defense business in July 1997 and merged with the defense business of Hughes Electronics Corporation (Hughes Defense) in December 1997. In December 1997, the Company issued 102.6 million shares of Class A common stock and converted each share of Raytheon common stock into one share of Class B common stock in connection with the merger with Hughes Defense.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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Overview

Raytheon Company (the "Company") is a leader in defense electronics, including missiles; radar; sensors and electro-optics; intelligence, surveillance, and reconnaissance; command, control, communication, and information systems; naval systems; air traffic control systems; aircraft integration systems; and technical services. Raytheon's commercial electronics businesses leverage defense technologies in commercial markets. Raytheon Aircraft is one of the leading providers of business and special mission aircraft and delivers a broad line of jet, turboprop, and piston-powered airplanes to corporate and government customers worldwide.

Consolidated Results of Operations

Net sales were $16.9 billion in 2000, $17.2 billion in 1999, and $17.4 billion in 1998. Sales to the U.S. Department of Defense were 57 percent of sales in 2000, 56 percent in 1999, and 61 percent in 1998. Total sales to the U.S. government, including foreign military sales, were 66 percent of sales in 2000, 68 percent in 1999, and 72 percent in 1998. International sales, including foreign military sales, were 21 percent of sales in 2000 and 23 percent in 1999 and 1998.

Gross margin was $3.4 billion in 2000, $3.5 billion in 1999, and $4.4 billion in 1998, or 19.9 percent of sales in 2000, 20.4 percent in 1999, and 25.3 percent in 1998. Excluding the restructuring and special charges described below of $123 million, net in 1999 ($188 million of restructuring and special charges offset by $65 million of favorable adjustments to restructuring-related reserves), gross margin was $3.6 billion. Excluding the 1999 charges, gross margin was 19.9 percent of sales in 2000, 21.2 percent in 1999, and 25.3 percent in 1998. The decrease in gross margin as a percent of sales in 2000 was primarily due to a decline in higher margin foreign direct programs, lower volume from missile and missile defense systems, and lower margins at Raytheon Aircraft. The decrease in gross margin as a percent of sales in 1999 was primarily due to competitive pricing pressures.

In 2000, the Company determined that the cost of the restructuring initiatives described below would be lower than originally planned and recorded $74 million of favorable adjustments to cost of sales that were more than offset by unfavorable contract adjustments. In addition, the Company recorded a $12 million reduction in goodwill related to the restructuring initiatives. The estimate for employee-related exit costs decreased by $45 million due to lower than anticipated costs for severance as a result of higher employee attrition and transfers within the Company during the year. The estimate for facility-related exit costs decreased by $41 million due to more rapid exit from facilities, including two facilities sold during 2000 in connection with the divestiture of non-core business operations, and the identification of alternative uses for facilities originally identified for disposition. Also in 2000, the Company recorded an $8 million restructuring charge, which was included in cost of sales, in connection with a workforce reduction, primarily at a foreign location.

Administrative and selling expenses were $1,214 million in 2000, $1,417 million in 1999, and $1,550 million in 1998. Excluding the restructuring charge of $9 million in 1999 and the special charges of $167 million in 1998, described below, administrative and selling expenses decreased to 7.2 percent of sales in 2000 from 8.2 percent in 1999 and 8.0 percent in 1998. The decrease in administrative and selling expenses in 2000 was the result of the Company's ongoing cost reduction initiatives.

Research and development expenses were $526 million or 3.1 percent of sales in 2000, $508 million or 3.0 percent of sales in 1999, and $582 million or 3.4 percent of sales in 1998. The increase in research and development expenses in 2000 was due primarily to new program investments made during 2000. The decrease in research and development expenses in 1999 was due primarily to the elimination of duplicate research and development processes as a result of the restructuring actions described below.

Operating income was $1,625 million or 9.6 percent of sales in 2000, $1,592 million or 9.3 percent of sales in 1999, and $2,259 million or 13.0 percent of sales in 1998. Excluding the restructuring and special charges described below of $132 million, net in 1999 ($197 million of restructuring and special charges offset by $65 million of favorable adjustments to restructuring-related reserves) and $167 million in 1998, operating income as a percent of sales was 10.0 percent and 14.0 percent in 1999 and 1998, respectively. The changes in operating income by segment are discussed below.

Interest expense, net was $736 million in 2000, $703 million in 1999, and $697 million in 1998. The increase was primarily due to higher weighted-average interest rates resulting from the Company's issuance of long-term debt to replace short-term borrowings. The weighted average cost of borrowing was 7.3 percent in 2000, 6.9 percent in 1999, and 6.8 percent in 1998.

Other expense, net was $12 million in 2000 versus other income of $9 million in 1999 and $145 million in 1998 which included a $141 million net gain on sales of operating units.

The effective tax rate was 43.2 percent in 2000, 44.1 percent in 1999, and 40.3 percent in 1998. The effective tax rate reflects primarily the U.S. statutory rate of 35 percent reduced by foreign sales corporation tax credits and research and development tax credits applicable to certain government contracts, increased by non-deductible amortization of goodwill.

Income from continuing operations was $498 million or $1.46 per diluted

share on 341.1 million average shares outstanding in 2000, $502 million or $1.47 per diluted share on 340.8 million average shares outstanding in 1999, and $1,019 million or $2.98 per diluted share on 341.9 million average shares outstanding in 1998.

In 2000, the Company sold its Raytheon Engineers & Constructors (RE&C) subsidiary for $73 million in cash, net to Washington Group International, Inc. (WGI), formerly known as Morrison Knudsen. The Company also retained approximately $30 million of cash on the balance sheet of RE&C at closing. The Company retained the responsibility for performance of four large, fixed price international turnkey projects that are close to completion, partially indemnified the buyer on the completion of one other existing project, and retained certain significant assets and liabilities, including certain letters of credit, performance bonds, and parent guarantees outstanding at the time of sale. The Company will continue to monitor the cost estimates for these five projects as well as the other retained assets and liabilities on a quarterly basis. The Company originally recorded a loss on disposal of discontinued operations of $191 million after-tax which included a gain on curtailment of the RE&C pension plans of $35 million. The Company subsequently increased the loss on disposal of discontinued operations to $287 million after-tax, due in part to the recognition of additional losses on the retained projects. The total loss from discontinued operations of $357 million after-tax, or $1.05 per diluted share, included the $287 million after-tax loss on disposal of discontinued operations and a $70 million after-tax loss from discontinued operations. The sale of RE&C is subject to a purchase price adjustment based upon an April 30, 2000 cut-off date balance sheet that has not yet been completed. The Company does not believe a material purchase price adjustment will be required. See the discussion of Financial Condition and Liquidity below for additional information.

In 1999, the Company adopted the American Institute of Certified Public Accountants Statement of Position 98-5, Reporting on the Costs of Start-Up Activities (SOP 98-5). This accounting standard requires that certain start-up and pre-contract costs be expensed as incurred. The Company recorded a charge of $53 million after-tax reflecting the initial application of SOP 98-5 and the cumulative effect of the change in accounting principle.

Net income was $141 million or $0.41 per diluted share in 2000, $404 million or $1.19 per diluted share in 1999, and $844 million or $2.47 per diluted share in 1998.

Total employment related to continuing operations was approximately 93,700 at December 31, 2000, approximately 97,600 at December 31, 1999, and approximately 99,500 at December 31, 1998. The decreases were primarily a result of divestitures and continuing restructuring initiatives, primarily at the Company's defense electronics businesses.

Prior Year Charges

The Company acquired Texas Instruments' defense business (TI Defense) on July 11, 1997, merged with the defense business of Hughes Electronics Corporation (Hughes Defense) on December 17, 1997, and created Raytheon Systems Company (RSC) in December 1997. In

conjunction with the formation of RSC, the Company recorded a $220 million restructuring charge to reduce the then newly formed RSC workforce by 12,800 employees and reduce space by approximately 11 million square feet at 34 facilities through sales, subleases, and lease terminations. The Company also accrued $584 million as liabilities assumed in connection with the acquisition of TI Defense and the merger with Hughes Defense and recorded this amount as an increase to goodwill. The principal actions involved the consolidation of missile and other electronics systems' manufacturing and engineering, as well as the consolidation of certain component manufacturing into Centers of Excellence.

In 1998, the estimated number of employee terminations increased by approximately 1,200 employees, primarily comprised of manufacturing employees, however, the actual cost of termination per employee was lower than the original estimate. As a result of these changes in estimate, the total cost of employee severance decreased by $37 million. The Company also determined that facilities exit costs would be lower than the original estimate by $30 million because many of the facility actions were progressing ahead of the original schedule, reducing the amount of rent and occupancy costs, and costs to return certain facilities to the required condition were less than originally planned. Also in 1998, the Company committed to close two additional facilities and further reduce employment by approximately 1,400 positions. The total program cost of the actions was estimated at $67 million, comprised of $14 million of severance and other employee-related costs and $53 million of facility closure and related costs.

The Company recorded a $102 million restructuring charge in the third quarter of 1999, of which $93 million was included in cost of sales and $9 million was included in administrative and selling expenses, to further reduce the workforce by 2,200 employees and vacate and dispose of an additional 2.7 million square feet of facility space, primarily at the Company's defense electronics businesses. Employee-related exit costs of $55 million included severance and other termination benefit costs for manufacturing, engineering, and administrative employees. Facility-related exit costs of $47 million included the costs for lease termination, building closure and disposal, and equipment disposition. The Company also recorded a $35 million restructuring charge in the third quarter of 1999, which was included in cost of sales, for higher than originally estimated exit costs related to the TI Defense and Hughes Defense actions. The estimate for employee-related exit costs increased by $27 million for higher than planned severance and other termination benefit costs. The estimate for facility-related exit costs increased by $8 million for additional lease termination costs expected to be incurred. The Company also accrued $12 million of exit costs as liabilities assumed in connection with a minor acquisition in 1999 and recorded this amount as an increase to goodwill.

In the fourth quarter of 1999, the Company determined that the cost of the restructuring initiatives would be $65 million lower than originally planned and recorded a favorable adjustment to the original $220 million restructuring charge, which was included in cost of sales. The reduction in the estimated costs related to lower than anticipated costs for severance and facilities. The primary reasons for the reduction in severance costs included a shift in the composition of severed employees, higher attrition resulting in the need for fewer severed employees, and more employees transferring to other locations within the Company. The estimated costs related to facilities were lower than anticipated due to the identification of alternative uses for assets originally identified for disposition, lower de-installation costs, and more rapid exit from facilities.

The total cost of all restructuring actions discussed above are currently estimated at $1.3 billion, of which $810 million pertains to exit costs. The balance pertains to capital expenditures and period expenses related to restructuring and consolidation activities. Approximately $422 million of the exit costs relate to employee severance and $388 million relate to facilities. Through December 31, 2000, employment had been reduced by approximately 12,500 people and 12.3 million square feet had been vacated. The Company essentially completed all restructuring actions during 2000. While these actions were intended to improve the Company's competitive position, there can be no assurances as to their ultimate success or that additional restructuring actions will not be required.

In 1999, the Company recorded the following restructuring charges and favorable adjustments to restructuring-related reserves, discussed above, and special charges, discussed below, which were included in the statements of income and classified as a reduction in net sales or included in cost of sales, administrative and selling expenses, or other expense as indicated below:

(In millions)	Net Sales	Cost of Sales	Admin. and Selling Expenses	Other Expense	Total
Restructuring charges		$128	$ 9		$137
Favorable adjustments to restructuring-related reserves		(65)			(65)
Special charges					
Iridium LLC	$15	6		$14	35
Korean business venture		33			33
Exit PRT business		6			6
Total	$15	$108	$ 9	$14	$146

In 1999, the Company recorded a $35 million special charge to write down its minority investment in and receivables related to Iridium LLC, which filed for Chapter 11 bankruptcy protection from creditors on August 13, 1999. The Company also recorded an additional $33 million special charge to further write down inventory and receivables related to a Korean business venture and a $6 million special charge to exit the personal rapid transit (PRT) business, including the costs to dispose of a test track. At December 31, 2000, the remaining assets related to the Korean business venture consisted of a $5 million receivable.

In 1999, the Company recorded a $195 million contract-related operating charge of which $165 million was recorded as a reduction to net sales and $30 million was included in cost of sales. Approximately $130 million related to changes in estimates on three contracts, two of which were fixed price U.S. government contracts that were in loss positions. One had been expected to realize certain efficiencies that did not materialize and the other had completed the development phase at higher than expected costs which resulted in a higher loss than originally anticipated, therefore, additional loss provisions were recorded. The third was a fixed price commercial program in a new line of business on which costs were running higher than the initial projections, therefore, a loss provision was recorded.

In 1998, the Company recorded special charges of $167 million, which were included in administrative and selling expenses, as follows. The Company recorded a $125 million special charge to exit a line of business, which included writing off its investment in a Korean business venture. The Company also recorded a $42 million special charge to write down the assets of two operations that the Company had decided to sell, to estimated fair value of approximately $125 million. One sale was completed during 1998 and the other during 1999. The operating results, which were not material, were included in the Company's results of operations through the date of sale.

Segment Results

The Company operates in six segments: Electronic Systems; Command, Control, Communication and Information Systems; Technical Services; Aircraft Integration Systems; Commercial Electronics; and Aircraft. Segment financial results were as follows:

Net Sales (In millions)	2000	1999	1998
Electronic Systems	$ 7,584	$ 8,001	$ 8,294
Command, Control, Communication and Information Systems	3,419	3,767	3,741
Technical Services	1,810	1,885	1,771
Aircraft Integration Systems	1,220	1,094	1,197
Commercial Electronics	666	749	866
Aircraft	3,220	2,709	2,543
Corporate and Eliminations	(1,024)	(1,004)	(1,048)
Total	$ 16,895	$ 17,201	$ 17,364

Operating Income (In millions)	2000	1999	1998
Electronic Systems	$ 1,039	$ 1,156	$ 1,448
Command, Control, Communication and Information Systems	358	374	386
Technical Services	124	122	160
Aircraft Integration Systems	48	(61)	203
Commercial Electronics	(4)	(30)	(157)
Aircraft	164	163	227
Corporate and Eliminations	(104)	(132)	(8)
Total	$ 1,625	$ 1,592	$ 2,259

Certain prior year amounts were reclassified to conform to the current year presentation; in addition, the Engineering and Construction segment was discontinued.

Electronic Systems had 2000 sales of $7.6 billion versus $8.0 billion in 1999 and $8.3 billion in 1998. The decrease in sales in 2000 was due to a decrease in volume from missiles and missile defense systems. The 2000 sales included $120 million from the Company's optical systems business, which was sold in December 2000. Operating income was $1.0 billion in 2000 versus $1.2 billion in 1999 and $1.4 billion in 1998. Included in the 2000 results were $63 million of favorable adjustments to restructuring-related reserves. Included in the 1999 results were charges of $95 million, net ($164 million of operating charges and restructuring and special charges offset by $69 million of favorable adjustments to restructuring-related reserves). The decrease in operating income in 2000 was due to a decline in higher margin foreign direct programs and lower volume from missiles and missile defense systems. The decrease in operating income in 1999 was primarily due to the 1999 charges and higher margin programs completed in the prior year.

Command, Control, Communication and Information Systems (C3I) had 2000 sales of $3.4 billion versus $3.8 billion in 1999 and $3.7 billion in 1998. The decrease in sales in 2000 was due to the divestiture of the flight simulation business, the planned wind-down of certain international projects, and lower volume from air traffic control programs. Operating income was $358 million in 2000 versus $374 million in 1999 and $386 million in 1998. Included in the 1999 results were charges of $71 million. The decrease in operating income in 2000 was due to lower volume and a net $25 million write-down which included negative contract adjustments on several communications-related programs partially offset by favorable adjustments. The decrease in operating income in 1999 was primarily due to the 1999 charges. The Company will continue to monitor the cost estimates for the communications-related programs on a quarterly basis given the risks inherent in fixed price development contracts.

