

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, 1997.

/ / 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 (I.R.S. Employer Identification No.)
Incorporation or Organization)

141 SPRING STREET, LEXINGTON, MASSACHUSETTS 02173
(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 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.

The aggregate market value of the voting stock held by non-affiliates of the Registrant, as of February 22, 1998, was approximately \$18,648,013,310. 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 February 22, 1998:
338,811,777, consisting of 102,630,503 shares of Class A Common Stock and
236,181,274 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, 1997 are incorporated by reference in Part I, Part II and Part IV.

Portions of the Proxy Statement for Raytheon's 1998 Annual Meeting which will be filed with the Commission within 120 days after the close of Raytheon's fiscal year, are incorporated by reference in Part III.

PART I

Item 1. Business

GENERAL

Raytheon Company ("Raytheon" or the "Company") is a global technology leader, with worldwide 1997 pro forma sales of more than \$20 billion. The Company provides products and services in the areas of defense and commercial electronics, engineering and construction, and business and special mission aircraft. Raytheon has operations throughout the United States and serves customers in more than 80 countries around the world.

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 and any year-to-year comparisons contained herein, 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. Former Raytheon's 1997 results of operations include less than two weeks' results relating to Hughes Defense (as defined below) after completion of the Hughes Merger.

RECENT DEVELOPMENTS

Acquisitions

On December 17, 1997, the predecessor to the Company completed the Hughes Merger. At the time of the Hughes Merger, the operations and assets of HE Holdings consisted of the defense business of Hughes Electronics Corporation ("Hughes Defense"), a supplier of advanced defense electronics systems and services, principally in naval systems; airborne and ground-based radars, ground-, air- and ship-launched missiles; tactical communications; electro-optical systems; complex information systems and training systems and services. Immediately following the Hughes Merger, the surviving corporation changed its name to Raytheon Company. The value of the transaction was \$9.5 billion (subject to post-closing adjustments), including approximately \$5.5 billion in equity in the form of Class A Common Stock distributed to the common stockholders of General Motors Corporation, the former parent of Hughes Defense, and approximately \$4.0 billion in debt. The proceeds of this indebtedness were contributed to an affiliate of Hughes Electronics Corporation prior to the Hughes Merger but the obligation remains with the Company.

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On July 11, 1997, the Company consummated the acquisition (the "TI Acquisition") of the defense systems and electronics business of Texas Instruments Incorporated ("TI Defense"), subject to post-closing adjustments. The businesses of TI Defense, a supplier of advanced defense systems, including tactical missiles, precision-guided weapons, radar, night vision systems and electronic warfare systems, were conducted through Raytheon TI Systems from July 11, 1997 through December 17, 1997 and are now conducted through Raytheon Systems Company.

Raytheon Systems Company

Simultaneously with the consummation of the Hughes Merger on December 17, 1997, Raytheon announced the creation of Raytheon Systems Company ("RSC") to integrate Raytheon's defense electronics businesses. RSC includes the business units of Raytheon formerly known as Raytheon Electronic Systems, Raytheon E-Systems and Raytheon TI Systems, along with Hughes Defense. RSC currently consists of the following five business units:

Defense Systems -- anti-tactical ballistic missile systems; air defense; air-to-air, surface-to air, and air-to-ground missiles, naval and maritime systems; ship self-defense systems; torpedoes, strike, interdiction and cruise missiles; and advanced munitions.

Sensors and Electronic Systems -- ground, shipboard and airborne fire control and surveillance systems; primary and secondary air traffic control radars; ground- and space-based electro-optic sensors; electronic warfare;

and GPS systems.

Command, Control and Communication Systems -- command, control and communications systems; air traffic control systems; tactical radios; satellite communication ground control terminals; wide area surveillance systems; advanced transportation systems; and simulators and simulation systems.

Intelligence, Information and Aircraft Integration Systems -- ground-based information processing systems; large scale information retrieval, processing and distribution systems; global broadcast systems; airborne surveillance and intelligence systems integration; aircraft modifications; and head-of-state aircraft systems.

Training and Services -- training services and integrated training programs; technical services; and logistics and support. In addition, in connection with the reorganization of Raytheon's defense electronics operations, a majority of the operations of Raytheon Service Company, formerly a unit of Raytheon Engineers & Constructors, is now part of RSC's Training and Services business unit. Raytheon Service Company provides operations, maintenance and technical services for many U.S. defense systems and agencies.

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Divestitures

On March 26, 1998, Raytheon announced that it had entered into an agreement to sell its electronic controls business (formerly part of its appliances segment) to EGO Group of Germany for approximately \$38 million. There can be no assurance that the sale will be consummated.

On February 23, 1998, Raytheon announced that it had entered into an agreement to sell its Commercial Laundry business for approximately \$358 million to a company organized by Bain Capital, Inc., and Raytheon Commercial Laundry management. There can be no assurance that the sale will be consummated.

On January 13, 1998, Raytheon sold the Monolithic Microwave Integrated Circuit operations of TI Defense to TriQuint Semiconductor, Inc., for approximately \$39 million.

On December 31, 1997, Raytheon completed the sale of Switchcraft, Inc., a manufacturer of switching and connection equipment, to a company organized by Cortec Group, Inc., and Switchcraft management for \$69 million. Also, on the same day, the Company completed the sale of Raytheon Semiconductor, Inc., a manufacturer of silicon semiconductor components, to Fairchild Semiconductor for \$120 million.

On September 10, 1997, Raytheon sold its home appliance, heating and air conditioning and commercial cooking businesses to Goodman Manufacturing Company, L.P. ("Goodman"). In connection with the sale of the home appliance, heating and air conditioning and commercial cooking businesses to Goodman, the results of Raytheon's remaining appliance businesses have been included in Raytheon's Electronics Segment under Commercial Electronics.

Raytheon is also in the process of selling portions of Hughes Defense's electro-optics business and portions of TI Defense's focal-plane array business in accordance with an agreement with the Department of Justice relating to the Hughes Merger.

Consolidations

On January 23, 1998, RSC announced several planned cost reduction measures. In addition to closing 20 facilities and partially closing six facilities over the next two years, RSC plans to reduce employment by approximately 10% -- or 8,700 jobs -- over the same time period. Also, 2,700 engineers will be reassigned to help fill technical positions. These steps will result in a planned reduction of facility space from 42 million square feet to 34 million square feet.

On January 23, 1998, Raytheon also announced a planned effort to reduce costs at RE&C to improve its competitive position. Raytheon expects to close or partially close 16 offices at RE&C in early 1998 and reduce RE&C's work force by approximately 1,000 positions. These actions come in response to RE&C's 1997 profit performance, which declined from 1996. The Company believes that

RE&C's results were adversely affected, in part, by a slowdown in some of RE&C's served global engineering and construction markets.

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SALES TO THE UNITED STATES GOVERNMENT

Sales to the United States Government (the "Government"), principally to the Department of Defense ("DOD"), were \$6.270 billion in 1997 and \$5.140 billion in 1996 representing 45.9% of total sales in 1997 and 41.7% in 1996. Of these sales, \$483 million in 1997 and \$502 million in 1996 represented purchases made by the Government on behalf of foreign governments.