Through C3I, the Company has an investment in Space Imaging LLC. The Company continues to guarantee certain borrowings of Space Imaging. The amount of borrowings outstanding at December 31, 2000 for which the Company was guarantor was approximately $120 million. The Company expects to continue to provide debt guarantees of up to $150 million in connection with a new loan facility which Space Imaging is negotiating. At December 31, 2000, the Company's investment in and other assets related to Space Imaging totaled approximately $91 million. Also through C3I, the Company has entered into an agreement with Thales (formerly Thomson-CSF) to form an equally-owned transatlantic joint venture encompassing air defense/command and control centers and ground-based air surveillance and weapons-locating radars.

Technical Services had 2000 sales of $1.8 billion versus $1.9 billion in 1999 and $1.8 billion in 1998. The decrease in sales in 2000 was due to the divestiture of the flight simulation business. Operating income was $124 million in 2000 versus $122 million in 1999 and $160 million in 1998. Included in the 1999 results were charges of $6 million.

Aircraft Integration Systems had 2000 sales of $1.2 billion versus $1.1 billion in 1999 and $1.2 billion in 1998. Sales from the Airborne Standoff Radar (ASTOR) contract accounted for the increase in sales in 2000. Operating income was $48 million in 2000 versus an operating loss of $61 million in 1999 and operating income of $203 million in 1998. Included in the 1999 results were charges of $107 million. The decrease in operating income in 1999 was primarily due to the 1999 charges and higher margin programs completed in the prior year. The Company recorded contract write downs on the Boeing Business Jet (BBJ) programs of $67 million in 2000 and $53 million in 1999, of which $25 million was included in the $107 million of 1999 charges described above. The Company

will continue to monitor the cost estimates for the BBJ programs on a quarterly basis given the risks inherent in fixed price custom aircraft completion contracts.

Commercial Electronics had 2000 sales of $666 million versus $749 million in 1999 and $866 million in 1998. The decrease in sales in 2000 was primarily due to the divestiture of the Company's Cedarapids subsidiary in the third quarter of 1999. The 2000 sales included $141 million from the Company's recreational marine business, which was sold in January 2001. The operating loss of $4 million in 2000 compared to an operating loss of $30 million in 1999 and an operating loss of $157 million in 1998. Contributing to the loss in 2000 was an $8 million restructuring charge at Raytheon Marine's high seas division combined with lower volume at that division, the divestiture of Cedarapids, and investments in new technology ventures offset by a $21 million favorable settlement on a commercial training contract. Included in the 1999 results were charges of $44 million. Included in the 1998 results were charges of $159 million.

Raytheon Aircraft (RAC) had 2000 sales of $3.2 billion versus $2.7 billion in 1999 and $2.5 billion in 1998. The increase in sales was driven by higher aircraft deliveries. Operating income was $164 million in 2000 versus $163 million in 1999 and $227 million in 1998. Operating income as a percent of sales was down in 2000 due to a $19 million contract adjustment on a fixed price T-6A military trainer option exercised by the customer in 2000, higher production costs, pricing pressure on commuter aircraft, the sale of finance receivables, narrower spreads on customer financing due to higher interest rates, and the impact of SAP implementation on certain RAC customer support operations. The decline in operating income as a percent of sales in 1999 was due to increased development and start-up costs for the Premier I, Hawker Horizon, and T-6A aircraft, higher production costs, and commuter valuation costs. The Company will continue to monitor cost estimates for the T-6A program on a quarterly basis given the risks inherent in longer-term fixed price purchase options and watch for any indications of a downturn in demand for RAC's aircraft. The Company also continues to monitor the cost estimates and schedule for its three new development programs at RAC: the certification schedule for the Premier I aircraft, the first-flight schedule for the Horizon aircraft, and cost management issues related to roll-out of the T-6A aircraft.

Backlog consisted of the following at December 31:

(In millions)	2000	1999	1998
Electronic Systems	$11,968	$10,681	$ 9,807
Command, Control, Communication and Information Systems	5,396	5,135	4,339
Technical Services	2,135	2,029	1,782
Aircraft Integration Systems	2,120	2,335	1,233
Commercial Electronics	513	516	487
Aircraft	4,398	4,282	2,509
Total	$26,530	$24,978	$20,157
U.S. government backlog included above	$17,374	$15,239	$13,472

The increase in backlog in 1999 was due primarily to the receipt of several significant orders at the Company's defense electronics businesses and Raytheon Aircraft.

Financial Condition and Liquidity

Net cash provided by operating activities in 2000 was $960 million versus net cash used of $317 million in 1999 and net cash provided of $994 million in 1998. Net cash provided by operating activities from continuing operations was $1,060 million in 2000 versus net cash used of $96 million in 1999 and net cash provided of $747 million in 1998. The increase in cash provided by operating activities in 2000 was due to better collection practices and working capital management, accelerated collections on several large programs, and lower restructuring expenditures. The decrease in cash provided by operating activities in 1999 was due principally to increased working capital requirements and restructuring spending. Net cash used in operating activities from discontinued operations was $100 million in 2000 versus $221 million in 1999 and net cash provided of $247 million in 1998. In 2000, 1999, and 1998, the Company incurred cash expenditures of $118 million, $373 million, and $234 million, respectively, on restructuring and exit costs and $131 million, $265 million, and $56 million, respectively, of capital expenditures and period costs related to restructuring and consolidation activities. The Company expects to spend approximately $75 million on exit costs, capital expenditures, and period costs related to restructuring actions in 2001.

The Company maintains an ongoing program under which it sells general aviation and commuter aircraft long-term receivables. During 1998, the Company initiated a program under which it sold short-term government receivables. Proceeds from the sale of short-term government receivables were $225 million in 1998. During 1999 and 2000, the Company reduced the outstanding balance of receivables sold under this facility by $74 million and $126 million, respectively. During the first quarter of 2001, the Company terminated its short-term government receivables facility.

Net cash used in investing activities was $213 million in 2000 and $399 million in 1999 versus net cash provided of $617 million in 1998. Origination of financing receivables was $969 million in 2000, $1,438 million in 1999, and $1,339 million in 1998. Sale of financing receivables was $776 million in 2000, $1,239 million in 1999, and $1,105 million in 1998. Capital expenditures were $431 million in 2000, $524 million in 1999, and $468 million in 1998. Capital expenditures in 2001 are expected to approximate $560 million.

Proceeds from the sales of property, plant, and equipment were $40 million in 2000, $102 million in 1999, and $649 million in 1998. The proceeds in 1998 included $490 million sold into a five-year operating lease facility to diversify the Company's sources of funding and extend the term of a portion of the Company's financing obligations. Remaining lease payments under the lease facility approximate $74 million in 2001, $61 million in 2002, and $201 million in 2003. The lease facility contains covenants that are substantially similar to those in the Company's senior credit facilities.

In 2000, the Company sold RE&C for $73 million in cash, net to WGI. The Company also retained approximately $30 million of cash on the balance sheet of RE&C at closing. The sale of RE&C is subject to a purchase price adjustment based upon an April 30, 2000 cut-off date balance sheet that has not yet been completed. The Company does not believe a material purchase price adjustment will be required. On March 2, 2001, WGI announced that they faced severe near-term liquidity problems and discussed, among other alternatives, a potential bankruptcy filing. In the event of a bankruptcy filing by WGI or one or more of its subsidiaries, the beneficiaries of the Company's guarantees and other support agreements may seek recourse under those agreements. See Note K, Commitments and Contingencies, of the Notes to Consolidated Financial Statements included in this Annual Report for additional information. The Company has significant guarantees and support agreements related to twelve ongoing WGI projects. In the event of a bankruptcy filing and non-performance by WGI or one or more of its subsidiaries on these projects, based in part on information provided by WGI, the Company's preliminary estimate of the potential range of exposure is $0 to $450 million over several years, due in large part to the timing of receipts vs. disbursements on these projects. Based on the information available to date, the Company believes that no amount in the range is more likely than any other, therefore, no liability related to this exposure has been recorded. In addition, a bankruptcy filing by WGI may impact the collectibility of certain retained assets, which are carried at a net realizable value of $136 million.

In 2000, the Company also sold its flight simulation business for $160 million, its optical systems business for $153 million, and other non-core business operations for $17 million. Total sales and operating income related to

these divested businesses were $166 million and $2 million, respectively, in 2000. The Company is currently involved in a dispute related to the sale of its flight simulation business.

In 1999, the Company sold its Cedarapids subsidiary for $170 million, other non-core business operations for $49 million in cash and $3 million in securities, and securities received as partial payment for previously divested businesses for $32 million. Total sales and operating income related to these divested businesses were $130 million and $6 million, respectively, in 1999.

In 1998, the Company sold its commercial laundry business unit for $315 million in cash and $19 million in securities, its Raytheon Aircraft Montek subsidiary for $160 million, and other non-core business operations for $273 million. Total sales and operating income related to these divested businesses were $372 million and $8 million, respectively, in 1998. In 1998, the Company made net payments for the purchase of acquired companies of $96 million, including $63 million for the acquisition of AlliedSignal's Communications Systems business.

The Company merged with Hughes Defense in December 1997. Pursuant to the terms of the Master Separation Agreement (the "Separation Agreement"), which requires an adjustment based on net assets, the final purchase price for Hughes Defense has not been determined. Based on the terms and conditions of the Separation Agreement, the Company believes that it is entitled to a reduction in the purchase price, a position that Hughes Electronics disputes. Although the Company and Hughes Electronics have been engaged in discussions in an attempt to resolve this dispute, it now appears as though a negotiated settlement is not likely in the foreseeable future based on the current position of the parties. The only alternative to a negotiated settlement is binding arbitration, as provided in the Separation Agreement. Concurrent with the negotiations, the parties are in the process of selecting a neutral arbitrator. While the Company expects a reduction in purchase price from the original terms of the agreement, the amount, timing, and effect on the Company's financial position are uncertain. As a result of this uncertainty, no amounts have been recorded in the financial statements related to this expected reduction in purchase price. Any payment received from Hughes Electronics as a result of a reduction in purchase price will result in a corresponding reduction in goodwill and not be reflected in the income statement unless the reduction in goodwill results in lower amortization in future periods.

In March 2000, the Company and Hughes Electronics participated unsuccessfully in a voluntary mediation pursuant to the alternative dispute resolution process set forth in the Separation Agreement in connection with a separate claim against Hughes Electronics concerning the accuracy and completeness of disclosures made by Hughes Electronics to the Company prior to the merger. The Company and Hughes Electronics have selected arbitrators to resolve the claim through binding arbitration pursuant to the Separation Agreement. The arbitration is scheduled for May 2001.

In November 1999, the Company filed a complaint against Towers, Perrin, Forster & Crosby (TPF&C). The complaint arises out of a series of events concerning certain Hughes Electronics pension plans (the "Hughes Plans"), portions of which were acquired by the Company in connection with the merger with Hughes Defense. Specifically, the complaint alleges that the Company was damaged by false representations made to the Company by TPF&C regarding the amount of surplus in the Hughes Plans and errors made by TPF&C in providing administrative services to the Hughes Plans. The complaint seeks damages in an amount to be determined at trial. The Company has also alleged a claim against Hughes Electronics pursuant to the terms of the Separation Agreement seeking to recover costs incurred by the Company resulting from errors in the administration of the Hughes Plans which Hughes Electronics failed to disclose to the Company prior to the merger.

Defense contractors are subject to many levels of audit and investigation. Among agencies that oversee contract performance are the Defense Contract Audit Agency, the Inspector General, the Defense Criminal Investigative Service, the General Accounting Office, the Department of Justice, and Congressional Committees. Over recent years, the Department of Justice has convened grand juries from time to time to investigate possible irregularities by the Company in government contracting. Such investigations, except as noted in the following paragraph, individually and in the aggregate, are not expected to have a material adverse effect on the Company's financial position or results of operations.

The U.S. Customs Service has concluded its investigation of the contemplated sale by the Company of troposcatter radio equipment to a customer in Pakistan. The Company has produced documents in response to grand jury subpoenas and grand jury appearances have taken place. The Company has cooperated fully with the investigation. The government has not reached a final decision with respect to this matter. An adverse decision in this matter could have a material adverse effect on the Company's financial position and results of operations.

The Company is involved in various stages of environmental investigation and clean-up related to remediation of various sites. All appropriate costs expected to be incurred in connection therewith, on a discounted basis, have been accrued at December 31, 2000. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative clean-up methods and technologies, the uncertainty of insurance coverage, and the unresolved extent of the Company's responsibility, it is difficult to determine the ultimate outcome of these matters, however, any additional liability is not expected to have a material adverse effect on the Company's financial position or results of operations after giving effect to provisions previously recorded.

Net cash used in financing activities was $106 million in 2000 versus net cash provided of $525 million in 1999 and net cash used of $1,486 million in 1998. Dividends paid to stockholders were $272 million in 2000, $269 million in 1999, and $271 million in 1998. The quarterly dividend rate was $0.20 per share for each of the four quarters of 2000, 1999, and 1998. Outstanding shares were reduced by the repurchase of 2.6 million shares for $150 million in 1999 and 4.6 million shares for $247 million in 1998. There were no shares repurchased during 2000.

Total debt was $9.9 billion at December 31, 2000 and $9.8 billion at December 31, 1999. Cash and cash equivalents were $871 million at December 31, 2000 and $230 million at December 31, 1999. The Company's outstanding debt has interest rates ranging from 5.7% to 8.3% and matures at various dates through 2028. Total debt as a percentage of total capital was 47.9 percent and 47.1 percent at December 31, 2000 and 1999, respectively.

In 2000, the Company issued $2.25 billion of long-term debt to repay outstanding short-term debt, extending the maturity of the Company's debt obligations. The Company has on file a shelf registration with the Securities and Exchange Commission registering the issuance of up to $3.0 billion in debt and/or equity securities. In 2000, the Company issued $350 million of floating rate notes due in 2001 under this registration statement to partially refinance $500 million of long-term debt that matured in 2000.

The Company issued $3.8 billion of long-term debt in 1998 to refinance a portion of the debt associated with the merger with Hughes Defense and the acquisition of TI Defense and to take advantage of favorable long-term interest rates in order to reduce short-term borrowings.

The Company's most restrictive bank agreement covenant is an interest coverage ratio that currently requires earnings before interest, taxes, depreciation, and amortization (EBITDA) to be at least 2.5 times net interest expense for the prior four quarters. The Company was in compliance with the interest coverage ratio covenant during 2000, 1999, and 1998.

Credit ratings for the Company were established by Moody's at P-2 for short-term borrowing and Baa2 for senior debt, Standard and Poor's at A-3 for short-term borrowing and BBB- for senior debt, and Fitch's at F3 for short-term borrowing and BBB- for senior debt.

Lines of credit with certain commercial banks exist primarily as standby facilities to support the issuance of commercial paper by the Company. These lines of credit bear interest based upon LIBOR and mature in 2002. The lines of credit were $3.0 billion and $4.1 billion at December 31, 2000 and 1999, respectively. There were no borrowings outstanding under these lines of credit at December 31, 2000 versus $1.4 billion outstanding at December 31, 1999.

The Company has two classes of common stock--Class A and Class B. The Company plans to eliminate its dual class capital structure and reclassify its Class A and Class B common stock into a single new class of common stock.

The Company also plans to effect a 20-for-1 reverse-forward stock split that will result in holders of fewer than 20 shares of common stock being cashed out of their holdings. The reverse-forward stock split will be accomplished immediately prior to the elimination of the Company's dual class capital structure in a two step transaction. In the first step, the reverse stock split, each share of Class A or Class B common stock will become 1/20th of a share of the same class. Stockholders with fewer than 20 shares of either class before the reverse split will be left with less than a whole share of that class and will receive a cash payment equal to the fair value of their fractional interest.