BUSINESS SEGMENTS

Electronics

Defense Electronics. Raytheon's defense electronics businesses are engaged in the design, manufacture and service of advanced electronics devices, equipment and systems for both government and commercial customers. In addition to defense electronics systems, Raytheon has converted certain defense electronics technologies to commercial and non-defense applications such as air traffic control, environmental monitoring and communications. Raytheon's defense electronics businesses are now conducted through RSC. See "Recent Developments - -- Raytheon Systems Company." However, during 1997, Raytheon's defense electronics businesses were conducted through Raytheon Electronic Systems, Raytheon E-Systems and, from July 11, Raytheon TI Systems.

Raytheon Electronic Systems. Raytheon Electronic Systems ("RES") produces missile and air defense systems. RES 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., seven foreign 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 billion in foreign orders for Patriot equipment and services. In addition, RES is the prime contractor for the Hawk ground-launched missile, which is owned by 18 allied nations in addition to the U.S.

RES develops ground-based phased-array radars, including the Ground-Based Radar (GBR) for the Theater High Altitude Area Defense (THAAD) system, the U.S. Army's newest Theater Missile Defense Program.

RES 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 the prime contractor for the U.S. Army's Enhanced Fiber Optic Guided Missile (EFOGM) demonstration program, which will provide rapidly deployable, lethal and highly survivable technologies to the U.S. early entry forces.

The prime contractor for the NATO Sea-Sparrow Surface to Air Missile System (NSSMS), RES also produces the air and surface launched versions of the Sparrow missile for both the U.S. and foreign Navies.

RES produces a variety of shipboard radar systems. Nearly every U.S. Navy ship carries at least one Raytheon radar/fire control system. An international variant is operational in Japan and an order was received during 1997 adding Spain to the list of users.

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RES develops sonars, combat control systems and minehunting equipment for submarines and ships in U.S. and allied fleets, in addition to designing unmanned underwater vehicles and laser sensors. RES is part of a team under contract to design, develop, integrate and test the command, control, communications and intelligence (C3I) sonar, combat control and architecture subsystems for the U.S., Navy's next-generation attack submarine the New Attack Submarine or NSSN.

RES builds military communications systems and also a family of extended environment (E2) COTS computers and workstations.

Raytheon E-Systems, Inc. Acquired in May 1995, Raytheon E-Systems specializes in intelligence, reconnaissance and surveillance systems; command and control; specialized aircraft maintenance and modification; guidance, navigation and control, communications and data systems. During 1996, the aircraft modification and defense electronics businesses of Chrysler

Technologies were added to Raytheon E-Systems.

Raytheon E-Systems' core business is focused on intelligence, reconnaissance and surveillance. Many of these programs are classified, involving the development or upgrading of sensors, platforms, ground processing for and integration of complex systems. Raytheon E-Systems develops software for highly complex information systems. Raytheon E-Systems is also involved in the application of advanced high performance supercomputer systems.

An example of Raytheon's capabilities in the area of advanced information integration is the U.S. Navy's Cooperative Engagement Capability ("CEC") program. CEC provides the capability to integrate theater sensors and weapon systems ships, aircraft and land-based installations into an integrated air picture. The system has now successfully completed more than seven years of comprehensive at-sea testing, including several live fire tests and is now facing the challenges of integration into the fleet.

Raytheon E-Systems designs and builds advanced electronic countermeasures systems to protect U.S. and allied ships and planes against enemy strikes. Raytheon E-Systems also has capabilities in large scale image processing and advanced signal processing.

Raytheon TI Systems, Inc. On July 11, 1997, the Company consummated the TI Acquisition. The businesses of TI Defense, a supplier of advanced defense systems, including tactical missiles, precision-guided weapons, radar, night vision systems and electronic warfare systems, were conducted through Raytheon TI Systems ("RTIS") from July 11, 1997 through year-end and are now conducted through Raytheon Systems Company. RTIS applies advanced technologies such as image processing, microprocessing and sensors to meet the needs of the defense community.

RTIS' missile business is focused in the air-to-ground weapons market, primarily with the High Speed Anti-Radar Missile (HARM), Paveway laser-guided bombs and the Joint Stand Off Weapon (JSOW) missile. Other RTIS missile products include the JAVELIN and the Extended Range Guided Munition (ERGM) programs. RTIS, as the prime contractor and lead in a 60/40 joint venture with Lockheed Martin Corporation, manufactures the JAVELIN man-portable medium anti-tank weapon system.

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RTIS produces electro-optic systems including Forward Looking Infrared (FLIR) night vision systems, infrared sensors and lasers and infrared fire-control systems. Numerous RTIS FLIR systems are in use throughout the world in aircraft, aboard ships, on combat vehicles and on man-portable applications.

RTIS is developing and producing terrain following/terrain avoidance radar systems for military aircraft. In a joint venture with Northrop Grumman Corporation, RTIS is also producing the next generation airborne radar for the F-22 aircraft. RTIS also develops and produces ocean search and surveillance radar and magnetic anomaly detection systems for carrier- and land-based fixed-wing aircraft and helicopters. These radars are designed for missions requiring periscope detection, long-range surface surveillance, target tracking and imaging/target classification.

Commercial Initiatives within Defense Electronics. In addition to defense electronics systems, Raytheon has converted certain defense electronics technologies to commercial and non-defense applications such as air traffic control, environmental monitoring and communications.

During 1997, the contract for the Brazilian System for the Vigilance of the Amazon ("SIVAM"), won in international competition by Raytheon, became effective and work formally commenced. The SIVAM project calls for the delivery of an integrated information network linking numerous sensors to regional and national coordination centers. Information will be used 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.

Raytheon designs and installs air traffic control ("ATC") and weather systems at airports worldwide. Some of the countries Raytheon is providing ATC systems and radars for include The Netherlands, India, Norway, Switzerland, Australia, Germany, Oman, Hong Kong, Jamaica, Cyprus, China, and Taiwan. In September 1996, a team led by Raytheon won the FAA/DOD Standard Terminal

Automation Replacement System (STARS) program, which is potentially worth \$1 billion and will modernize and upgrade approximately 370 air traffic control sites across the United States.

Raytheon's Terminal Doppler Weather Radar ("TDWR") system is being installed at 42 sites across the U.S. and Puerto Rico. The first international installation of Raytheon's TDWR system is planned for the new Hong Kong airport in 1998. TDWR uses Doppler radar technology to warn air traffic controllers of sudden wind shifts, such as microbursts, which have been blamed for numerous aircraft accidents, particularly during takeoff or landing.

Commercial Electronics. Raytheon's commercial electronics businesses produce, among other things, marine radars and other marine electronics, transmit/receive modules for satellite communications projects, and other electronic components for a wide range of applications.

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Raytheon Marine supplies marine radars, depth sounders, radiotelephones, autopilots, fish finders, ECDIS and navigation aids, GPS and Loran receivers and other marine electronics under the Raytheon, Apelco and Autohelm labels in the U.S. and abroad. Raytheon Anschutz GmbH, located in Kiel, Germany, manufactures gyro compasses, autopilots, steering control systems, and integrated bridge systems for the commercial and military marine market.