Immediately following the reverse split, the Company will effect a 20-for-1 forward stock split. The forward stock split will restore stockholders with 20 or more shares of either class to their original position. The Company believes

that this action will significantly reduce expenses for stockholder record keeping and mailings.

The proposed elimination of the dual class capital structure and reverse-forward stock split have been approved by the Board of Directors and are subject to approval by a majority vote of the outstanding Class A and Class B shares, with each class voting separately, at the Company's 2001 annual meeting.

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. The Company believes that its financial position will be sufficient to maintain access to the capital markets to support current operations.

Quantitative and Qualitative Disclosures About Financial Market Risks

The following discussion covers quantitative and qualitative disclosures about the Company's 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 and fixed rate short and long-term financing. The Company enters into interest rate swap agreements or treasury rate locks with commercial and investment banks primarily to reduce the impact of changes in interest rates on financing arrangements. The Company also enters into foreign currency forward contracts with commercial banks to minimize fluctuations in the value of 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. The Company also sells receivables through various special purpose entities and retains a partial interest that may include servicing rights, interest only strips, and subordinated certificates.

Financial instruments held by the Company which are subject to interest rate risk include notes payable, commercial paper, long-term debt, long-term receivables, investments, and interest rate swap agreements. The aggregate hypothetical loss in earnings for one year of those financial instruments held by the Company at December 31, 2000, 1999, and 1998, which are subject to interest rate risk resulting from a hypothetical increase in interest rates of 10 percent, was $3 million, $6 million, and $1 million, respectively, after-tax. The hypothetical loss was determined by calculating the aggregate impact of a 10 percent increase in the interest rate of each variable rate financial instrument held by the Company at December 31, 2000, 1999, and 1998, which was subject to interest rate risk. Fixed rate financial instruments were not evaluated as the risk exposure is not material.

The Company's outstanding foreign currency forward contracts include contracts to buy and/or sell British Pounds, Swiss Francs, European Euros, and German Marks. All foreign exchange contracts were related to specific transactions for which a firm commitment existed, therefore, the associated market risk of these financial instruments and the underlying firm commitments in the aggregate is not material.

Accounting Standards

In September 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125 (SFAS No. 140). This accounting standard, which carries over most of the provisions of FASB Statement No. 125, outlines the accounting requirements for transfers and servicing of financial assets, among other guidance, and is effective for transfers and servicing of financial assets occurring after March 31, 2001. The standard contains specific guidelines to distinguish transfers of financial assets that are sales from transfers that are secured borrowings. The adoption of SFAS No. 140 is not expected to have a material effect on the Company's financial position or results of operations.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). This accounting standard, which is effective for all fiscal quarters of fiscal years beginning after June 15, 2000, requires that all derivatives be recognized as either assets or liabilities at estimated fair value. In June 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133. This accounting standard amended the accounting and reporting standards of SFAS No. 133 for certain derivative instruments and hedging activities. The January 1, 2001 adoption of SFAS No. 133, as amended, is not expected to have a material effect on the Company's financial position or results of operations.

Forward-Looking Statements

Certain statements made in this Annual Report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding the Company's future plans, objectives, and expected performance. Specifically, statements that are not historical facts, including statements accompanied by words such as "believe," "expect," "estimate," "intend," or "plan" 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. Important factors that could cause actual results to differ include, but are not limited to: differences in anticipated and actual program results; risks inherent with large long-term fixed price contracts, particularly the ability to contain cost growth; the ultimate resolution of contingencies and legal matters; the ability to realize anticipated cost efficiencies; timely development and certification of new aircraft; the effect of market conditions, particularly in relation to the general aviation and commuter aircraft markets; the impact on recourse obligations of Raytheon Aircraft due to changes in the collateral values of financed aircraft, particularly commuter aircraft; the ability to finance ongoing operations at attractive rates; government customers' budgetary constraints; government import and export policies; termination of government contracts; financial and governmental risks related to international transactions; delays and uncertainties regarding the timing of the award of international programs; the integration of acquisitions; the impact of competitive products and pricing; the Company's stockholders may not approve and/or the Company may not implement the reclassification of its Class A and Class B common stock into a single new class of common stock and/or the 20-for-1 reverse-forward stock split; and risks associated with the continuing project obligations and retained assets and liabilities of Raytheon Engineers & Constructors, among other things. Further information regarding the factors that could cause actual results to differ materially from projected results can be found in the Company's reports filed with the Securities and Exchange Commission, including "Item 1-Business" in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Raytheon Company Consolidated Balance Sheets

(In millions except share amounts)	December 31, 2000	December 31, 1999
Assets		
Current assets		
Cash and cash equivalents	$ 871	$ 230
Accounts receivable, less allowance for doubtful accounts of $23 in 2000 and $27 in 1999	505	819
Contracts in process	4,061	4,348
Inventories	1,908	1,950
Deferred federal and foreign income taxes	476	490
Prepaid expenses and other current assets	178	192
Net assets from discontinued operations	14	573
Total current assets	8,013	8,602
Property, plant, and equipment, net	2,491	2,387
Goodwill, net of accumulated amortization of $1,285 in 2000 and $918 in 1999	13,281	13,596
Other assets, net	2,992	2,704
Total assets	$ 26,777	$ 27,289
Liabilities and Stockholders' Equity		
Current liabilities		
Notes payable and current portion of long-term debt	$ 877	$ 2,471
Advance payments, less contracts in process of $1,699 in 2000 and $1,332 in 1999	1,135	1,245
Accounts payable	1,099	1,204
Accrued salaries and wages	549	497
Other accrued expenses	1,205	1,716
Total current liabilities	4,865	7,133
Accrued retiree benefits and other long-term liabilities	1,262	1,411
Deferred federal and foreign income taxes	773	488
Long-term debt	9,054	7,298
Commitments and contingencies (note K)		
Stockholders' equity		
Preferred stock, par value $0.01 per share, 200,000,000 shares authorized, none outstanding in 2000 and 1999		
Class A common stock, par value $0.01 per share, 450,000,000 shares authorized, 100,805,000 shares outstanding in 2000 and 1999 after deducting 1,537,000 treasury shares in 2000 and 1999	1	1
Class B common stock, par value $0.01 per share, 1,000,000,000 shares authorized, 239,815,000 and 237,955,000 shares outstanding in 2000 and 1999, respectively, after deducting 5,319,000 and 5,842,000 treasury shares in 2000 and 1999, respectively	2	2
Additional paid-in capital	6,477	6,475
Accumulated other comprehensive income	(106)	(69)
Treasury stock, at cost	(382)	(413)
Retained earnings	4,831	4,963
Total stockholders' equity	10,823	10,959
Total liabilities and stockholders' equity	$ 26,777	$ 27,289

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

Raytheon Company Consolidated Statements of Income

(In millions except per share amounts) Years Ended December 31:	2000	1999	1998
Net sales	$ 16,895	$ 17,201	$ 17,364
Cost of sales	13,530	13,684	12,973
Administrative and selling expenses	1,214	1,417	1,550
Research and development expenses	526	508	582
Total operating expenses	15,270	15,609	15,105
Operating income	1,625	1,592	2,259
Interest expense, net	736	703	697
Other expense (income), net	12	(9)	(145)
Non-operating expense, net	748	694	552
Income from continuing operations before taxes	877	898	1,707
Federal and foreign income taxes	379	396	688
Income from continuing operations	498	502	1,019
Discontinued operations			
Loss from discontinued operations, net of tax	(70)	(45)	(175)
Loss on disposal of discontinued operations, net of tax	(287)	--	--
	(357)	(45)	(175)
Income before accounting change	141	457	844
Cumulative effect of change in accounting principle, net of tax	--	(53)	--
Net income	$ 141	$ 404	$ 844
Earnings per share from continuing operations			
Basic	$ 1.47	$ 1.49	$ 3.02
Diluted	1.46	1.47	2.98
Loss per share from discontinued operations			
Basic	$ (1.05)	$ (0.13)	$ (0.52)
Diluted	(1.05)	(0.13)	(0.51)
Earnings per share before accounting change			
Basic	$ 0.42	$ 1.35	$ 2.50
Diluted	0.41	1.34	2.47
Earnings per share			
Basic	$ 0.42	$ 1.20	$ 2.50
Diluted	0.41	1.19	2.47

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

Raytheon Company Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2000, 1999, and 1998 (In millions except per share amounts)	Common Stock Class A	Common Stock Class B	Additional Paid-in Capital	Accumulated Other Compre-hensive Income	Treasury Stock	Retained Earnings	Compre-hensive Income	Total Stockholders' Equity
Balance at December 31, 1997	$ 1	$ 2	$ 6,151	$ (23)		$ 4,255		$ 10,386
Net income						844	$ 844	844
Other comprehensive income								
Foreign exchange translation adjustments							(9)	(9)
Unrealized losses on investments							(6)	(6)
Pension adjustment							(12)	(12)
Other comprehensive income				(27)			(27)	
Comprehensive income--1998							$ 817	
Dividends declared--$0.80 per share						(270)		(270)
Common stock plan activity			121					121
Treasury stock activity					$ (257)			(257)
Balance at December 31, 1998	1	2	6,272	(50)	(257)	4,829		10,797
Net income						404	$ 404	404
Other comprehensive income								
Foreign exchange translation adjustments							(13)	(13)
Unrealized losses on investments							(6)	(6)
Other comprehensive income				(19)			(19)	
Comprehensive income--1999							$ 385	
Dividends declared--$0.80 per share						(270)		(270)
Common stock plan activity			203					203
Treasury stock activity					(156)			(156)
Balance at December 31, 1999	1	2	6,475	(69)	(413)	4,963		10,959
Net income						141	$ 141	141
Other comprehensive income								
Foreign exchange translation adjustments							(36)	(36)
Unrealized losses on investments							(1)	(1)
Other comprehensive income				(37)			(37)	
Comprehensive income--2000							$ 104	
Dividends declared--$0.80 per share						(273)		(273)
Common stock plan activity			17					17
Treasury stock activity			(15)		31			16
Balance at December 31, 2000	$ 1	$ 2	$ 6,477	$ (106)	$ (382)	$ 4,831		$ 10,823

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

Raytheon Company Consolidated Statements of Cash Flows

(In millions) Years Ended December 31:	2000	1999	1998
Cash flows from operating activities			
Income from continuing operations after accounting change	$ 498	$ 449	$ 1,019
Adjustments to reconcile income from continuing operations after accounting change to net cash from operating activities, net of the effect of acquisitions and divestitures			
Depreciation and amortization	694	699	734
Net gain on sales of operating units and investments	(35)	(23)	(141)
Decrease (increase) in accounts receivable	311	(277)	218
Decrease (increase) in contracts in process	21	(377)	(920)
Increase in inventories	(78)	(178)	(248)
Decrease in deferred federal and foreign income taxes	14	350	816
Decrease (increase) in prepaid expenses and other current assets	38	16	(105)
(Decrease) increase in advance payments	(114)	313	186
(Decrease) increase in accounts payable	(167)	(372)	335
Increase (decrease) in accrued salaries and wages	59	(153)	22
Decrease in other accrued expenses	(222)	(419)	(701)
Other adjustments, net	41	(124)	(468)
Net cash provided by (used in) operating activities from continuing operations	1,060	(96)	747
Net cash (used in) provided by operating activities from discontinued operations	(100)	(221)	247
Net cash provided by (used in) operating activities	960	(317)	994
Cash flows from investing activities			
Sale of financing receivables	776	1,239	1,105
Origination of financing receivables	(969)	(1,438)	(1,339)
Collection of financing receivables not sold	101	83	60
Expenditures for property, plant, and equipment	(431)	(524)	(468)
Proceeds from sales of property, plant, and equipment	40	102	649
Increase in other assets	(130)	(121)	(52)
Proceeds from sales of operating units and investments	330	251	748
Payment for purchase of acquired companies, net of cash received	--	--	(96)
Net cash (used in) provided by investing activities from continuing operations	(283)	(408)	607
Net cash provided by investing activities from discontinued operations	70	9	10
Net cash (used in) provided by investing activities	(213)	(399)	617
Cash flows from financing activities			
Dividends	(272)	(269)	(271)
(Decrease) increase in short-term debt	(2,093)	771	(4,818)
Increase in long-term debt	2,255	10	3,757
Proceeds under common stock plans	4	164	103
Purchase of treasury stock	--	(150)	(247)
Net cash (used in) provided by financing activities from continuing operations	(106)	526	(1,476)
Net cash used in financing activities from discontinued operations	--	(1)	(10)
Net cash (used in) provided by financing activities	(106)	525	(1,486)
Net increase (decrease) in cash and cash equivalents	641	(191)	125
Cash and cash equivalents at beginning of year	230	421	296
Cash and cash equivalents at end of year	$ 871	$ 230	$ 421

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

Note A: Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Raytheon Company (the "Company") and all majority-owned domestic and foreign subsidiaries. All material intercompany transactions have been eliminated. The financial statements for all periods presented have been restated to reflect the disposition of Raytheon Engineers & Constructors (RE&C) as disclosed in Note B, Discontinued Operations. Certain prior year amounts have been reclassified to conform with the current year presentation.

Revenue Recognition

Sales under long-term contracts are recorded under the percentage of completion method. Costs and estimated gross margins are recorded as sales as work is performed based on the percentage that incurred costs bear to estimated total costs utilizing the most recent estimates of costs and funding. Some contracts contain incentive provisions based upon performance in relation to established targets which are recognized in the contract estimates when deemed realizable. Since many contracts extend over a long period of time, revisions in cost and funding estimates during the progress of work have the effect of adjusting earnings applicable to performance in prior periods in the current period. When the current contract estimate indicates a loss, provision is made for the total anticipated loss in the current period.

Revenue from sales of products and services into commercial markets are recognized at the time the products are shipped or the services are rendered.

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

Research and Development Expenses

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

Federal and Foreign Income Taxes

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

Cash and Cash Equivalents

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

Contracts in Process

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

Inventories

Inventories at Raytheon Aircraft are stated at the lower of cost (principally last-in, first-out) or market. All other inventories are stated at cost (principally first-in, first-out or average cost) but not in excess of realizable value.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Major improvements are capitalized while expenditures for maintenance, repairs, and minor improvements are charged to expense. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income.

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

Goodwill

Goodwill is amortized using the straight-line method over its estimated useful life, principally 40 years.

Computer Software

Internal use computer software is stated at cost less accumulated amortization and is amortized using the straight-line method over its estimated useful life

ranging from 4 to 10 years.

Impairment of Long-lived Assets

Upon indication of possible impairment, the Company evaluates the recoverability of long-lived assets by measuring the carrying amount of the assets against the related estimated undiscounted future cash flows. When an evaluation indicates that the future undiscounted cash flows are not sufficient to recover the carrying value of the asset, the asset is adjusted to its estimated fair value.

Investments

Investments, which are included in other assets, include equity ownership of 20 percent to 50 percent in affiliated companies and of less than 20 percent in other companies. Investments in affiliated companies are accounted for under the equity method, wherein the Company's share of earnings and income taxes applicable to the assumed distribution of such earnings are included in net income. Investments with readily determinable market prices are stated at fair value. Other investments are stated at cost.

Comprehensive Income

Comprehensive income and its components are presented in the statement of stockholders' equity. The unrealized losses on investments are shown net of tax benefits of $3 million in both 1999 and 1998. The pension adjustment is shown net of tax benefits of $6 million in 1998.

Translation of Foreign Currencies

Assets and liabilities of foreign subsidiaries are translated at current exchange rates and the effects of these translation adjustments are reported as a component of accumulated other comprehensive income in stockholders' equity. The net unrealized foreign exchange translation loss at December 31, 2000 and 1999, was $85 million and $49 million, respectively. Foreign exchange transaction gains and losses in 2000, 1999, and 1998 were not material.

Pension Costs

The Company has several pension and retirement plans covering the majority of employees, including certain employees in foreign countries. Annual charges to income are made for the cost of the plans, including current service costs, interest on projected benefit obligations, and net amortization and deferrals, increased or reduced by the return on assets. Unfunded accumulated benefit obligations are accounted for as a long-term liability. The Company funds annually those pension costs which are calculated in accordance with Internal Revenue Service regulations and standards issued by the Cost Accounting Standards Board.

Interest Rate and Foreign Currency Contracts

The Company meets its working capital requirements with a combination of variable rate short-term and fixed rate long-term financing. The Company enters into interest rate swap agreements or treasury rate locks with commercial and investment banks primarily to reduce the impact of changes in interest rates on financing arrangements. Settlement accounting is used for interest rate swap agreements and treasury rate locks. The Company also enters into foreign currency forward contracts with commercial banks to minimize fluctuations in the value of payments due to international vendors and the value of foreign currency denominated receipts. The hedges used by the Company are transaction driven and are directly related to a particular asset, liability, or firm commitment. Hedge accounting is used for foreign currency forward contracts with commercial banks. Unrealized gains and losses are classified in the same manner as the item being hedged and are recognized in income when the transaction is complete. Interest rate swap agreements, treasury rate locks, and foreign currency forward contracts are held to maturity. Cash flows are recognized in the statement of cash flows in the same category as the related item. The impact on the Company's financial position and results of operations from likely changes in foreign exchange rates and interest rates is not material due to the minimizing of risk through the hedging of transactions related to specific assets, liabilities, or firm commitments.

Fair Value of Financial Instruments

The carrying value of certain financial instruments, including cash, cash equivalents, and short-term debt approximates fair value due to their short maturities and varying interest rates. The carrying value of notes receivable approximates fair value based principally on the underlying interest rates and terms, maturities, collateral, and credit status of the receivables. The carrying value of investments with readily determinable market prices, other than those accounted for under the equity method, are based on quoted market prices which approximate fair value. Unrealized gains and losses on securities classified as available for sale are reported as a component of accumulated other comprehensive income in stockholders' equity. The net unrealized loss on securities classified as available for sale at December 31, 2000 and 1999, was $21 million and $20 million, respectively. The carrying value of long-term debt, which approximates fair value, is based on current rates offered to the Company for similar debt with the same remaining maturities.

Employee Stock Plans

Proceeds from the exercise of stock options under employee stock plans are credited to common stock at par value and the excess is credited to additional paid-in capital. There are no charges or credits to income for stock options. The fair value at the date of award of restricted stock is credited to common stock at par value and the excess is credited to additional paid-in capital. The fair value is charged to compensation expense over the vesting period. Income tax benefits arising from employees' premature disposition of stock option shares and exercise of nonqualified stock options are credited to additional paid-in capital. The pro forma net income and earnings per share effect of the fair value based method of accounting for employee stock options are disclosed in Note L, Employee Stock Plans.

Accounting Standards

In September 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125 (SFAS No. 140). This accounting standard, which carries over most of the provisions of FASB Statement No. 125, outlines the accounting and disclosure requirements for transfers and servicing of financial assets, among other guidance. The accounting provisions of SFAS No. 140 are effective for transfers and servicing of financial assets occurring after March 31, 2001. The standard contains specific guidelines to distinguish transfers of financial assets that are sales from transfers that are secured borrowings. The adoption of SFAS No. 140 is not expected to have a material effect on the Company's financial position or results of operations. The disclosure provisions of SFAS No. 140 were effective for fiscal years ending after December 15, 2000 and are included in Note H, Other Assets.

Effective January 1, 1999, the Company adopted the American Institute of Certified Public Accountants Statement of Position 98-5, Reporting on the Costs of Start-Up Activities (SOP 98-5). This accounting standard requires that certain start-up and pre-contract costs be expensed as incurred. The Company reported a first quarter 1999 charge of $53 million after-tax, or $0.16 per diluted share, reflecting the initial application of SOP 98-5 and the cumulative effect of the change in accounting principle as of January 1, 1999.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). This accounting standard, which is effective for all fiscal quarters of fiscal years beginning after June 15, 2000, requires that all derivatives be recognized as either assets or liabilities at estimated fair value. In June 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133. This accounting standard amended the accounting and reporting standards of SFAS No. 133 for certain derivative instruments and hedging activities. The January 1, 2001 adoption of SFAS No. 133, as amended, is not expected to have a material effect on the Company's financial position or results of operations.

Risks and Uncertainties

The Company is engaged in supplying defense-related equipment to the government

and is subject to certain business risks peculiar to that industry. Sales to the government may be affected by changes in procurement policies, budget considerations, changing concepts of national defense, political developments abroad, and other factors.

The Company also leverages its defense technologies in commercial markets. Risks inherent in the commercial marketplace include development of competing products, technological feasibility, market acceptance, and product obsolescence.

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note B: Discontinued Operations

In 2000, the Company sold RE&C for $73 million in cash, net to Washington Group International, Inc. (WGI), formerly known as Morrison Knudsen. The Company also retained approximately $30 million of cash on the balance sheet of RE&C at closing. The Company retained the responsibility for performance of four large, fixed price international turnkey projects that are close to completion, partially indemnified the buyer on the completion of one other existing project, and retained certain significant assets and liabilities, including certain letters of credit, performance bonds, and parent guarantees outstanding at the time of sale. The Company originally recorded a loss on disposal of discontinued operations of $270 million pretax, or $191 million after-tax which included a gain on curtailment of the RE&C pension plans of $35 million. The Company subsequently increased the loss on disposal of discontinued operations to a total of $415 million pretax, or $287 million after-tax, due in part to the recognition of additional losses on the retained projects. The sale of RE&C is subject to a purchase price adjustment based upon an April 30, 2000 cut-off date balance sheet that has not yet been completed. The Company does not believe a material purchase price adjustment will be required.

On March 2, 2001, WGI announced that they faced severe near-term liquidity problems and discussed, among other alternatives, a potential bankruptcy filing. In the event of a bankruptcy filing by WGI or one or more of its subsidiaries, the beneficiaries of the Company's guarantees and other support agreements may seek recourse under those agreements. See Note K, Commitments and Contingencies, for additional information. The Company has significant guarantees and support agreements related to twelve ongoing WGI projects. In the event of a bankruptcy filing and non-performance by WGI or one or more of its subsidiaries on these projects, based in part on information provided by WGI, the Company's preliminary estimate of the potential range of exposure is $0 to $450 million over several years, due in large part to the timing of receipts vs. disbursements on these projects. Based on the information available to date, the Company believes that no amount in the range is more likely than any other, therefore, no liability related to this exposure has been recorded. In addition, a bankruptcy filing by WGI may impact the collectibility of certain retained assets, which are carried at a net realizable value of $136 million.

The summary of operating results from discontinued operations is as follows:

(In millions)	2000	1999	1998
Net sales	$ 1,426	$ 2,640	$ 2,055
Operating expenses	1,515	2,705	2,308
Operating loss	(89)	(65)	(253)
Other expense, net	9	5	17
Loss before taxes	(98)	(70)	(270)
Federal and foreign income tax benefit	(28)	(25)	(95)
Loss from discontinued operations	$ (70)	$ (45)	$ (175)

Net assets from discontinued operations consisted of the following at December 31:

(In millions)	2000	1999
Current assets	$ 164	$ 902
Noncurrent assets	--	492
Current liabilities	(150)	(753)
Noncurrent liabilities	--	(68)
Total	$ 14	$ 573

Note C: Acquisitions and Divestitures

In 2000, the Company sold its flight simulation business for $160 million, its optical systems business for $153 million, and other non-core business operations for $17 million. The net gain resulting from these dispositions was $35 million. The Company is currently involved in a dispute related to the sale of its flight simulation business.

In 1999, the Company sold its Cedarapids, Inc. subsidiary for $170 million, other non-core business operations for $49 million in cash and $3 million in securities, and securities received as partial payment for previously divested businesses for $32 million. The net gain resulting from these dispositions was $23 million.

In 1998, the Company acquired AlliedSignal's Communications Systems business for $63 million. Also in 1998, the Company sold its commercial laundry business unit for $315 million in cash and $19 million in securities, its Raytheon Aircraft Montek subsidiary for $160 million, and other non-core business operations for $273 million. The net gain resulting from these dispositions was $141 million.

Note D: Restructuring and Special Charges

Restructuring charges and exit costs recognized in connection with business combinations include the cost of involuntary employee termination benefits and related employee severance costs, facility closures, and other costs associated with the Company's approved plans. Employee termination benefits include severance, wage continuation, medical, and other benefits. Facility closure and related costs include disposal costs of property, plant, and equipment, lease payments, lease termination costs, and net gain or loss on sales of closed facilities.

In 1999, the Company recorded the following restructuring charges, favorable adjustments to restructuring-related reserves, and special charges which were included in the statements of income and classified as a reduction in net sales or included in cost of sales, administrative and selling expenses, or other expense as indicated below:

(In millions)	Net Sales	Cost of Sales	Admin. and Selling Expenses	Other Expense	Total
Restructuring charges		$128	$9		$137
Favorable adjustments to restructuring-related reserves		(65)			(65)
Special charges					
Iridium LLC	$15	6		$14	35
Korean business venture		33			33
Exit PRT business		6			6
Total	$15	$108	$9	$14	$146

In 1998, the Company recorded special charges of $167 million which were included in administrative and selling expenses.

Exit Costs and Restructuring Charges

The Company acquired Texas Instruments' defense business (TI Defense) on July 11, 1997, merged with the defense business of Hughes Electronics Corporation (Hughes Defense) on December 17, 1997, and created Raytheon Systems Company (RSC) in December 1997. In conjunction with the formation of RSC, the Company recorded a $220 million restructuring charge, which is included in cost of sales, to reduce the then newly formed RSC workforce by 12,800 employees and reduce space by approximately 11 million square feet at 34 facilities through sales, subleases, and lease terminations. In connection with these actions, the

Company also accrued $584 million as liabilities assumed in connection with the acquisition of TI Defense and the merger with Hughes Defense and recorded this amount as an increase to goodwill. The principal actions involved the consolidation of missile and other electronics systems' manufacturing and engineering, as well as the consolidation of certain component manufacturing into Centers of Excellence.

In 1998, the estimated number of employee terminations increased by approximately 1,200 employees, primarily comprised of manufacturing employees, however, the actual cost of termination per employee was lower than the original estimate. As a result of these changes in estimate, the total cost of employee severance decreased by $37 million. The Company also determined that facilities exit costs would be lower than the original estimate by $30 million because many of the facility actions were progressing ahead of the original schedule, reducing the amount of rent and occupancy costs, and costs to return certain facilities to the required condition were less than originally planned. Also in 1998, the Company committed to close two additional facilities and further reduce employment by approximately 1,400 positions. The total program cost of the actions was estimated at $67 million, comprised of $14 million of severance and other employee-related costs and $53 million of facility closure and related costs.

The Company recorded a $102 million restructuring charge in the third quarter of 1999, of which $93 million was included in cost of sales and $9 million was included in administrative and selling expenses, to further reduce the workforce by 2,200 employees and vacate and dispose of an additional 2.7 million square feet of facility space, primarily at the Company's defense electronics businesses. Employee-related exit costs of $55 million include severance and other termination benefit costs for manufacturing, engineering, and administrative employees. Facility-related exit costs of $47 million include the costs for lease termination, building closure and disposal, and equipment disposition. The Company also recorded a $35 million restructuring charge in the third quarter of 1999, which was included in cost of sales, for higher than originally estimated exit costs related to the TI Defense and Hughes Defense actions. The estimate for employee-related exit costs increased by $27 million for higher than planned severance and other termination benefit costs. The estimate for facility-related exit costs increased by $8 million for additional lease termination costs expected to be incurred. The Company also accrued $12 million of exit costs as liabilities assumed in connection with a minor acquisition in 1999 and recorded this amount as an increase to goodwill.

In the fourth quarter of 1999, the Company determined that the cost of the restructuring initiatives would be $65 million lower than originally planned and recorded a favorable adjustment to the original $220 million restructuring charge, which was included in cost of sales. The reduction in the estimated costs related to lower than anticipated costs for severance and facilities. The primary reasons for the reduction in severance costs included a shift in the composition of severed employees, higher attrition resulting in the need for fewer severed employees, and more employees transferring to other locations within the Company. The estimated costs related to facilities were lower than anticipated due to the identification of alternative uses for assets originally identified for disposition, lower de-installation costs, and more rapid exit from facilities.

In 2000, the Company determined that the cost of the restructuring initiatives would be lower than originally planned and recorded a $74 million favorable adjustment to cost of sales and a $12 million reduction to goodwill. The estimate for employee-related exit costs decreased by $45 million due to lower than anticipated costs for severance as a result of higher employee attrition and transfers within the Company during the year. The estimate for facility-related exit costs decreased by $41 million due to more rapid exit from facilities, including two facilities sold during 2000 in connection with the divestiture of non-core business operations, and the identification of alternative uses for facilities originally identified for disposition. Also during 2000, the Company recorded an $8 million restructuring charge, which is included in cost of sales, in connection with a workforce reduction primarily at a foreign location.

The restructuring and exit costs discussed above originally provided for severance and related benefits for approximately 17,600 employees and costs to vacate and dispose of approximately 14 million square feet of facility space. The Company is exiting facility space and terminating employees made redundant as a result of the acquisition of TI Defense and the merger with Hughes Defense and the subsequent reorganization of RSC. There were no major activities that will not be continued as a result of these actions. Employee-related exit costs include severance and other termination benefit costs for employees in various functional areas including manufacturing, engineering, and administration. Facility-related exit costs include the costs for lease termination, building closure and disposal, and equipment disposition. Exit costs accrued in connection with the acquisition of TI Defense and the merger with Hughes Defense also include employee relocation and program moves. Owned facilities that will be vacated in connection with the restructuring activities will be sold. The Company will terminate leases or sublease space for non-owned facilities vacated in connection with restructuring. The Company essentially completed all restructuring actions during 2000. While these actions are intended to improve the Company's competitive position, there can be no assurances as to their ultimate success or that additional restructuring actions will not be required.

Exit Costs

(In millions except employee data)	2000	1999	1998
Accrued liability at beginning of year	$ 144	$ 399	$ 300
Charges and liabilities accrued			
Severance and other employee-related costs	--	33	58
Facility closure and related costs	--	14	226
	--	47	284
Change in estimate			
Severance and other employee-related costs	(7)	--	--
Facility closure and related costs	(5)	--	--
	(12)	--	--
Costs incurred			
Severance and other employee-related costs	62	130	51
Facility closure and related costs	29	172	134
	91	302	185
Accrued liability at end of year	$ 41	$ 144	$ 399
Cash expenditures	$ 91	$ 302	$ 178
Number of employee terminations due to			

restructuring actions	900	3,300	3,600
Number of square feet exited due to restructuring actions	1.6	4.6	2.4

Restructuring

(In millions except employee data)	2000	1999	1998
Accrued liability at beginning of year	$ 130	$ 164	$ 220
Charges and liabilities accrued			
Severance and other employee-related costs	8	55	14
Facility closure and related costs	--	47	53
	8	102	67
Changes in estimate			
Severance and other employee-related costs	(38)	(20)	(37)
Facility closure and related costs	(36)	(45)	(30)
	(74)	(65)	(67)
Costs incurred			
Severance and other employee-related costs	16	36	53
Facility closure and related costs	11	35	3
	27	71	56
Accrued liability at end of year	$ 37	$ 130	$ 164
Cash expenditures	$ 27	$ 71	$ 56
Number of employee terminations due to restructuring actions	700	1,000	3,000
Number of square feet exited due to restructuring actions	1.2	1.6	0.9

In addition to the $118 million, $373 million, and $241 million of restructuring and exit costs incurred in 2000, 1999, and 1998, respectively, the Company also incurred $131 million, $265 million, and $56 million of capital expenditures and period expenses in 2000, 1999, and 1998, respectively, related to restructuring and consolidation activities. Note N, Business Segment Reporting, contains additional disclosures related to restructuring and exit costs and activities by segment.