In microelectronics and components Raytheon is developing the Main Mission Antenna transceiver systems for the IRIDIUM global satellite communications project, which is designed to provide voice, paging, data, facsimile and location services anywhere on Earth. The antenna systems use Raytheon Microelectronics' gallium arsenide monolithic microwave integrated circuit ("MMIC") technology. Raytheon is also using its MMIC technology to develop direct broadcast satellite television receivers, wireless local area networks and next-generation digital cellular phones.

Since the sale of its home appliance, heating and air conditioning and commercial cooking businesses to Goodman on September 10, 1997, the Company's remaining appliance businesses have been included within Commercial Electronics. Raytheon's commercial laundry business manufactures laundry equipment under the Speed Queen, UniMac and Huebsh brand names for sale into the coin store, multi-housing and on-premise laundry markets. On February 23, 1998 Raytheon announced that it had entered into an agreement to sell its commercial laundry business to Bain Capital, Inc. and Raytheon Commercial Laundry management. On March 26, 1998, Raytheon announced that it had entered into an agreement to sell its electronic controls business to EGO Group of Europe. See "Item 1. Business, Recent Developments--Divestitures."

Aircraft

Raytheon Aircraft offers one of the broadest product lines in the general aviation market. Raytheon Aircraft manufactures, markets and supports piston-powered aircraft, jet props and light and medium 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 jetprop series introduced in 1964 - includes the Beech King Air's C90, B200 and 350. The jet line includes the Beechjet 400A and the Hawker 800XP (Extended Performance) midsize business jet. Raytheon Aircraft is the leading producer of 19-passenger regional airliners, selling the Beech 1900D stand-up cabin aircraft to commuter airlines and corporate customers. In September 1995, Raytheon Aircraft announced a new light business jet, the Raytheon Premier I. In November 1996, Raytheon Aircraft announced a new super midsize business jet, the Hawker Horizon.

The segment supplies aircraft training systems for the military, 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 (JPATS) contract. Deliveries are scheduled to begin in 1998. Raytheon Aircraft also produced the U.S. Air Force's T-1A trainer, the military counterpart of the Beechjet 400A light jet, a C-12 militarized version of the King Air B200 and the U-125 search-and-rescue variant of the Hawker 800. The T-1A Jayhawk contract was completed in 1997. Raytheon Aircraft also produces two missile target drones for U.S. and allied forces.

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Raytheon Aerospace manages more than 1,500 aircraft at over 120 sites around the world and provides contractor logistics and training support for military and other government aircraft and missile target systems. Raytheon Aircraft Services operates a network of business aviation service operations at airports across the U.S.

Raytheon Travel Air, established in 1997, 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 200.

Engineering and Construction

Raytheon Engineers & Constructors ("RE&C") is one of the largest engineering and construction firms in the United States, serving markets throughout the world. Its markets include: fossil and nuclear power; petroleum and gas; polymers and chemicals; pharmaceuticals and biotechnology; metals, mining, and light industry; pulp and paper; food and consumer products; environmental services, including chemical munitions destruction; infrastructure and transportation. RE&C also retains a portion of the operations of Raytheon Service Company, the majority of which have been transferred to RSC. See "Recent Developments--Raytheon Systems Company."

RE&C undertakes some engineering and construction projects on a firm fixed price basis ("lump sum turnkey") and as a result benefits from cost savings and carries the burden of cost overruns.

Financial information about Operations by Business Segments and Operations by Geographic Areas is contained in Note O to Raytheon's Financial Statements for the years ended December 31, 1997, 1996 and 1995 and is incorporated herein by reference.

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.

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Generally, Government contracts are subject to oversight audits by Government representatives and 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, 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 in 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, travel costs in excess of government rates 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 the contract 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. 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 80% of costs incurred under the contract. 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 employment practices, the protection of the environment, the accuracy of records and the recording of costs.

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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.

As a result of the 1985 Balanced Budget and Emergency Deficit Reduction Control Act, the federal deficit and changing world order conditions, DOD budgets have been subject to increasing pressure resulting in an uncertainty as to the future effects of DOD budget cuts. Raytheon has, nonetheless, maintained a solid foundation of tactical defense systems which meets the needs of the United States and its allies, while serving a broad government program base and wide range of commercial electronics businesses. These factors lead management to believe that there is high probability of continuation of Raytheon's current major tactical defense programs.

See "Item I. Business -- 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, 1997 was \$21.250 billion compared with \$12.066 billion at the end of 1996. The 1997 amount includes funded backlog of \$12.547 billion from the Government compared with \$5.637 billion at the end of 1996. Normally, the Government funds its major programs only to the dollar level appropriated annually by Congress, even though the total estimated program values are considerably greater. Accordingly, the Company's Government funded backlog represents only that amount which has been appropriated and against which the Company can be reimbursed for work performed.

Approximately \$2.527 billion of the overall backlog figure represents the unperformed portion of multi-year direct orders from foreign governments. Approximately \$2.091 billion of the overall backlog represents non-government foreign backlog.

Backlog in the Engineering and Construction segment was \$3.239 billion

at the end of 1997 compared with \$3.565 billion at the end of 1996. Design and construction contracts in this segment typically take from eighteen months to several years to perform.

Aircraft segment backlog was \$1.709 billion at the end of 1997 versus \$1.163 billion at the end of 1996. The increase was primarily due to the receipt of orders for commercial aircraft including King Air, Premier I and Horizon.

Approximately \$7.148 billion of the \$21.250 billion 1997 year-end backlog is not expected to be filled during the following twelve months.

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RESEARCH AND DEVELOPMENT

During 1997, Raytheon derived net sales of \$2.115 billion (\$1.496 billion in 1996 and \$982 million in 1995) pursuant to Government contracts for research and development. In addition, during 1997 Raytheon expended \$415.1 million on research and development efforts compared with \$323.3 million in 1996 and \$315.6 million in 1995. These expenditures principally have been for product development for the Government and for aircraft products.

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. See Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 49 through 53 of the Company's Annual Report to Stockholders for the year ended December 31, 1997 for information regarding the "Year 2000" issue as it relates to the the Company and the Company's suppliers.

COMPETITION

The military and commercial industries in which Raytheon operates are highly competitive. Raytheon's competitors range from highly resourceful small concerns, which engineer and produce specialized items, to large, diversified firms.

The Electronics segment is a direct participant 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 principal competitive factors considered by electronics customers. Most of the largest defense contractors in the United States are competitors in the Electronics segment.

In the Engineering and Construction segment it is estimated that about 15 firms compete for major business opportunities worldwide. Competition is based primarily upon technical superiority, project experience and price. The ability to arrange or otherwise provide financing to customers is sometimes significant in attracting or retaining clients.

Competition in the Aircraft segment comes from a number of domestic and foreign jet, turboprop and piston aircraft manufacturers. Principal elements of competition in the industry are price, financing, operating costs, reliability, cabin size and comfort, product quality, speed and service support.

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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 number of United States and foreign patents and patent applications as well as trademark, copyright and chip mask work registrations which are necessary and 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.

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 affect on the Company's operations.