The cumulative number of employee terminations due to restructuring actions for exit costs and restructuring was 7,800 and 4,700, respectively. The cumulative number of square feet exited due to restructuring actions for exit costs and restructuring was 8.6 million and 3.7 million, respectively.

Special Charges

In 1999, the Company recorded a $35 million special charge to write down its minority investment and receivables related to Iridium LLC, which filed for Chapter 11 bankruptcy protection from creditors on August 13, 1999. The Company also recorded an additional $33 million special charge to further write down inventory and receivables related to a Korean business venture and a $6 million special charge to exit the personal rapid transit (PRT) business, including the costs to dispose of a test track. At December 31, 2000, the remaining assets related to the Korean business venture consisted of a $5 million receivable.

In 1998, the Company recorded a $125 million special charge to exit a line of business, which included writing off its investment in a Korean business venture. The Company's partner in this business venture filed for company reorganization, the Korean equivalent of Chapter 11 bankruptcy protection from creditors, therefore the Company does not expect to realize any future benefits from its remaining partnership interest in this business venture. Additionally, any remaining exposure related to the operations of the business venture is not expected to have a material adverse effect on the Company's financial position or results of operations. The Company also recorded a $42 million special charge to write down the assets of two operations that the Company had decided to sell to estimated fair value of approximately $125 million. One sale was completed during 1998 and the other during 1999. The operating results, which were not material, were included in the Company's results of operations through the date of sale.

Note E: Contracts in Process

Contracts in process consisted of the following at December 31, 2000:

(In millions)	Cost Type	Fixed Price	Total
U.S. government end-use contracts			
Billed	$ 293	$ 540	$ 833
Unbilled	1,007	3,604	4,611
Less progress payments	(6)	(1,957)	(1,963)
	1,294	2,187	3,481
Other customers			
Billed	22	360	382
Unbilled	24	1,205	1,229
Less progress payments	--	(1,031)	(1,031)
	46	534	580
Total	$ 1,340	$ 2,721	$ 4,061

Contracts in process consisted of the following at December 31, 1999:

(In millions)	Cost Type	Fixed Price	Total
U.S. government end-use contracts			
Billed	$ 390	$ 185	$ 575
Unbilled	958	3,930	4,888
Less progress payments	(3)	(1,869)	(1,872)
	1,345	2,246	3,591
Other customers			
Billed	18	450	468
Unbilled	14	1,094	1,108
Less progress payments	--	(819)	(819)
	32	725	757
Total	$ 1,377	$ 2,971	$ 4,348

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

Billed and unbilled contracts in process include retentions arising from contractual provisions. At December 31, 2000, retentions amounted to $58 million and are anticipated to be collected as follows: 2001--$49 million, 2002--$3 million, and the balance thereafter.

Note F: Inventories

Inventories consisted of the following at December 31:

(In millions)	2000	1999
Finished goods	$ 327	$ 280
Work in process	1,191	1,322
Materials and purchased parts	529	510
Excess of current cost over LIFO values	(135)	(140)
	1,912	1,972
Less progress payments	(4)	(22)
Total	$ 1,908	$ 1,950

The gross value of inventory maintained on a last-in, first-out (LIFO) basis was $1,082 million and $1,009 million at December 31, 2000 and 1999, respectively. The value of inventory maintained on a first-in, first-out or average cost basis was $965 million and $1,103 million at December 31, 2000 and 1999, respectively. During 2000, 1999, and 1998, the liquidation of certain LIFO layers decreased cost of sales by $5 million, $8 million, and $6 million, respectively.

Note G: Property, Plant, and Equipment

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

(In millions)	2000	1999
Land	$ 75	$ 74
Buildings and leasehold improvements	1,920	1,887
Machinery and equipment	2,522	2,297
Equipment leased to others	388	312
	4,905	4,570
Less accumulated depreciation and amortization	(2,414)	(2,183)
Total	$ 2,491	$ 2,387

Depreciation expense was $276 million, $283 million, and $367 million in 2000, 1999, and 1998, respectively. Accumulated depreciation of equipment leased to others was $21 million and $19 million at December 31, 2000 and 1999, respectively. Future minimum lease payments from non-cancelable aircraft operating leases, which extend to 2014, amounted to $127 million.

At December 31, 2000, these payments were due as follows:

(In millions)		
	2001	$ 23
	2002	20
	2003	15
	2004	12
	2005	9
	Thereafter	48

Note H: Other Assets
Other assets consisted of the following at December 31:

(In millions)	2000	1999
Computer software	$ 245	$ 158
Investments	217	202
Long-term receivables		
Due from customers in installments to 2015	197	274
Sales-type leases, due in installments to 2015	41	17
Other, principally due through 2008	12	22
Prepaid pension and other noncurrent assets	2,280	2,031
Total	$ 2,992	$2,704

The Company capitalizes certain costs incurred in connection with the purchase and development of internal use computer software. The Company capitalized $111 million, $110 million, and $50 million of computer software during 2000, 1999, and 1998, respectively.

The Company provides long-term financing, principally to its aircraft customers. Long-term receivables include commuter airline receivables of $115 million and $68 million at December 31, 2000 and 1999, respectively.

The Company sells receivables, including short-term government receivables and general aviation and commuter aircraft long-term receivables, to a bank syndicate and other financial institutions. The banks have a first priority claim on all proceeds, including the underlying equipment and any insurance proceeds, and have recourse against the Company, at varying percentages, depending upon the character of the receivables sold. For the general aviation and commuter aircraft long-term receivables, the underlying aircraft serve as collateral for the aircraft receivables, and the future resale value of the aircraft is an important consideration in the transaction. Based on experience to date with resale activities and pricing and the Company's plan to continue production into the foreseeable future, the Company believes that any liability arising from these transactions will not have a material effect on the Company's financial position, or results of operations.

When the Company sells receivables, it retains interest-only strips and servicing rights (retained interests). Any gain or loss on the sale of receivables depends, in part, on the carrying amount of the receivables sold allocated between the receivables and the retained interests, based on their relative fair value at the date of sale, and is recognized in the period in which the sale occurs. The retained interests, which are not material, include interest-only strips, servicing rights, and subordinated certificates and are recorded at estimated fair value. The Company estimates fair value based on the present value of expected future cash flows using the Company's best estimates of the key assumptions commensurate with the risks involved including credit losses, prepayment timing, forward yield curves, and discount rates. The bank syndicate and other financial institutions have recourse against the Company for failure of debtors to pay when due. The Company's retained interests are subject to credit, prepayment, and interest rate risks on the receivables sold.

In connection with the sale of receivables, Raytheon Receivables, Inc. and Raytheon Aircraft Receivables Corporation, special purpose entities, continued in existence at December 31, 2000. The Company sells receivables through these special purpose entities and receives a servicing fee which is recognized as collected over the remaining term of the related receivables sold. No material gain or loss resulted from the sales of receivables in 2000, 1999, or 1998. The outstanding balance of receivables sold to banks or financial institutions was $1,780 million and $2,828 million at December 31, 2000 and 1999, respectively.

Note I: Notes Payable and Long-term Debt

Debt consisted of the following at December 31:

(In millions)	2000	1999
Notes payable at a weighted average interest rate of 5.90% for 2000 and 6.03% for 1999	$ 26	$ 1,422
Commercial paper at a weighted average interest rate of 6.53% for 1999	--	173
Current portion of long-term debt	851	876
Notes payable and current portion of long-term debt	877	2,471
Notes due 2000, 6.30%, not redeemable prior to maturity	--	500
Notes due 2001, 5.95%, not redeemable prior to maturity	500	499
Notes due 2001, floating rate, 7.09%, not redeemable prior to maturity	350	--
Notes due 2002, 6.45%, not redeemable prior to maturity	991	986
Notes due 2002, floating rate, 7.37%, not redeemable prior to maturity	200	--
Notes due 2003, 5.70%, not redeemable prior to maturity	398	398
Notes due 2003, 7.90%, not redeemable prior to maturity	797	--
Notes due 2005, 6.30%, not redeemable prior to maturity	448	447
Notes due 2005, 6.50%, not redeemable prior to maturity	740	737
Notes due 2006, 8.20%, redeemable at any time	845	--
Notes due 2007, 6.75%, redeemable at any time	970	966
Notes due 2008, 6.15%, redeemable at any time	745	744
Notes due 2010, 6.00%, redeemable at any time	249	249
Notes due 2010, 6.55%, redeemable at any time	298	298
Notes due 2010, 8.30%, redeemable at any time	397	--
Debentures due 2018, 6.40%, redeemable at any time	544	543
Debentures due 2018, 6.75%, redeemable at any time	346	346
Debentures due 2025, 7.375%, redeemable after 2005	364	363
Debentures due 2027, 7.20%, redeemable at any time	467	466
Debentures due 2028, 7.00%, redeemable at any time	248	248
Commercial paper backed by five year fixed for variable interest rate swap at 6.40%	--	375
Other notes with varying interest rates	8	9
Less installments due within one year	(851)	(876)
Long-term debt	9,054	7,298
Total	$ 9,931	$ 9,769

In 2000, the Company issued $2.25 billion of long-term debt to repay outstanding short-term debt, extending the maturity of the Company's debt obligations. The Company has on file a shelf registration with the Securities and Exchange Commission registering the issuance of up to $3.0 billion in debt and/or equity securities. In 2000, the Company issued $350 million of floating rate notes due in 2001 under this registration statement to partially refinance $500 million of long-term debt that matured in 2000.

The Company issued $3.8 billion of long-term debt in 1998 to refinance a portion of the debt associated with the acquisition of TI Defense and the merger with Hughes Defense and to take advantage of favorable long-term interest rates in order to reduce short-term borrowings.

Commercial paper in the amount of $375 million was classified as current portion of long-term debt at December 31, 1999 due to Company borrowings of that amount which were supported by a five-year Syndicated Bank Credit Agreement combined with a five-year fixed for variable interest rate swap which matured in 2000.

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

(In millions)		
	2001	$ 851
	2002	1,202
	2003	1,203
	2004	--
	2005	1,200

Lines of credit with certain commercial banks exist primarily as standby facilities to support the issuance of commercial paper by the Company. These lines of credit bear interest based upon LIBOR and mature in 2002. The lines of credit were $3.0 billion and $4.1 billion at December 31, 2000 and 1999, respectively. There were no borrowings outstanding under these lines of credit at December 31, 2000 versus $1.4 billion outstanding at December 31, 1999. Credit lines or commitments with banks were maintained by subsidiary companies amounting to $147 million and $130 million at December 31, 2000 and 1999, respectively. Compensating balance arrangements are not material.

The principal amounts of long-term debt were reduced by debt issue discounts and interest rate hedging costs of $87 million and $105 million, respectively, on the date of issuance, and are reflected as follows at December 31:

(In millions)	2000	1999
Principal	$ 10,033	$ 8,309
Unamortized issue discounts	(60)	(57)
Unamortized interest rate hedging costs	(68)	(78)
Installments due within one year	(851)	(876)
Long-term debt	$ 9,054	$ 7,298

The Company's most restrictive bank agreement covenant is an interest coverage ratio that currently requires earnings before interest, taxes, depreciation, and amortization (EBITDA) to be at least 2.5 times net interest expense for the prior four quarters. Total cash paid for interest was $703 million, $700 million, and $762 million in 2000, 1999, and 1998, respectively.

Note J: Federal and Foreign Income Taxes

Income reported for federal and foreign tax purposes differs from pretax accounting income due to variations between Internal Revenue Code requirements and the Company's accounting practices.

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

(In millions)	2000	1999	1998
Current income tax expense			
Federal	$ 71	$ 53	$ 145
Foreign	9	6	7
Deferred income tax expense (benefit)			
Federal	277	314	545
Foreign	22	23	(9)
Total	$ 379	$ 396	$ 688

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

	2000	1999	1998
Tax at statutory rate	35.0%	35.0%	35.0%
Goodwill amortization	11.5	11.1	6.6
Foreign sales corporation tax benefit	(3.1)	(2.4)	(1.0)
Research and development tax credit	(0.9)	(0.6)	(0.3)
Other, net	0.7	1.0	--
Total	43.2%	44.1%	40.3%

In 2000, 1999, and 1998, domestic income before taxes amounted to $788 million, $816 million, and $1,671 million, respectively, and foreign income before taxes amounted to $89 million, $82 million, and $36 million, respectively. Cash refunds (payments) were $22 million, $(102) million, and $16 million in 2000, 1999, and 1998, respectively.

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

(In millions)	2000	1999
Current deferred tax assets (liabilities)		
Contracts in process	$ 142	$ 198
Inventories	80	80
Accrued salaries and wages	137	119
Other accrued expenses	117	274
Other	--	(181)
Deferred federal and foreign income taxes--current	$ 476	$ 490
Noncurrent deferred tax (liabilities) assets		
Prepaid pension	$(627)	$(525)
Depreciation and amortization	(418)	(348)
Revenue on leases	(124)	(101)
Accrued retiree benefits	323	331
Foreign tax credit carryforwards	34	--
Other	39	155
Deferred federal and foreign income taxes--noncurrent	$(773)	$(488)

There were $25 million and $20 million of taxes refundable included in prepaid expenses and other current assets at December 31, 2000 and 1999, respectively. The foreign tax credit carryforwards expire in 2005.

Note K: Commitments and Contingencies

At December 31, 2000, the Company had commitments under long-term leases requiring approximate annual rentals on a net lease basis as follows:

(In millions)		
	2001	$ 342
	2002	278
	2003	358
	2004	147
	2005	131
	Thereafter	503

In 1998, the Company entered into a $490 million property sale and five-year operating lease facility. Remaining lease payments under the lease facility, which are included in the table above, approximate $74 million in 2001, $61 million in 2002, and $201 million in 2003. Rent expense in 2000, 1999, and 1998 was $292 million, $358 million, and $223 million, respectively. In 1999, the Company entered into an agreement to outsource a significant portion of its information technology function for a minimum of approximately $65 million per year.

Defense contractors are subject to many levels of audit and investigation. Among agencies that oversee contract performance are the Defense Contract Audit Agency, the Inspector General, the Defense Criminal Investigative Service, the General Accounting Office, the Department of Justice, and Congressional Committees. Over recent years, the Department of Justice has convened grand juries from time to time to investigate possible irregularities by the Company

in government contracting. Such investigations, except as noted in the following paragraph, individually and in the aggregate, are not expected to have a material adverse effect on the Company's financial position or results of operations.

The U.S. Customs Service has concluded its investigation of the contemplated sale by the Company of troposcatter radio equipment to a customer in Pakistan. The Company has produced documents in response to grand jury subpoenas and grand jury appearances have taken place. The Company has cooperated fully with the investigation. The government has not reached a final decision with respect to this matter. An adverse decision in this matter could have a material adverse effect on the Company's financial position and results of operations.

The Company self-insures for losses and expenses for aircraft product liability up to a maximum of $10 million per occurrence and $50 million annually. Insurance is purchased from third parties to cover excess aggregate liability exposure from $50 million to $1.2 billion. This coverage also includes the excess of liability over $10 million per occurrence. The aircraft product liability reserve was $23 million and $24 million at December 31, 2000 and 1999, respectively.

The Company is involved in various stages of environmental investigation and clean-up related to remediation of various sites. All appropriate costs expected to be incurred in connection therewith, on a discounted basis, have been accrued at December 31, 2000. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative clean-up methods and technologies, the uncertainty of insurance coverage, and the unresolved extent of the Company's responsibility, it is difficult to determine the ultimate outcome of these matters, however, any additional liability is not expected to have a material adverse effect on the Company's financial position or results of operations after giving effect to provisions previously recorded.