EMPLOYMENT

As of December 31, 1997, Raytheon had approximately 119,150 employees compared with approximately 75,300 employees at the end of 1996. The increase is primarily due to the Hughes Merger and the TI Acquisition, partially offset by the sales of the Company's home appliance, heating and air conditioning and commercial cooking businesses, Raytheon Semiconductor and Switchcraft. See "Part I, Recent Developments -- Acquisitions -- Divestitures." Subsidiaries of Raytheon Engineers & Constructors International, Inc. and certain other subsidiaries have craft employees engaged for individual projects not included in Raytheon's employee count.

Raytheon considers its union-management relationships to be satisfactory. Raytheon has, for the most part, successfully negotiated labor agreements without significant work stoppages, with the exception of a nine week strike that occurred during the summer of 1996 at the Cedar Rapids, Inc. facility located in Cedar Rapids, Iowa. Raytheon currently has collective bargaining relationships with 13 different labor organizations involving 39 separate labor agreements.

FOREIGN SALES

Of total sales, Raytheon's sales to customers outside the United States were 29%, 28% and 28% in 1997, 1996 and 1995, respectively. These sales were principally in the fields of air defense systems, air traffic control systems, sonar systems, aircraft products, petrochemical, power and industrial plant design and construction, 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.

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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.

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 (formerly the Foreign Military Sales Act) for export from the United States of many of Raytheon's products. In the case of certain sales of defense equipment and services to foreign governments, the Government's Executive Branch must notify Congress at least 15 to 30 days (depending on the location of the sale) prior to authorizing such sales. During that time, Congress may take action to block the proposed sale.

FACTORS THAT COULD AFFECT FUTURE RESULTS -- FORWARD LOOKING STATEMENTS

Statements in this filing which are not historical facts are forward looking statements under the provisions of the Private Securities Litigation Reform Act of 1995. All forward looking statements involve risks and uncertainties. The Company wishes to caution readers that the following important factors, among others, in some cases have affected, and in the future could affect, the Company's actual results and could cause its actual results in fiscal 1998 and beyond to differ materially from those expressed in any forward looking statements made by, or on behalf of, the Company.

Important factors that could cause actual results to differ materially include but are not limited to (i) the effect of global economic conditions, (ii) the success of and investment in new product development, (iii) product demand and market acceptance, (iv) the timing of new business awards, (v) the

introduction of competing products or technologies by competitors, (vi) the successful conversion of defense products and technology to commercially viable products, (vii) the ability to protect proprietary information and technology or to obtain necessary licenses on commercially reasonable terms, (viii) the ability to obtain and retain skilled workers, (ix) the ability to obtain and maintain a strong supplier base and the capacity to meet product demand, (x) the trade policies of foreign governments and (xi) competitive pressures and other risks identified below by business segment.

Electronics Segment. In the domestic defense electronics segment, important factors that could cause actual results to differ materially include, in addition to those factors described in the preceding paragraph, (i) the uncertainties surrounding Congressional appropriations and/or Department of Defense funding, (ii) contract provisions for price determination, profit and cost controls and limitations and audit, (iii) the ability of government customers to terminate existing contracts, wholly or partially, for their own convenience with a requirement to pay only for work performed or committed with a reasonable allowance for profit, (iv) advanced design problems and associated technological difficulties with the potential for cost overruns, (v) changes in procurement policies, (vi) the changing needs for and changes in the type of weapon systems to be procured, (vii) political developments domestically and internationally and (viii) changes in the competitive landscape due to the consolidation of the U.S. or global defense industry.

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With respect to the international defense electronics market, important factors that could cause actual results to differ materially include, in addition to those noted above, (i) delays in placing orders, (ii) the ability of foreign customers to finance purchases, (iii) uncertainties and restrictions concerning the availability of funding credit or guarantees, (iv) changing military and political alliances, (v) U.S. or foreign export controls and trade restrictions, (vi) government policies with respect to restrictions on doing business with certain countries, (vii) governmental industrial cooperation requirements, (viii) foreign exchange risks, (ix) increased international competition, (x) the adequacy and availability of transportation, (xi) the complexity and necessity of using foreign representatives and consultants and (xii) the uncertainty of complying with the laws of specific countries and of U.S. laws affecting the activities of U.S. companies abroad.

In the commercial electronics segment, important factors that may cause actual results to differ materially include, in addition to those noted above, (i) product demand, including continued expansion of the satellite telecommunications and telecommunications systems markets, (ii) consumer spending patterns affecting recreational boat sales and favorable economic conditions for commercial marine product sales, (iii) consumer demand for PC's and audio entertainment components and (iv) the successful introduction of new products, including the multiple Wireless LAN Systems.

Engineering and Construction Segment. In the engineering and construction segment, important factors that could cause actual results to differ materially include, in addition to those noted above, (i) the effects of global, regional and country specific economic conditions due to international backlog, (ii) performance risks for existing and future contracts, (iii) conditions in the capital markets and the availability of project financing, (iv) international political conditions, (v) the timing of contract receipt and funding and (vi) the ability of the Company to successfully implement its consolidation and cost reduction plans for RE&C.

Aircraft Segment. In the aircraft segment, important factors that could cause actual results to differ materially include, in addition to those noted above, (i) market perceptions of and government regulations affecting regional aircraft, (ii) price pressures within the market, (iii) the ability to meet scheduled timetables for the introduction of new products, (iv) delays in U.S. Government export approvals and (v) third party financing availability.

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Integration of TI Defense and Hughes Defense. The Company believes that the creation of Raytheon Systems Company will facilitate the Company's ability to integrate the TI Defense and Hughes Defense businesses. However, the Company may encounter difficulties or may not realize the full benefits expected from such integration. The success of Raytheon Systems Company will require, among other things, integration of the TI Defense and Hughes Defense organizations, business infrastructure and products with those of Former

Raytheon in a way that enhances the performance of the combined businesses. The challenges posed by these transactions include the integration of numerous geographically separated manufacturing facilities and research and development centers. The success of this transition to an integrated entity will be significantly influenced by the Company's ability to retain key employees, to integrate differing management structures and to realize anticipated cost synergies, all of which will require significant management time and resources. Any material delays or unexpected costs incurred in connection with such integration could have a material adverse effect on the Company's business, operating results or financial condition.

In order to mitigate these risks, over the past year, teams drawn from Raytheon E-Systems, Raytheon Electronic Systems, Hughes Defense and TI Defense developed a comprehensive architecture for consolidating and organizing the new RSC. Ultimately, hundreds of employees contributed. These teams reviewed every operation, and their recommendations were made to a Management Transition Committee and a Defense Business Executive Council, both of which included Raytheon, Hughes Defense, and TI Defense management. The goal was to break through the boundaries of the four separate defense businesses.

As a result, the Company believes that it has removed cultural barriers by eliminating the former structures of Raytheon Electronic Systems, Raytheon E-Systems, Raytheon TI Systems, and Hughes Defense, and created five new business segments within RSC - Defense Systems; Sensors and Electronic Systems; Command, Control and Communication Systems; Intelligence, Information and Aircraft Integration Systems; and Training and Services. Each of these segments is made up of elements of the four former businesses and is focused and organized along product and service lines.