The Company has banks and insurance companies issue, on its behalf, letters of credit to meet various bid, performance, warranty, retention, and advance payment obligations. Approximately $1,330 million and $1,346 million of these contingent obligations were outstanding at December 31, 2000 and 1999, respectively. Of these contingent obligations, $297 million related to RE&C at December 31, 2000. These instruments expire on various dates through 2006. In the normal course of operations, the Company guarantees the performance of its subsidiaries on certain contracts and projects directly or through surety companies. A total of $1,912 million of guarantees and surety bonds related to RE&C remained outstanding at December 31, 2000, however, additional guarantees of project performance for which there is no

stated value also remained outstanding on five large fixed price turnkey projects sold to WGI, three of which are in the early stages of completion. See Note B, Discontinued Operations, for additional disclosures related to RE&C contingent obligations.

The Company has guaranteed the borrowings of several affiliated entities. The amount of borrowings outstanding at December 31, 2000 and 1999, for which the Company was guarantor, was approximately $251 million and $135 million, respectively.

During October and November 1999, the Company and two of its officers were named as defendants in class action lawsuits. In June 2000, four additional former or present officers were named as defendants. The complaints principally allege that the defendants violated federal securities laws by making false and misleading statements and by failing to disclose material information concerning the Company's financial performance, thereby causing the value of the Company's stock to be artificially inflated. In September 2000, the Company and the individual defendants filed a motion to dismiss, which the plaintifs opposed. The Company was also named as a nominal defendant and all of its directors at the time (except one) were named as defendants in derivative lawsuits. The derivative complaints contain allegations similar to those included in the above complaints and further allege that the defendants breached fiduciary duties to the Company and allegedly failed to exercise due care and diligence in the management and administration of the affairs of the Company. Although the Company believes that it and the other defendants have meritorious defenses to the claims made in both the derivative complaints and the other complaints and intends to contest the lawsuits vigorously, an adverse resolution of the lawsuits could have a material adverse affect on the Company's financial position and results of operations in the period in which the lawsuits are resolved. The Company is not presently able to reasonably estimate potential losses, if any, related to the lawsuits.

The Company merged with Hughes Defense in December 1997. Pursuant to the terms of the Master Separation Agreement (the "Separation Agreement"), which requires an adjustment based on net assets, the final purchase price for Hughes Defense has not been determined. Based on the terms and conditions of the Separation Agreement, the Company believes that it is entitled to a reduction in the purchase price, a position that Hughes Electronics disputes. Although the Company and Hughes Electronics have been engaged in discussions in an attempt to resolve this dispute, it now appears as though a negotiated settlement is not likely in the foreseeable future based on the current position of the parties. The only alternative to a negotiated settlement is binding arbitration, as provided in the Separation Agreement. Concurrent with the negotiations, the parties are in the process of selecting a neutral arbitrator. While the Company expects a reduction in purchase price from the original terms of the agreement, the amount, timing, and effect on the Company's financial position are uncertain. As a result of this uncertainty, no amounts have been recorded in the financial statements related to this expected reduction in purchase price. Any payment received from Hughes Electronics as a result of a reduction in purchase price will result in a corresponding reduction in goodwill and not be reflected in the income statement unless the reduction in goodwill results in lower amortization in future periods.

In March 2000, the Company and Hughes Electronics participated unsuccessfully in a voluntary mediation pursuant to the alternative dispute resolution process set forth in the Separation Agreement in connection with a separate claim against Hughes Electronics concerning the accuracy and completeness of disclosures made by Hughes Electronics to the Company prior to the merger. The Company and Hughes Electronics have selected arbitrators to resolve the claim through binding arbitration pursuant to the Separation Agreement. The arbitration is scheduled for May 2001.

In November 1999, the Company filed a complaint against Towers, Perrin, Forster & Crosby (TPF&C). The complaint arises out of a series of events concerning certain Hughes Electronics pension plans (the "Hughes Plans"), portions of which were acquired by the Company in connection with the merger with Hughes Defense. Specifically, the complaint alleges that the Company was damaged by false representations made to the Company by TPF&C regarding the amount of surplus in the Hughes Plans and errors made by TPF&C in providing administrative services to the Hughes Plans. The complaint seeks damages in an amount to be determined at trial. The Company has also alleged a claim against Hughes Electronics pursuant to the terms of the Separation Agreement seeking to recover costs incurred by the Company resulting from errors in the administration of the Hughes Plans which Hughes Electronics failed to disclose to the Company, prior to the merger.

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

Note L: Employee Stock Plans

The 1976 Stock Option Plan provides for the grant of both incentive and nonqualified stock options at an exercise price which is 100 percent of the fair value on the date of grant. No further grants are allowed under this plan. The 1991 Stock Plan provides for the grant of incentive stock options at an exercise price which is 100 percent of the fair value on the date of grant and nonqualified stock options at an exercise price which may be less than the fair value on the date of grant. The 1995 Stock Option Plan provides for the grant of both incentive and nonqualified stock options at an exercise price which is not less than 100 percent of the fair value on the date of grant.

All stock options generally may be exercised in their entirety from 1 to 6 years after the date of grant. Incentive stock options terminate 10 years from the date of grant, and those stock options granted after December 31, 1986 become exercisable to a maximum of $100,000 per year. Nonqualified stock options terminate 11 years from the date of grant, or 10 years and a day if issued under the 1995 Stock Option Plan.

The 1991 Stock Plan also provides for the award of restricted stock and restricted units. The 1997 Nonemployee Directors Restricted Stock Plan provides for the award of restricted stock to nonemployee directors. Restricted stock and restricted unit awards are determined by the Management Development and Compensation Committee of the Board of Directors and are compensatory in nature. Restricted stock and restricted unit awards vest over a specified period of time of not less than one year and not more than 10 years. Restricted stock awards entitle the participant to full dividend and voting rights. Unvested shares are restricted as to disposition and subject to forfeiture under certain circumstances. Compensation expense is recognized over the vesting period.

No further grants are allowed under the 1991 Stock Plan, 1995 Stock Option Plan, and 1997 Nonemployee Directors Restricted Stock Plan after March 26, 2001, March 21, 2005, and November 25, 2006, respectively.

Awards of 1,152,800, 849,900, and 541,100 shares of restricted stock and restricted units were made to employees and directors at a weighted average fair value at the grant date of $21.21, $45.68, and $57.21 in 2000, 1999, and 1998, respectively. The required conditions for 140,900, 72,600, and 85,500 shares of restricted stock and restricted units were satisfied during 2000, 1999, and 1998, respectively. There were 2,062,600, 1,336,600, and 834,900 shares of restricted stock and restricted units outstanding at December 31, 2000, 1999, and 1998, respectively. The amount of compensation expense recorded was $17 million, $16 million, and $15 million in 2000, 1999, and 1998, respectively. The balance of unearned compensation was $30 million and $29 million at December 31, 2000 and 1999, respectively.

The 1976 Stock Option Plan, 1991 Stock Plan, 1995 Stock Option Plan, and 1997 Nonemployee Directors Restricted Stock Plan utilize the Company's Class B common stock. There were 49.2 million, 51.0 million, and 53.7 million additional shares of common stock (including shares held in treasury) authorized for stock options and restricted stock awards at December 31, 2000, 1999, and 1998, respectively.

Stock option information for 2000, 1999, and 1998 follows:

(Share amounts in thousands)	Shares	Weighted Average Option Price
Outstanding at December 31, 1997	19,510	$ 40.87
Granted	6,945	55.54
Exercised	(2,917)	35.44
Expired	(816)	51.13
Outstanding at December 31, 1998	22,722	$ 45.68
Granted	6,986	67.52
Exercised	(4,176)	40.82
Expired	(475)	55.13
Outstanding at December 31, 1999	25,057	$ 52.40
Granted	12,565	19.81
Exercised	(253)	18.81
Expired	(3,276)	41.68
Outstanding at December 31, 2000	34,093	$ 41.66

The following tables summarize information about stock options outstanding and exercisable at December 31, 2000:

(Share amounts in thousands)	Options Outstanding		
Exercise Price Range	Shares Outstanding at December 31, 2000	Weighted Average Contractual Remaining Life	Weighted Average Exercise Price
$14.51 to $29.63	12,643	8.2 years	$ 20.27
$31.24 to $49.19	4,916	4.3 years	$ 38.46
$51.06 to $59.44	11,031	5.4 years	$ 54.22
$66.91 to $73.97	5,503	7.9 years	$ 68.48
Total	34,093		

(Share amounts in thousands)	Options Exercisable	
Exercise Price Range	Shares Exercisable at December 31, 2000	Weighted Average Exercise Price
$14.51 to $29.63	2,641	$ 22.03
$31.24 to $49.19	4,725	$ 38.42
$51.06 to $59.44	10,877	$ 54.17
$66.91 to $73.97	2,807	$ 68.49
Total	21,050	

Shares exercisable at the corresponding weighted average exercise price at December 31, 2000, 1999, and 1998, respectively, were 21.1 million at $48.51, 14.9 million at $45.14, and 14.9 million at $41.58.

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

(In millions except per share amounts)	2000	1999	1998
Net income--as reported	$ 141	$ 404	$ 844
Net income--pro forma	57	332	800
Basic earnings per share--			
as reported	0.42	1.20	2.50
pro forma	0.17	0.98	2.37
Diluted earnings per share--			
as reported	0.41	1.19	2.47
pro forma	0.17	0.97	2.34

The weighted average fair value of each stock option granted in 2000, 1999, and 1998 is estimated as $5.91, $22.25, and $10.40, respectively, on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2000	1999	1998
Expected life	4 years	4 years	4 years
Assumed annual dividend growth rate	1%	5%	6%

Expected volatility	40%	35%	15%
Assumed annual forfeiture rate	12%	5%	5%

The risk free interest rate (month-end yields on 4-year treasury strips equivalent zero coupon) ranged from 5.3% to 6.6% in 2000, 4.6% to 6.2% in 1999, and 4.4% to 5.7% in 1998. The decrease in the weighted average fair value of stock options was primarily the result of the significant decline in the price of the Company's stock during 1999. The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts.

Note M: Pension and Other Employee Benefits

The Company has pension and retirement plans covering the majority of its employees, including certain employees in foreign countries. Total pension expense includes foreign pension expense of $7 million in 2000 and $10 million in 1999 and 1998. In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's U.S. employees may become eligible for these benefits. The measurement date is October 31 and the information presented below includes the effect of acquisitions and divestitures.

Plan assets consist primarily of equity securities (including 5,157,000 shares of the Company's Class A and Class B common stock combined, with a fair value of $154 million at December 31, 2000) and fixed income securities (including $25 million of the Company's 7.9% notes due in 2003 and $50 million of the Company's 8.2% notes due in 2006, with a combined fair value of $79 million at December 31, 2000).

Change in Benefit Obligation

	Pension Benefits		Other Benefits	
(In millions) December 31:	2000	1999	2000	1999
Benefit obligation at beginning of year	$ 10,629	$ 10,794	$ 1,276	$ 1,426
Service cost	320	365	20	29
Interest cost	763	720	92	97
Plan participants' contributions	23	28	--	--
Amendments	19	--	--	1
Actuarial (gain) loss	(294)	(381)	19	(157)
Acquisitions	--	12	--	--
Divestitures	(28)	(53)	(4)	(3)
Curtailments	(41)	--	--	--
Benefits paid	(922)	(856)	(115)	(117)
Benefit obligation at end of year	$ 10,469	$ 10,629	$ 1,288	$ 1,276

Change in Plan Assets

	Pension Benefits		Other Benefits	
(In millions) December 31:	2000	1999	2000	1999
Fair value of plan assets at beginning of year	$ 13,522	$ 12,791	$ 387	$ 318
Actual return on plan assets	1,129	1,477	18	35
Acquisitions	--	23	--	--
Divestitures	(30)	(74)	--	--
Company contribution	99	133	140	136
Plan participants' contributions	23	28	--	15
Benefits paid	(922)	(856)	(120)	(117)
Fair value of plan assets at end of year	$ 13,821	$ 13,522	$ 425	$ 387

Funded Status--unrecognized components

	Pension Benefits		Other Benefits	
(In millions) December 31:	2000	1999	2000	1999
Funded status	$ 3,352	$ 2,893	$ (863)	$ (889)
Unrecognized actuarial (gain) loss	(1,811)	(1,630)	(119)	(160)
Unrecognized transition (asset) obligation	(6)	(12)	236	261
Unrecognized prior service cost	159	164	(7)	(8)
Prepaid (accrued) benefit cost	$ 1,694	$ 1,415	$ (753)	$ (796)

Funded Status--recognized in balance sheets

	Pension Benefits		Other Benefits	
(In millions) December 31:	2000	1999	2000	1999
Prepaid benefit cost	$ 2,090	$ 1,815	$ 22	$ 17
Accrued benefit liability	(429)	(441)	(775)	(813)
Intangible asset	7	9	--	--
Accumulated other comprehensive income	26	32	--	--
Prepaid (accrued) benefit cost	$ 1,694	$ 1,415	$ (753)	$ (796)

Components of Net Periodic Benefit (Income) Cost

	Pension Benefits		
(In millions)	2000	1999	1998
Service cost	$ 320	$ 365	$ 338
Interest cost	763	720	703
Expected return on plan assets	(1,164)	(1,090)	(1,016)

Amortization of transition asset	(6)	(6)	(7)
Amortization of prior service cost	18	18	19
Recognized net actuarial gain	(81)	(28)	(30)
(Gain) loss due to curtailment/settlements	(36)	6	--
Net periodic benefit (income) cost	$ (186)	$ (15)	$ 7

The net periodic benefit (income) cost includes income from discontinued operations, including curtailment, of $53 million, $14 million, and $8 million in 2000, 1999, and 1998, respectively.

Components of Net Periodic Benefit Cost

	Other Benefits		
(In millions)	2000	1999	1998
Service cost	$ 20	$ 29	$ 30
Interest cost	92	97	98
Expected return on plan assets	(31)	(27)	(25)
Amortization of transition obligation	25	25	25
Amortization of prior service cost	(1)	(1)	(2)
Recognized net actuarial gain	(7)	(1)	(1)
(Gain) loss due to curtailment/settlements	--	(1)	1
Net periodic benefit cost	$ 98	$ 121	$ 126

Weighted Average Assumptions

	Pension Benefits		Other Benefits	
December 31:	2000	1999	2000	1999
Discount rate	7.75%	7.50 %	7.75%	7.50%
Expected return on plan assets	9.50%	9.375%	8.50%	8.50%
Rate of compensation increase	4.50%	4.50 %	4.50%	4.50%
Health care trend rate in the next year			8.25%	9.00%
Gradually declining to a trend rate of			5.0 %	5.0 %
In the years beyond			2006	2006

The effect of a one percent increase or decrease in the assumed health care trend rate for each future year for the aggregate of service and interest cost is $8 million and $(7) million, respectively, and for the accumulated postretirement benefit obligation is $80 million and $(69) million, respectively.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $385 million, $363 million, and $72 million, respectively, at December 31, 2000, and $405 million, $384 million, and $49 million, respectively, at December 31, 1999.

Under the terms of various savings and investment plans (defined contribution plans), covered employees are allowed to contribute up to a specific percentage of their pay, generally limited to $30,000 per year. The Company matches the employee's contribution, up to a maximum of generally between three and four percent of the employee's pay. Total expense for defined contribution plans was $176 million, $179 million, and $112 million in 2000, 1999, and 1998, respectively. The increase in 1999 was due to a plan change that increased the Company match.

The Company also makes an annual contribution to the Company stock fund of the various savings and investment plans of approximately one-half of one percent of salaries and wages, limited to $170,000 in 2000 and 1999 and $160,000 in 1998, of most U.S. salaried and hourly employees. Total expense for this contribution was $26 million, $23 million, and $16 million and the number of shares allocated to participant accounts was 1,455,000, 271,000, and 241,000 in 2000, 1999, and 1998, respectively. The increase in the number of shares contributed in 2000 was primarily the result of the significant decline in the price of the Company's stock during 1999.