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, 1997, the Company utilized approximately 56.2 million square feet of floor space in manufacturing, engineering, research, administrative, sales and warehouses, approximately 97% of which was located in the United States. Of such total, approximately 48% was owned, approximately 49% was leased and approximately 3% was made available under facilities contracts for use in the performance of United States Government contracts. At December 31, 1997 the Company had approximately 2.6 million square feet of additional floor space that was not in use, including approximately 2.5 million square feet in Company-owned facilities.

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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.

A summary of the utilized floor space at December 31, 1997, by business segment, follows:

(in square feet with 000's omitted)

	Leased	Owned	Government Owned	TOTAL
Electronics	20,925	21,282	1,939	44,146
Engineering & Construction	3,131	1,242	119	4,492
Aircraft	3,221	4,027	0	7,248
Corporate (includes international sales offices)	134	235	0	369
	-----	-----	-----	-----
TOTAL	27,411	26,786	2,058	56,255

See "Part I, Item 3 -- Legal Proceedings," and Management's Discussion and Analysis of Financial Condition and Results of Operations on pages -- through -- of the Company's Annual Report to Stockholders for the year ended December 31, 1997 for information regarding the effect of compliance with environmental protection requirements and the resolution of environmental claims against the Company and its operations.

Item 3. Legal Proceedings

Prior to the Hughes Merger, the business of Hughes Defense was conducted by Hughes Aircraft Company ("HAC"), an indirect subsidiary of Hughes Electronics Corporation. Since 1985, several actions seeking compensatory and punitive damages in unspecified amounts have been filed against HAC by plaintiffs alleging that they suffered injuries as a result of the migration of alleged toxic substances into the Tucson, Arizona, water supply. These substances were disposed of at a facility owned by the United States Government which HAC operated and Raytheon now leases under a contract with the U.S. Air Force.

In 1991, HAC settled with the approximately 2,000 plaintiffs in one of these cases, Valenzuela v. Hughes Aircraft Company, for \$84.5 million. HAC's primary and excess insurance carriers contributed approximately \$71 million toward the Valenzuela settlement and HAC contributed approximately \$13 million. Subsequently, several of HAC's insurance carriers have sought or are seeking reimbursement of the amounts they paid. Certain of these actions have been settled or dismissed without prejudice, pending resolution of other related toxic tort actions and exhaustion of HAC's primary insurance coverage. If the insurers that have not settled with HAC prevail in the insurance coverage litigation, the Company may ultimately bear responsibility for a substantial portion of the Valenzuela settlement.

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Several other actions arising out of migration of alleged toxic substances into the Tucson water supply are still pending, including:

1. Cordova v. Hughes Aircraft Company, et al., which was filed by an estimated 90,000 member class against HAC, McDonnell Douglas Corporation, General Dynamics Corporation and the Tucson Airport Authority as co-defendants. The court denied class certification in 1996. Fewer than 200 property damage and injury claims (with associated loss of consortium claims) remain.
2. Yslava v. Hughes Aircraft Company, an action filed by approximately 800 individual plaintiffs, alleging injury claims (with associated loss of consortium claims). HAC filed third party claims against McDonnell Douglas Corporation, General Dynamics Corporation, the Tucson Airport Authority and the City of Tucson.
3. Lanier v. Hughes Aircraft Company, et al., a class action seeking medical monitoring for an estimated class of 50,000 residents from the south side of Tucson.

The Company is vigorously defending these actions, and believes both that it has strong defenses to the claims asserted against it and that it has claims for contribution against other entities. In addition, the Company has obtained state and federal court decisions requiring its insurers to pay defense costs in these actions. Although the Company believes that it has good bases for seeking indemnity coverage from its carriers, it cannot reasonably estimate what, if any, coverage may, in fact, be available.

The Company is also involved in various stages of investigation and cleanup relative to remediation of various other 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.

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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. (See Note L to Raytheon's Financial Statements for the years ended December 31, 1997, 1996 and 1995.)

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.

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.

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

In December 1997, the stockholders of Former Raytheon, acting by written consent, approved the Hughes Merger. As of December 17, 1997, Former Raytheon's transfer agent received and recorded unrevoked written consents from the holders of 181,734,841 shares of Former Raytheon common stock broken out as follows: Consent - 180,053,579, Withhold - 929,227, Abstain - 752,053.

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.

Gail P. Anderson: Senior Vice President - Human Resources since January 1998. Prior to assuming his present position Mr. Anderson was Vice President - Human Resources from December 1994 and Vice President - Human Resources, Phillips Petroleum Company from 1986. Age: 56

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Shay D. Assad: Senior Vice President - Contracts since January 1998. Prior to assuming his present position Mr. Assad was Vice President - Contracts from July 1994 and Manager-Contracts, Missile Systems Division from 1985. Age: 47

Renso L. Caporali: Senior Vice President Engineering and Business Development since January 1997. Prior to assuming his present position Mr. Caporali was Senior Vice President - Government and Commercial Marketing since April 1995 and Chairman and Chief Executive Officer of the Grumman Corporation from 1991. Age: 64

Philip W. Cheney: Vice President and Group Executive - Commercial Electronics since July 1994. Prior to assuming his present position Dr. Cheney was Vice President - Engineering from February 1990. Age: 62

Kenneth H. Colburn: Vice President - Project and International Finance since January 1995. Prior to assuming his present position Mr. Colburn was Managing Director-Investment Banking Department-East Coast Group, CS First Boston Corporation from January 1991. Age: 46

Kenneth C. Dahlberg: Executive Vice President and President and Chief Operating Officer of Raytheon Systems Company since December 1997. Prior to assuming his present position Mr. Dahlberg was Senior Vice President of Hughes

Aircraft Company from September, 1994 and Vice President of Hughes Electronics Corporation from May, 1993. Age: 53

Peter R. D'Angelo: Executive Vice President and Chief Financial Officer since March 1995. Prior to assuming his present position Mr. D'Angelo was Executive Vice President, Chief Financial Officer and Controller since March 1995; Vice President, Chief Financial Officer and Controller from January 1995; Vice President and Corporate Controller from 1992 and Controller - Missile Systems Division from 1984. Age: 59

Herbert Deitcher: Senior Vice President - Treasurer since November 1989. Age: 64

David S. Dwelley: Vice President - Strategic Business Development since April 1991. Prior to assuming his present position Mr. Dwelley was Vice President and President of Raytheon Europe Limited from 1989. Age: 58

Michele C. Heid: Vice President - Corporate Controller and Investor Relations since April 1997. Prior to assuming her present position Ms. Heid was Vice President - Investor Relations since September 1995; Vice President - Investor Relations & Strategic Planning, Cummins Engine Company from 1993 and Vice President - Investor Relations, Cummins Engine Company from 1991. Age: 43

Christoph L. Hoffmann: Executive Vice President - Law, Corporate Administration, and Secretary since March 1995. Prior to assuming his present position Mr. Hoffmann was Senior Vice President - Law, Human Resources and Corporate Administration, and Secretary from February 1994; Vice President, Secretary and General Counsel from July 1991, Vice President from April 1991 and Senior Vice President, General Counsel and Secretary of Pneumo Abex Corporation from 1986. Age: 53

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Thomas D. Hyde: Senior Vice President and General Counsel since January 1998. Prior to assuming his present position Mr. Hyde was Vice President and General Counsel since February 1994; Assistant General Counsel from August 1992; Senior Vice President, General Counsel and Chief Financial Officer of MNC Financial Inc. Special Assets Bank from 1991; and Vice President, Finance of Manville Sales Corporation from 1988. Age: 49

James L. Infinger: Vice President - 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: 40

Robert S. McWade: Vice President - Corporate Affairs and Communications since January 1997. Prior to assuming his present position Mr. McWade was Vice President - Corporate Affairs since February 1996; Director, Corporate Communications, Textron, Inc. from September 1994; and Director, Corporate Relations, Bank of Boston from 1988. Age: 41

Charles Q. Miller: Executive Vice President and Chairman and Chief Executive Officer of Raytheon Engineers & Constructors International, Inc. since March 1995. Prior to assuming his present position Mr. Miller was Senior Vice President and Group Executive and Chairman and Chief Executive Officer of Raytheon Engineers & Constructors International, Inc. from March 1993; and President, United Engineers & Constructors, Inc. from 1990. Age: 52

Dennis J. Picard: Director since 1989 and Chairman and Chief Executive Officer since March 1991. Prior to assuming his present position Mr. Picard was President from 1989. Age: 65

Robert A. Skelly: Vice President - Assistant to the Executive Office. Prior to assuming his present position Mr. Skelly was Vice President - Administration, Environmental Quality and Procurement from September 1992 and Vice President - Public and Financial Relations from January 1991. Age: 55

William H. Swanson: Executive Vice President and Chief Executive Officer of Raytheon Systems Company since December 1997. Prior to assuming his present position Mr. Swanson was Executive Vice President and General Manager - Raytheon Electronic Systems Division since March 1995; Senior Vice President and General Manager - Missile Systems Division from 1990. Age: 49

John C. Weaver: Executive Vice President, Business Development and Engineering since December 1997. Prior to assuming his present position Mr.

Weaver was President and Chief Operating Officer of Hughes Aircraft Company from 1990. Age: 64

Arthur E. Wegner: Executive Vice President and Chairman and Chief Executive Officer of Raytheon Aircraft Company since March 1995. Prior to assuming his present position Mr. Wegner was Senior Vice President and Chairman and Chief Executive Officer of Raytheon Aircraft from July 1993 and Executive Vice President and President of the Aerospace/Defense Sector of United Technologies Corporation from 1989. Age: 60

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PART II

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

The information required by this Item 5 is contained in Note P to Raytheon's Financial Statements for the years ended December 31, 1997, 1996 and 1995 and is incorporated herein by reference.

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, 1997 on page 54 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, 1997 on pages 49 through 53 and is incorporated herein by reference.

Item 8. Financial Statements and Supplemental 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, 1997 on page and pages through , 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 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 May 27, 1998 under the captions "The Board of Directors and Certain of its 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 May 27, 1998 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.

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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 May 27, 1998 under the caption "Security 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 May 27, 1998 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 1997 Annual Report to Stockholders, are hereby incorporated by reference:

Balance Sheets at December 31, 1997 and 1996

Statements of Income for the Years Ended
December 31, 1997, 1996 and 1995

Statements of Stockholders' Equity for the Years Ended
December 31, 1997, 1996 and 1995

Statements of Cash Flows for the Years Ended
December 31, 1997, 1996 and 1995

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

Schedule II, Reserves for the Three Years Ended
December 31, 1997

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

During the first quarter of 1998, the Company made the following filings on Form 8-K:

(1) Raytheon Company Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 1998.

(2) Raytheon Company Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 1998.

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(c) Exhibits

- 2.1 Asset Purchase Agreement dated as of January 4, 1997 between Raytheon Company and Texas Instruments Incorporated, heretofore filed as an exhibit to Former Raytheon's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 6, 1997, is hereby incorporated by reference.
- 2.2 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.
- 2.3 Implementation Agreement dated as of January 16, 1997 by and between Raytheon Company and General Motors Corporation, 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.
- 2.4 Hughes Spin-Off Separation Agreement dated as of December 17, 1997 by and between HE Holdings, Inc. and General Motors

Corporation filed as an exhibit to the Company's Registration Statement on Form S-3, File No. 333-44321, is hereby incorporated by reference.

- 3.1 Raytheon Company Restated Certificate of Incorporation, restated as of February 11, 1998.*
- 3.2 Raytheon Company Amended and Restated By-Laws, as amended through January 28, 1998.*
- 4.1 Indenture dated as of July 3, 1995 between Raytheon Company and The Bank of New York, Trustee, filed as an exhibit to Former Raytheon's Registration Statement on Form S-3, File No. 33-59241, is hereby incorporated by reference.
- 4.2 Supplemental Indenture dated as of December 17, 1997 between Raytheon Company and The Bank of New York, Trustee.*
- 4.3 Rights Agreement dated as of December 15, 1997 between the Company and State Street Bank and Trust Company, as Rights Agent, filed as an exhibit to the Company's Registration Statement on Form 8-A, File No. 1-13699, is hereby incorporated by reference.
- 10.1 Raytheon Company 1976 Stock Option Plan, as amended, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.
- 10.2 Raytheon Company 1991 Stock Plan, as amended, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.

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- 10.3 Raytheon Company 1995 Stock Option Plan, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.
- 10.4 Plan for Granting Stock Options in Substitution for Stock Options Granted by Texas Instruments Incorporated, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.
- 10.5 Plan for Granting Stock Options in Substitution for Stock Options Granted by Hughes Electronics Corporation, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.
- 10.6 Raytheon Company 1997 Nonemployee Directors Restricted Stock Plan, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.
- 10.7 Raytheon Company Deferral Plan for Directors, filed as an exhibit to Former Raytheon's Registration Statement on Form S-8, File No. 333-22969, is hereby incorporated by reference.
- 10.8 Form of Raytheon Company Change in Control Severance Agreement, filed as an exhibit to Former Raytheon's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, is hereby incorporated by reference. The Company has entered into Change in Control Severance Agreements in the form of Agreement filed as Exhibit 10.8 with each of the following executives: Peter R. D'Angelo, Christoph L. Hoffmann, Charles Q. Miller, Dennis J. Picard, William H. Swanson and Arthur E. Wegner. The agreements are designed to provide the executive with certain severance benefits following a termination, all as more fully described in the form of Agreement. The Company has also entered into Change in Control Severance Agreements in the form of Agreement filed as Exhibit 10.8 with nineteen other executives, but which are immaterial to the Company. The agreements are designed to provide the executive with certain severance benefits following a termination, all as more fully described in the form of Agreement.

10.9 Restricted Unit Award Agreement between the Company and Dennis J. Picard, filed as an exhibit to Former Raytheon's Quarterly Report on Form 10-Q for the quarter ended June 29, 1997, is hereby incorporated by reference.