Note N: Business Segment Reporting

Reportable segments have been determined based upon product lines and include the following: Electronic Systems; Command, Control, Communication and Information Systems; Technical Services; Aircraft Integration Systems; Commercial Electronics; and Aircraft.

Segment net sales and operating income include intersegment sales and profit recorded at cost plus a specified fee, which may differ from what the selling entity would be able to obtain on external sales. Corporate and Eliminations includes Company-wide accruals and over/under applied overhead that have not been attributed to a particular segment and intersegment sales and profit eliminations. Following is a brief description of each segment:

- Electronic Systems includes Missile Systems; Air Combat and Strike Systems; Tactical Systems; Air/Missile Defense Systems; Naval & Maritime Integrated Systems; and Surveillance & Reconnaissance Systems.

- Command, Control, Communication and Information Systems includes Command, Control, and Communication Systems; Imagery and Geospatial Systems; and Strategic Systems.

- Technical Services includes Scientific and Technical Services; Depot Services; Installation Support Services; and Integrated Logistics.

- Aircraft Integration Systems includes Tactical Reconnaissance; Airlift/Avionics Programs; Government and Commercial Programs; Air-Ground Surveillance; Aircraft Early Warning and Control; and Joint Operations Group.

- Commercial Electronics includes ELCAN Optical Technologies; RF Components; Crosspan(TM) Network Access Technologies; Raytheon Commercial Infrared; Raytheon Marine Company High Seas; and Raytheon Professional Services.

- Aircraft includes Business Jets and Turboprops; Regional Airliners; Piston-Powered Aircraft; Special Mission Aircraft; Fractional Aircraft Ownership; Service and Support; and Aircraft Charter and Management.

Segment financial results were as follows:

Net Sales

(In millions)	2000	1999	1998
Electronic Systems	$ 7,584	$ 8,001	$ 8,294
Command, Control, Communication and Information Systems	3,419	3,767/(1)/	3,741
Technical Services	1,810	1,885	1,771
Aircraft Integration Systems	1,220	1,094	1,197
Commercial Electronics	666	749	866
Aircraft	3,220	2,709	2,543
Corporate and Eliminations	(1,024)	(1,004)	(1,048)
Total	$ 16,895	$ 17,201	$ 17,364

(1) Includes a special charge of $15 million.

Operating Income

(In millions)	2000	1999	1998
Electronic Systems	$ 1,039	$ 1,156/(2)/	$ 1,448
Command, Control, Communication and Information Systems	358	374/(3)/	386
Technical Services	124	122/(4)/	160
Aircraft Integration Systems	48	(61)/(5)/	203
Commercial Electronics	(4)	(30)/(6)/	(157)
Aircraft	164	163	227/(7)/
Corporate and Eliminations	(104)	(132)	(8)
Total	$ 1,625	$ 1,592	$ 2,259

(2) Includes restructuring charges offset by favorable adjustments to restructuring-related reserves of $41 million, net.

(3) Includes restructuring and special charges offset by favorable adjustments

to restructuring-related reserves of $28 million, net.

(4) Includes restructuring charges of $7 million.

(5) Includes restructuring charges of $11 million.

(6) Includes restructuring and special charges of $44 million.

(7) Includes special charges of $167 million.

Operating Cash Flow

(In millions)	2000	1999	1998
Electronic Systems	$ 611	$ (77)	$ 108
Command, Control, Communication and Information Systems	204	202	163
Technical Services	21	9	2
Aircraft Integration Systems	120	(138)	36
Commercial Electronics	63	(27)	32
Aircraft	(372)	(155)	127
Corporate	(18)	(434)	(189)
Total	$ 629	$(620)	$ 279

Operating cash flow, as defined by the Company to evaluate cash flow performance by the segments, includes capital expenditures.

Capital Expenditures

(In millions)	2000	1999	1998
Electronic Systems	$197	$287	$199
Command, Control, Communication and Information Systems	70	77	74
Technical Services	5	7	15
Aircraft Integration Systems	10	17	12
Commercial Electronics	33	19	18
Aircraft	116	117	150
Total	$431	$524	$468

Depreciation and Amortization

(In millions)	2000	1999	1998
Electronic Systems	$328	$ 333	$ 374
Command, Control, Communication and Information Systems	160	173	163
Technical Services	35	37	38
Aircraft Integration Systems	52	57	46
Commercial Electronics	29	20	36
Aircraft	90	79	77
Total	$694	$ 699	$ 734

Identifiable Assets at December 31:

(In millions)	2000	1999
Electronic Systems	$11,356	$11,596
Command, Control, Communication and Information Systems	5,117	5,368
Technical Services	1,611	1,584
Aircraft Integration Systems	1,712	1,852
Commercial Electronics	780	838
Aircraft	3,297	3,264
Corporate	2,890	2,214
Total	$26,763	$26,716

Intersegment sales in 2000, 1999, and 1998, respectively, were $205 million, $194 million, and $496 million for Electronic Systems, $122 million, $189 million, and $209 million for Command, Control, Communication and Information Systems, $496 million, $505 million, and $250 million for Technical Services, $32 million, $22 million, and $17 million for Aircraft Integration Systems, $110 million, $81 million, and $64 million for Commercial Electronics, and $59 million, $13 million, and $12 million for Aircraft.

The following tables summarize information related to restructuring and exit costs and activities by segment:

Restructuring and Exit Costs

(In millions)	Charges Accrued	Costs Incurred	Ending Balance
Electronic Systems	$ 570	$ 524	$ 46
Command, Control, Communication and Information Systems	129	114	15
Technical Services	43	37	6
Aircraft Integration Systems	12	12	--
Commercial Electronics	12	7	5
Corporate	44	38	6
Total	$ 810	$ 732	$ 78

Restructuring and Exit Activities

	Number of Employee Terminations	Square Feet Exited (thousands)
Electronic Systems	7,300	8,800
Command, Control, Communication and Information Systems	2,600	2,300
Technical Services	1,900	1,200
Aircraft Integration Systems	400	--

Commercial Electronics	200	--
Corporate	100	--
Total	12,500	12,300

The following table summarizes information related to operations by geographic areas:

Operations by Geographic Areas

(In millions)	United States	Outside United States (Principally Europe)	Consolidated
Sales			
2000	$13,847	$ 3,048	$16,895
1999	14,046	3,155	17,201
1998	14,903	2,461	17,364
Long-lived assets at			
December 31, 2000	$18,558	$ 206	$18,764
December 31, 1999	18,497	190	18,687

The country of origin was used to attribute sales to either United States or Outside United States. Sales to major customers in 2000, 1999, and 1998, were: U.S. government, including foreign military sales, $11,116 million, $11,685 million, and $12,569 million, respectively, and U.S. Department of Defense, $9,601 million, $9,561 million, and $10,608 million, respectively.

Note O: Quarterly Operating Results (unaudited)

(In millions except per share amounts and stock prices)

2000	First	Second	Third	Fourth
Net sales	$ 4,231	$ 4,124	$ 4,160	$ 4,380
Gross margin	750	835	843	937
Income from continuing operations	80	95	133	190
Net income (loss)	(181)	49	105	168
Earnings per share from continuing operations				
Basic	0.24	0.28	0.39	0.56
Diluted	0.24	0.28	0.39	0.55
Earnings (loss) per share				
Basic	(0.54)	0.14	0.31	0.50
Diluted	(0.54)	0.14	0.31	0.49
Cash dividends per share				
Declared	0.20	0.20	0.20	0.20
Paid	0.20	0.20	0.20	0.20
Common stock prices				
Class A--High	27.63	25.25	28.13	33.25
Class A--Low	17.88	18.50	19.25	25.00
Class B--High	28.50	25.19	29.56	35.81
Class B--Low	17.50	18.06	19.50	26.63

1999	First	Second	Third	Fourth
Net sales	$ 4,336	$ 4,565	$ 4,122	$ 4,178
Gross margin	995	1,125	545	852
Income (loss) from continuing operations	240	277/(1)/	(89)/(2)/	74/(3)/
Net income (loss)	205	290/(1)/	(163)/(2)/	72/(3)/
Earnings (loss) per share from continuing operations				
Basic	0.71	0.82/(1)/	(0.26)/(2)/	0.22/(3)/
Diluted	0.71	0.81/(1)/	(0.26)/(2)/	0.22/(3)/
Earnings (loss) per share				
Basic	0.61	0.86/(1)/	(0.48)/(2)/	0.21/(3)/
Diluted	0.60	0.84/(1)/	(0.48)/(2)/	0.21/(3)/
Cash dividends per share				
Declared	0.20	0.20	0.20	0.20
Paid	0.20	0.20	0.20	0.20
Common stock prices				
Class A--High	58.13	72.88	75.38	48.38
Class A--Low	50.75	57.38	43.75	21.25
Class B--High	58.88	74.63	76.56	49.88
Class B--Low	51.25	57.75	44.50	22.19

(1) Includes net gain on sales of operating units and securities received as partial payment for previously divested businesses of $5 million after-tax, or $0.01 per share.

(2) Includes charges of $115 million after-tax, restructuring and special charges of $137 million after-tax, and net gain on sales of operating units and securities received as partial payment for previously divested businesses of $8 million after-tax. The impact of these items combined was a net charge of $244 million after-tax, or $0.72 per share.

(3) Includes favorable adjustments to restructuring-related reserves of $42 million after-tax and net gain on sales of operating units and securities received as partial payment for previously divested businesses of $1 million after-tax. The impact of these items combined was a net gain of $43 million after-tax, or $0.13 per share.

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

Note P: Financial Instruments

The Company enters into interest rate swap agreements, treasury rate locks, and foreign currency forward contracts to minimize or eliminate risks associated with interest rate changes or foreign currency exchange rate fluctuations. All of these financial instruments relate to specific transactions and particular assets, liabilities, or firm commitments. These instruments are executed with credit-worthy institutions and the majority of the foreign currencies are denominated in currencies of major industrial countries.

The following table summarizes major currencies and the approximate contract amounts associated with foreign exchange contracts at December 31:

	2000		1999	
(In millions)	Buy	Sell	Buy	Sell

British Pounds	$204	$ 1	$228	$ 7
Swiss Francs	--	29	2	43
European Euros	19	3	24	--
German Marks	6	--	11	--
Netherlands Guilders	--	--	7	21
All other	8	3	15	10
Total	$237	$ 36	$287	$ 81

Buy amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies and sell amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies. Foreign exchange contracts that do not involve U.S. dollars have been converted to U.S. dollars for disclosure purposes. At December 31, 2000, the Company also had foreign exchange contracts related to RE&C to buy $17 million Philippine Pesos and sell $2 million European Euros which mature during 2001.

Interest rate swap agreements were $83 million and $381 million at December 31, 2000 and 1999, respectively. The agreement outstanding at December 31, 2000 matures in 2004. Under this agreement, the Company pays the counterparty interest at a weighted average fixed rate of 6.2%, and the counterparty pays the Company at a variable rate equal to one-month LIBOR, which was 6.8% at December 31, 2000.

Foreign currency forward contracts, used primarily to minimize fluctuations in the values of foreign currency payments and receipts, have maturities at various dates through August 2005 as follows: $217 million in 2001, $38 million in 2002, and $18 million thereafter. Estimated fair values for the interest rate swap agreement and foreign currency forward contracts, which were calculated using the present value of the current net settlement amount, were not material at December 31, 2000.

Note Q: Stockholders' Equity

The Company has two classes of common stock--Class A and Class B. For all matters other than the election and removal of directors, Class A and Class B stockholders have equal voting rights. For the election or removal of directors only, the Class A stockholders have 80.1 percent of the total voting power and the Class B stockholders have the remaining 19.9 percent. Class A and Class B stockholders are entitled to receive the same amount per share of any dividends declared. Immediately following any dividend, split, subdivision, or other distribution of shares of Class A or Class B common stock, the number of shares must bear the same relationship to each other as immediately prior to such distribution. Except as indicated above, the rights of Class A and Class B stockholders are identical.

The Company plans to eliminate its dual class capital structure and reclassify its Class A and Class B common stock into a single new class of common stock.

The Company also plans to effect a 20-for-1 reverse-forward stock split that will result in holders of fewer than 20 shares of common stock being cashed out of their holdings. The reverse-forward stock split will be accomplished immediately prior to the elimination of the Company's dual class capital structure in a two step transaction. In the first step, the reverse stock split, each share of Class A or Class B common stock will become 1/20th of a share of the same class. Stockholders with fewer than 20 shares of either class before the reverse split will be left with less than a whole share of that class and will receive a cash payment equal to the fair value of their fractional interest.

Immediately following the reverse split, the Company will effect a 20-for-1 forward stock split. The forward stock split will restore stockholders with 20 or more shares of either class to their original position. The Company believes that this action will significantly reduce expenses for stockholder record keeping and mailings.

The proposed elimination of the dual class capital structure and reverse-forward stock split have been approved by the Board of Directors and are subject to approval by a majority vote of the outstanding Class A and Class B shares, with each class voting separately, at the Company's 2001 annual meeting.

In 1995, the Board of Directors authorized the repurchase of up to 12 million shares of the Company's common stock when warranted by market conditions. In 1998, the Board of Directors ratified and reauthorized the repurchase of 2.5 million shares that remained under the original authorization. There have been 11.8 million shares repurchased under these authorizations through December 31, 2000. There were no shares repurchased under this program during 2000. There were 0.7 million and 1.7 million shares repurchased under this program during 1999 and 1998, respectively. In 1999, the Board of Directors authorized the repurchase of up to an additional 6 million shares of the Company's common stock over the next three years. There have been no shares repurchased under this program.

In 1998, the Board of Directors authorized the repurchase of up to 5 million shares of the Company's common stock per year to counter the dilution due to the exercise of stock options. There were no shares repurchased under this program during 2000. There were 1.9 million and 2.9 million shares repurchased under this program during 1999 and 1998, respectively, to partially offset 4.2 million and 2.9 million shares issued due to the exercise of stock options during 1999 and 1998, respectively.

The changes in shares of Class A and Class B common stock outstanding during 2000 are as follows:

(In thousands)	Class A	Class B
Balance at December 31, 1997	102,630	235,935
Common stock plan activity	(288)	3,249
Treasury stock activity	(839)	(3,889)
Balance at December 31, 1998	101,503	235,295
Common stock plan activity	--	4,613
Treasury stock activity	(698)	(1,953)
Balance at December 31, 1999	100,805	237,955
Common stock plan activity	--	1,337
Treasury stock activity	--	523
Balance at December 31, 2000	100,805	239,815

The Company issued 547,000 shares out of treasury during 2000 to fund a portion of the Company's match of employee contribution to the Company's savings and investment plans.

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Class A and Class B common stock have been aggregated in the computation of weighted average shares outstanding for basic and diluted EPS, which follows:

(In thousands)	2000	1999	1998
Average common shares outstanding for basic EPS	338,407	337,351	337,882

Dilutive effect of stock options and restricted stock	2,711	3,433	3,979
Shares for diluted EPS	341,118	340,784	341,861

Stock options to purchase 22.3 million, 12.5 million, and 6.7 million shares of common stock outstanding at December 31, 2000, 1999, and 1998, respectively, were not included in the computation of weighted average shares outstanding for diluted EPS because the stock options' exercise price was greater than the average market price of the Company's common stock during the year.

Note R: Subsequent Events

In January 2001, the Company sold its recreational marine business for $108 million.

Company Responsibility for Financial Statements

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

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

Upon recommendation of the Audit Committee, PricewaterhouseCoopers LLP, independent accountants, were selected by the Board of Directors to audit the Company's financial statements and their report follows.