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10.10 Form of HE Holdings, Inc. Executive Change in Control Severance Agreement, filed as an exhibit to the Company's Registration Statement on Form S-4, File No. 333-37223, is incorporated herein by reference. HE Holdings has entered into Executive Change in Control Severance Agreements in the form of Agreement filed as Exhibit 10.10 with each of the following executives: John C. Weaver, Barry L. Abrahams, Kenneth C. Dahlberg, Gerald H. Putman, George E. Speake, William C. Bowes, Louise L. Francesconi, Robert L. Horowitz, John T. Kuelbs, Charles A. Leader, David L. McPherson, Charles S. Ream, Terry Snyder, Donald R. Infante, Frederick C. McNutt, David P. Molfenter and Jack O. Pearson. Such agreements are designed to provide the executive with certain payments if still employed by the Company at the end of the second and third years after the Spin-Off Merger Effective Time, all as more fully described in the form of Agreement.

10.11 Form of HE Holdings Executive Retention Agreement, filed as an exhibit to the Company's Registration Statement on Form S-4, File No. 333-37223, is incorporated herein by reference. HE Holdings has entered into Executive Retention Agreements in the form of Agreement filed as Exhibit 10.11 with each of the following executives: John C. Weaver, Barry L. Abrahams, Kenneth C. Dahlberg, Gerald H. Putman, George E. Speake, William C. Bowes, Louise L. Francesconi, Robert L. Horowitz, John T. Kuelbs, Charles A. Leader, David L. McPherson, Charles S. Ream, Terry Snyder, Donald R. Infante, Frederick C. McNutt, David P. Molfenter and Jack O. Pearson. Such agreements are designed to provide the executive with certain payments if still employed by the Company at the end of the second and third years after the Spin-Off Merger Effective Time, all as more fully described in the form of Agreement.

10.12 Form of HE Holdings, Inc. Executive Retention Agreement (filed as an exhibit to the Company's Registration Statement on Form S-4, File No. 333-37223, is incorporated herein by reference. HE Holdings has entered into Executive Retention Agreements in the form of Agreement filed as Exhibit 10.12 with 86 other of its executives. The agreements are designed to provide the executive with certain payments if still employed by the Company at the end of the first and second years after the GM Spin-Off Merger Effective Time, all as more fully described in the form of Agreement.

10.13 Raytheon Company \$4 billion Credit Facility -- Five Year Competitive Advance and Revolving Credit Facility, filed as an exhibit to Former Raytheon's Quarterly Report on Form 10-Q for the quarter ended March 30, 1997, is hereby incorporated by reference.

10.14 Raytheon Company \$3 billion Credit Facility -- 364-day Competitive Advance and Revolving Credit Facility, filed as an exhibit to Former Raytheon's Quarterly Report on Form 10-Q for the quarter ended March 30, 1997, is hereby incorporated by reference.

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10.15 HE Holdings, Inc. \$3 billion Credit Facility -- Five Year Competitive Advance and Revolving Credit Facility, filed as an exhibit to the Company's Registration Statement on Form S-4, File No. 333-37223, is hereby incorporated by reference.

10.16 HE Holdings, Inc. \$2 billion Credit Facility -- 364-day Competitive Advance and Revolving Credit Facility, filed as an exhibit to the Company's Registration Statement on Form S-4, File No. 333-37223, is hereby incorporated by reference.

- 13 Raytheon Company 1997 Annual Report to Stockholders (furnished for the information of the Commission and not to be deemed "filed" as part of this Report except to the extent that portions thereof are expressly incorporated herein by reference)*
- 21 Subsidiaries of Raytheon Company.*
- 23.1 Consent of Independent Accountants.*
- 23.2 Report of Independent Accountants.*
- 24 Powers of Attorney.*
- 27 Financial Data Schedule.*

* 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/ Christoph L. Hoffmann
 Christoph L. Hoffmann
 Executive Vice President and Secretary
 for the Registrant

Dated: March 25, 1998

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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
Dennis J. Picard (Dennis J. Picard)	Chairman of the Board and Director (Principal Executive Officer)	March 25, 1998
Ferdinand Colloredo-Mansfeld (Ferdinand Colloredo-Mansfeld)	Director	March 25, 1998
Steven D. Dorfman (Steven D. Dorfman)	Director	March 25, 1998
Thomas E. Everhart (Thomas E. Everhart)	Director	March 25, 1998
Theodore L. Eliot, Jr. (Theodore L. Eliot, Jr.)	Director	March 25, 1998
John R. Galvin (John R. Galvin)	Director	March 25, 1998
Barbara B. Hauptfuhrer (Barbara B. Hauptfuhrer)	Director	March 25, 1998
Richard D. Hill (Richard D. Hill)	Director	March 25, 1998
L. Dennis Kozlowski (L. Dennis Kozlowski)	Director	March 25, 1998
James N. Land, Jr. (James N. Land, Jr.)	Director	March 25, 1998
A. Lowell Lawson (A. Lowell Lawson)	Director	March 25, 1998

Charles H. Noski (Charles H. Noski)	Director	March 25, 1998
Thomas L. Phillips (Thomas L. Phillips)	Director	March 25, 1998
Warren B. Rudman (Warren B. Rudman)	Director	March 25, 1998
(Alfred M. Zeien)	Director	
Peter R. D'Angelo (Peter R. D'Angelo)	Executive Vice President - Chief Financial Officer	March 25, 1998
Michele C. Heid (Michele C. Heid)	Vice President - Corporate Controller and Investor Relations (Chief Accounting Officer)	March 25, 1998

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RAYTHEON COMPANY AND SUBSIDIARIES CONSOLIDATED

SCHEDULE II - RESERVES
FOR THE THREE YEARS ENDED DECEMBER 31, 1997

(In thousands)

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Additions Deductions Note (1)	Balance at end of period
Year ended December 31, 1997:					
Allowance for doubtful accounts receivable	\$20,260	\$7,122	-	\$5,619	\$21,763
Year ended December 31, 1996:					
Allowance for doubtful accounts receivable	\$22,043	\$1,207	-	\$2,990	\$20,260
Year ended December 31, 1995:					
Allowance for doubtful accounts receivable	\$21,290	\$3,078	-	\$2,325	\$22,043

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

EXHIBIT LIST

- 2.1 Asset Purchase Agreement dated as of January 4, 1997 between Raytheon Company and Texas Instruments Incorporated, heretfore filed as an exhibit to Former Raytheon's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 6, 1997, is hereby incorporated by reference.
- 2.2 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.
- 2.3 Implementation Agreement dated as of January 16, 1997 by and between Raytheon Company and General Motors Corporation, 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.
- 2.4 Hughes Spin-Off Separation Agreement dated as of December 17, 1997 by and between HE Holdings, Inc. and General Motors Corporation filed as an exhibit to the Company's Registration Statement on Form S-3, File No. 333-44321, is hereby incorporated by reference.
- 3.1 Raytheon Company Restated Certificate of Incorporation, restated as of February 11, 1998.*
- 3.2 Raytheon Company Amended and Restated By-Laws, as amended through January 28, 1998.*
- 4.1 Indenture dated as of July 3, 1995 between Raytheon Company and The Bank of New York, Trustee, filed as an exhibit to Former Raytheon's Registration Statement on Form S-3, File No. 33-59241, is hereby incorporated by reference.
- 4.2 Supplemental Indenture dated as of December 17, 1997 between Raytheon Company and The Bank of New York, Trustee.*
- 4.3 Rights Agreement dated as of December 15, 1997 between the Company and State Street Bank and Trust Company, as Rights Agent, filed as an exhibit to the Company's Registration Statement on Form 8-A, File No. 1-13699, is hereby incorporated by reference.
- 10.1 Raytheon Company 1976 Stock Option Plan, as amended, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.