/s/ Franklyn A. Caine	/s/ Daniel P. Burnham
Senior Vice President and Chief Financial Officer	Chairman and Chief Executive Officer

Report of Independent Accountants

To the Board of Directors and Stockholders of Raytheon Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Raytheon Company and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A to the financial statements, the Company adopted the American Institute of Certified Public Accountants Statement of Position 98-5, Reporting on the Costs of Start-Up Activities, in 1999.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
January 25, 2001, except for the information
in the second paragraph of Note B
as to which the date is March 2, 2001

EXHIBIT 21

Raytheon Company Organizational Chart

Raytheon Company

- Advanced Electronics Systems International — 100.000000% California
- Amber Engineering, Inc. — 100.000000% California
  - Thornwood Trust — 100.000000% Massachusetts
- Data Logic, Inc. — 100.000000% Delaware
- Electronica Nayarit, S.A. — 100.000000% Mexico
- EverythingAircraft LLC — 100.000000% Delaware
- HE Microwave LLC — 50.000000% Delaware
- HRL LLC — 50.000000% Delaware
  - Hughes Research Analytics, Inc. — 100.000000% Delaware
- Holwood Realty Company — 100.000000% Delaware
- Hughes (U.K.) Limited — 91.288720% England
  - Hughes Flight Training Limited — 99.000000% England
    - Groom Aviation Limited — 100.000000% England
  - Hughes Microelectronics Europa Limited — 100.000000% United Kingdom
  - Hughes Microelectronics Europa Limited — 100.000000% United Kingdom
  - Hughes Microelectronics Limited — 100.000000% United Kingdom
  - Raytheon Microelectronics Espana, S.A. — 99.999496% Spain
- Hughes Aircraft Systems International — 100.000000% California
  - Circuitos Binacionales de Tijuana S.A. de C.V. — 96.000000% Mexico
  - Hughes Europe N.V. — 0.100000% Belgium
- Hughes Airport Development Corporation Sdn Bhd — 100.000000% Malaysia
- Hughes Asia Pacific Hong Kong Limited — 0.100000% Hong Kong
- Hughes Australia International PTY Limited — 0.001667% Australia
- Hughes Defence Systems Limited — 100.000000% United Kingdom
- Hughes Espana S.A. — 99.999836% Spain
- Hughes Europe N.V. — 99.900000% Belgium
- Hughes International Corporation — 100.000000% Delaware
  - Circuitos Binacionales de Tijuana S.A. de C.V. — 4.000000% Mexico
  - Hughes (U.K.) Limited — 0.000005% England
    - Hughes Flight Training Limited — 99.000000% England
      - Groom Aviation Limited — 100.000000% England
    - Hughes Microelectronics Europa Limited — 100.000000% United Kingdom
    - Hughes Microelectronics Europa Limited — 100.000000% United Kingdom
    - Hughes Microelectronics Limited — 100.000000% United Kingdom
    - Raytheon Microelectronics Espana, S.A. — 99.999496% Spain
  - Hughes Asia Pacific Hong Kong Limited — 99.900000% Hong Kong
  - Hughes Australia International PTY Limited — 99.998333% Australia
  - MARCOS Vermogensverwaltung GmbH — 100.000000% Germany
    - Raytheon Training International GmbH — 100.000000% Germany
- Hughes Nadge Corporation — 100.000000% Delaware
- Hughes Simulation International, Inc. — 100.000000% California
- Hughes Systems Management International — 100.000000% California
- Hughes Training Italia Srl — 100.000000% Italy
- International Electronics Systems, Inc. — 100.000000% California
- Marshall Insurance Group, Ltd. — 100.000000% Bermuda
- NEWCS, Inc. — 100.000000% Delaware
- Patriot Overseas Support Company — 100.000000% Delaware
- RAYCOM, INC. — 51.000000% Korea
- Raytag Limited — 100.000000% Delaware
  - TAG Halbleiter GmbH — 100.000000% Germany
- Raytheon Advanced Systems Company — 100.000000% Delaware
- Raytheon Air Control Company — 100.000000% Delaware
- Raytheon Aircraft Holdings, Inc. — 100.000000% Delaware
  - Raytheon Aerospace Company — 100.000000% Kansas

Entity	Ownership	Jurisdiction
Raytheon Aerospace Support Services Company	100.000000%	Kansas
Raytheon Aircraft Charter & Managment, Inc.	100.000000%	Kansas
Raytheon Aircraft Company	100.000000%	Kansas
Arkansas Aerospace, Inc.	100.000000%	Arkansas
Raytheon Aircraft (Bermuda) Ltd.	100.000000%	Bermuda
Raytheon Aircraft Quality Support Company	100.000000%	Kansas
Raytheon Aircraft Credit Corporation	100.000000%	Kansas
Beech Aircraft Leasing, Inc.	100.000000%	Kansas
Beech Airliner Lease Corporation	100.000000%	Kansas
Beechcraft BB-209 Leasing, Inc.	100.000000%	Kansas
Beechcraft Lease Corporation	100.000000%	Kansas
Beechcraft Lease Special Purpose Company	100.000000%	Kansas
Beechcraft UC-131 Leasing, Inc.	100.000000%	Kansas
Beechcraft UC-134 Leasing, Inc.	100.000000%	Kansas
Beechcraft UC-163 Leasing, Inc.	100.000000%	Kansas
Beechcraft UC-58 Leasing, Inc.	100.000000%	Kansas
Beechcraft UC-74 Leasing, Inc.	100.000000%	Kansas
Beechcraft UE-106 Leasing, Inc.	100.000000%	Kansas
Beechcraft UE-305 Leasing, Inc.	100.000000%	Kansas
Beechcraft UE-307 Leasing, Inc.	100.000000%	Kansas
Beechcraft UE-308 Leasing, Inc.	100.000000%	Kansas
Beechcraft UE-311 Leasing, Inc.	100.000000%	Kansas
Beechcraft UE-322 Leasing, Inc.	100.000000%	Kansas
Beechcraft UE-331 Leasing, Inc.	100.000000%	Kansas
Beechcraft UE-348 Leasing, Inc.	100.000000%	Kansas
Beechcraft UE-349 Leasing, Inc.	100.000000%	Kansas
Beechcraft UE-50 Leasing, Inc.	100.000000%	Kansas
Beechcraft UE-54 Leasing, Inc.	100.000000%	Kansas
Franco-American Lease Corporation	100.000000%	Kansas
Franco-Kansas Lease Corporation	100.000000%	Kansas
International Lease Corporation	100.000000%	Kansas
Kansas Beechcraft Leasing, Inc.	100.000000%	Kansas
Raytheon Aircraft Credit Lease Corporation	100.000000%	Kansas
Raytheon Aircraft Credit Special Purpose Company	100.000000%	Kansas
Raytheon Aircraft Lease Corporation	100.000000%	Kansas
Raytheon Aircraft Lease Special Purpose Company	100.000000%	Kansas
Raytheon Aircraft Leasing, Inc.	100.000000%	Kansas
Raytheon Aircraft Receivables Corporation	100.000000%	Kansas
Raytheon Aircraft Special Purpose Company	100.000000%	Kansas
Raytheon Airliner Lease Corporation	100.000000%	Kansas
Raytheon-Kansas Lease Corporation	100.000000%	Kansas
UE-311 Leasing Corporation	100.000000%	Kansas
Raytheon Aircraft Parts Inventory & Distribution Company	100.000000%	Kansas
Raytheon Aircraft Regional Offices, Inc.	100.000000%	Kansas
Raytheon Aircraft Services, Inc.	100.000000%	Kansas
Raytheon Philippines, Inc.	99.980000%	Republic of the Philippines
Raytheon Travel Air Company	100.000000%	Kansas
Travel Air Insurance Company Ltd.	100.000000%	Kansas
Travel Air Insurance Company (Kansas)	100.000000%	Kansas
Raytheon Appliances Asia, Inc.	100.000000%	Delaware
Raytheon Brasil Sistemas De Integracao Ltda	99.999081%	Brazil
Raytheon Charitable Foundation	100.000000%	Massachusetts
Raytheon Commercial Ventures, Inc.	100.000000%	Delaware
Raytheon Corporate Operations, Washington Inc.	100.000000%	Delaware
Raytheon Credit Company	100.000000%	Delaware

- Raytheon Deutschland GmbH 100.000000% Germany
  - Raytheon Marine G.m.b.H. 100.000000% Germany
    - Anschutz Japan Co. Ltd. 80.000000% Japan
    - Arbeitsmedizinische Betreuungsgesellschaft Kieler Betriebe mbH 39.000000% Germany
- Raytheon E-Systems, Inc. 100.000000% Delaware
  - Constellation Communications, Inc. 31.900000% Delaware
  - E-Systems Technologies Holding, Inc. 100.000000% Delaware
    - E-Systems Technologies International, Inc. 100.000000% Virgin Islands
  - ESY Export Company, Inc. 100.000000% Delaware
  - Raytheon Australia Pty Ltd. 100.000000% Australia
  - Raytheon E-Systems Limited 100.000000% England
  - Space Imaging, Inc. 30.693069% Delaware
- Raytheon ESSM Co. 100.000000% California
- Raytheon Engineering and Maintenance Company 100.000000% Delaware
  - Raytheon Saudi Arabia Limited 35.000000% Saudi Arabia
- Raytheon Engineers & Constructors International, Inc. 100.000000% Delaware
  - RE&C Receivables Corporation 100.000000% Delaware
- Raytheon Espana Limited 100.000000% Delaware
- Raytheon Europe International Company 100.000000% Delaware
- Raytheon Europe Management Services Ltd. 100.000000% Delaware
- Raytheon European Management Co., Inc. 100.000000% Delaware
- Raytheon European Management and Systems Company 100.000000% Delaware
- Raytheon Exchange Holdings II, Inc. 100.000000% Delaware
- Raytheon Exchange Holdings III, Inc. 100.000000% Delaware
- Raytheon Exchange Holdings IV, Inc. 100.000000% Delaware
- Raytheon Exchange Holdings V, Inc. 100.000000% Delaware
- Raytheon Exchange Holdings, Inc. 100.000000% Delaware
- Raytheon Gulf Systems Company 100.000000% Delaware
- Raytheon Hanford, Inc. 100.000000% Delaware
- Raytheon Holding LLC 100.000000% Delaware
- Raytheon International Support Company 100.000000% Delaware
- Raytheon International Trade Ltd. 100.000000% Virgin Islands
- Raytheon International, Inc. 100.000000% Delaware
  - Raytheon Do Brasil Ltda. 99.980000% Sao Paolo
  - Raytheon International Korea, Inc. 100.000000% Korea
- Raytheon International, Mid-East Limited 100.000000% Delaware
- Raytheon Investment Company 100.000000% Delaware
- Raytheon Italy Liaison Company 100.000000% Delaware
- Raytheon Korean Support Company 100.000000% Delaware
- Raytheon Logistics Support & Training Company 100.000000% Delaware
- Raytheon Logistics Support Company 100.000000% Delaware
- Raytheon Marine Sales and Service Company 100.000000% Delaware
- Raytheon Mediterranean Systems Company 100.000000% Delaware
- Raytheon Middle East Systems Company 100.000000% Delaware
- Raytheon Mideast Systems Company 100.000000% Delaware
- Raytheon Overseas Limited 100.000000% Delaware
- Raytheon Pacific Company 100.000000% Delaware
- Raytheon Patriot Support Company 100.000000% Delaware
- Raytheon Peninsula Systems Company 100.000000% Delaware
- Raytheon Procurement Company, Inc. 100.000000% Delaware
  - Gesellschaft fuer Verteidgungs Systeme mbH 50.000000% Germany
  - Systems For Defense Company 50.000000% Delaware
- Raytheon Radar Ltd. 100.000000% Delaware
- Raytheon Receivables, Inc. 100.000000% Delaware
- Raytheon STI Company 100.000000% Delaware

- Raytheon Seismic Company — 100.000000% Delaware
- Raytheon Southeast Asia Systems Company — 100.000000% Delaware
- Raytheon Spanish Support Company — 100.000000% Delaware
- Raytheon Systems Canada Ltd. — 100.000000% Canada
  - Advanced Toll Managment Corp. — 100.000000% Canada
- Raytheon Systems Company LLC — 100.000000% Delaware
- Raytheon Systems Development Company — 100.000000% Delaware
- Raytheon Systems France S.A.R.L. — 99.500000% France
- Raytheon Systems International Company — 100.000000% Delaware
  - Raytheon Brasil Sistemas De Integracao Ltda — 0.000027% Brazil
- Raytheon Systems Support Company — 100.000000% Delaware
- Raytheon Technical Services Company — 100.000000% Delaware
  - Range Systems Engineering Company — 100.000000% Delaware
  - Range Systems Engineering Support Company — 100.000000% Delaware
  - Raytheon Canada Services Company Ltd. — 100.000000% Canada
  - Raytheon Professional Services LLC — 100.000000% Delaware
    - Shanghai Raytheon Professional Services Consulting Company Ltd. — 100.000000% Peoples Republic of China
  - Raytheon Services Company Puerto Rico — 100.000000% Delaware
  - Raytheon Support Services Company — 100.000000% Delaware
  - Raytheon Technical Services Guam, Inc. — 99.700000% Guam
  - Raytheon Technical Services International Company — 100.000000% Delaware
- Raytheon Technical and Administration Services Ltd. — 100.000000% Delaware
- Raytheon Technologies Incorporated — 100.000000% California
- Raytheon United Kingdom Limited — 100.000000% England
  - Computer Systems & Programming Limited — 100.000000% England
  - Data Logic Altergo, Ltd. — 100.000000% England
  - Data Logic Limited — 100.000000% England
  - Data Logic Properties Limited — 100.000000% England
  - Hallams (Electrical Contractors) Limited — 100.000000% England
  - Penmar & Company Ltd. — 100.000000% England
  - Raycab (North) Limited — 100.000000% England
  - Raycab (South) Limited — 100.000000% England
  - Raytheon Marine Europe Limited — 100.000000% England
  - Raytheon Systems Ltd. — 100.000000% England
    - Raytheon Aircraft Services Ltd. — 100.000000% England
    - Raytheon Computer Products Europe Limited — 99.000000% England
    - Raytheon TI Systems, Ltd. — 100.000000% England
  - Raytheon-Tag Components Limited — 100.000000% England
  - Square One Computer Services Limited — 100.000000% England
- Seismograph Service Corporation — 100.000000% Delaware
  - Seismograph Service France — 100.000000% France
- Subsidiary X Company — 100.000000% Delaware
- Switchcraft de Mexico S.A. de C.V. — 100.000000% Mexico
- Systems Building Corp. — 100.000000% Arizona
- Thoray Electronics Corporation — 50.000000% Delaware
- Translant, Inc. — 50.000000% Texas
- Tube Holding Company, Inc. — 100.000000% Connecticut
- Xyplex Foreign Sales Corporation, Inc. — 100.000000% Virgin Islands

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-82529; 33-59241; 333-27757 and 333-44321), Form S-4 (File Nos. 333-40646 and 333-78219) and Form S-8 (File Nos. 333-56117; 333-52536; 333-45629) of Raytheon Company of our report dated January 25, 2001, except for the information in the second paragraph on Note B as to which the date is March 2, 2001 relating to the consolidated financial statements, which appears in the 2000 Annual Report to Stockholders, which is included in Exhibit 13 on Form 10-K. We also consent to the incorporation by reference of our report dated January 25, 2001 relating to the financial statement schedule, which appears in Exhibit 13 in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Boston, Massachusetts
March 5, 2001

EXHIBIT 23.2

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Stockholders
of Raytheon Company:

Our audits of the consolidated financial statements referred to in our report dated January 25, 2001, except for the information in the second paragraph of Note B as to which the date is March 2, 2001, appearing in the 2000 Annual Report to Stockholders of Raytheon Company which report and consolidated financial statements are included in Exhibit 13 to Form 10-K also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Boston, Massachusetts
January 25, 2001