- 10.2 Raytheon Company 1991 Stock Plan, as amended, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.
- 10.3 Raytheon Company 1995 Stock Option Plan, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.
- 10.4 Plan for Granting Stock Options in Substitution for Stock Options Granted by Texas Instruments Incorporated, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.
- 10.5 Plan for Granting Stock Options in Substitution for Stock Options Granted by Hughes Electronics Corporation, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.

- 10.6 Raytheon Company 1997 Nonemployee Directors Restricted Stock Plan, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.
- 10.7 Raytheon Company Deferral Plan for Directors, filed as an exhibit to Former Raytheon's Registration Statement on Form S-8, File No. 333-22969, is hereby incorporated by reference.
- 10.8 Form of Raytheon Company Change in Control Severance Agreement, filed as an exhibit to Former Raytheon's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, is hereby incorporated by reference. The Company has entered into Change in Control Severance Agreements in the form of Agreement filed as Exhibit 10.8 with each of the following executives: Peter R. D'Angelo, Christoph L. Hoffmann, Charles Q. Miller, Dennis J. Picard, William H. Swanson and Arthur E. Wegner. The agreements are designed to provide the executive with certain severance benefits following a termination, all as more fully described in the form of Agreement. The Company has also entered into Change in Control Severance Agreements in the form of Agreement filed as Exhibit 10.8 with nineteen other executives, but which are immaterial to the Company. The agreements are designed to provide the executive with certain severance benefits following a termination, all as more fully described in the form of Agreement.
- 10.9 Restricted Unit Award Agreement between the Company and Dennis J. Picard, filed as an exhibit to Former Raytheon's Quarterly Report on Form 10-Q for the quarter ended June 29, 1997, is hereby incorporated by reference.

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- 10.10 Form of HE Holdings, Inc. Executive Change in Control Severance Agreement, filed as an exhibit to the Company's Registration Statement on Form S-4, File No. 333-37223, is incorporated herein by reference. HE Holdings has entered into Executive Change in Control Severance Agreements in the form of Agreement filed as Exhibit 10.10 with each of the following executives: John C. Weaver, Barry L. Abrahams, Kenneth C. Dahlberg, Gerald H. Putman, George E. Speake, William C. Bowes, Louise L. Francesconi, Robert L. Horowitz, John T. Kuelbs, Charles A. Leader, David L. McPherson, Charles S. Ream, Terry Snyder, Donald R. Infante, Frederick C. McNutt, David P. Molfenter and Jack O. Pearson. Such agreements are designed to provide the executive with certain payments if still employed by the Company at the end of the second and third years after the Spin-Off Merger Effective Time, all as more fully described in the form of Agreement.
- 10.11 Form of HE Holdings Executive Retention Agreement, filed as an exhibit to the Company's Registration Statement on Form S-4, File No. 333-37223, is incorporated herein by reference. HE Holdings has entered into Executive Retention Agreements in the form of Agreement filed as Exhibit 10.11 with each of the following executives: John C. Weaver, Barry L. Abrahams, Kenneth C. Dahlberg, Gerald H. Putman, George E. Speake, William C. Bowes, Louise L. Francesconi, Robert L. Horowitz, John T. Kuelbs, Charles A. Leader, David L. McPherson, Charles S. Ream, Terry Snyder, Donald R. Infante, Frederick C. McNutt, David P. Molfenter and Jack O. Pearson. Such agreements are designed to provide the executive with certain payments if still employed by the Company at the end of the second and third years after the Spin-Off Merger Effective Time, all as more fully described in the form of Agreement.
- 10.12 Form of HE Holdings, Inc. Executive Retention Agreement (filed as an exhibit to the Company's Registration Statement on Form S-4, File No. 333-37223, is incorporated herein by reference. HE Holdings has entered into Executive Retention Agreements in the form of Agreement filed as Exhibit 10.12 with 86 other of its executives. The agreements are designed to provide the executive with certain payments if still employed by the Company at the end of the first and second years after the GM

Spin-Off Merger Effective Time, all as more fully described in the form of Agreement.

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- 10.13 Raytheon Company \$4 billion Credit Facility -- Five Year Competitive Advance and Revolving Credit Facility, filed as an exhibit to Former Raytheon's Quarterly Report on Form 10-Q for the quarter ended March 30, 1997, is hereby incorporated by reference.
- 10.14 Raytheon Company \$3 billion Credit Facility -- 364-day Competitive Advance and Revolving Credit Facility, filed as an exhibit to Former Raytheon's Quarterly Report on Form 10-Q for the quarter ended March 30, 1997, is hereby incorporated by reference.
- 10.15 HE Holdings, Inc. \$3 billion Credit Facility -- Five Year Competitive Advance and Revolving Credit Facility, filed as an exhibit to the Company's Registration Statement on Form S-4, File No. 333-37223, is hereby incorporated by reference.
- 10.16 HE Holdings, Inc. \$2 billion Credit Facility -- 364-day Competitive Advance and Revolving Credit Facility, filed as an exhibit to the Company's Registration Statement on Form S-4, File No. 333-37223, is hereby incorporated by reference.
- 13 Raytheon Company 1997 Annual Report to Stockholders (furnished for the information of the Commission and not to be deemed "filed" as part of this Report except to the extent that portions thereof are expressly incorporated herein by reference)*
- 21 Subsidiaries of Raytheon Company.*
- 23.1 Consent of Independent Accountants.*
- 23.2 Report of Independent Accountants.*
- 24 Powers of Attorney.*
- 27 Financial Data Schedule.*

* Filed electronically herewith.

EXHIBIT 3.1

RESTATED CERTIFICATE OF INCORPORATION
OF
RAYTHEON COMPANY

Raytheon Company (the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware, does hereby state as follows:

1. The present name of the Corporation is Raytheon Company. The Corporation was originally incorporated under the name "Hughes Aircraft Company" and its original Certificate of Incorporation was filed with the Secretary of State on December 17, 1953.

2. This Restated Certificate of Incorporation was duly adopted by the Board of Directors of the Corporation in accordance with the provisions of Section 245 of the Delaware General Corporation Law.

3. This Restated Certificate of Incorporation only restates and integrates the provisions of the Corporation's Certificate of Incorporation and does not further amend the provisions of the Corporation's Certificate of Incorporation as heretofore amended or supplemented, and there is no discrepancy between those provisions and the provisions of this Restated Certificate.

Article I.
Name

The name of the corporation (which is hereinafter referred to as the "Corporation") is: "Raytheon Company"

Article II.
Registered Agent

The address of the Corporation's registered office in the State of Delaware is The Corporation Trust Center, 1209 Orange Street in the City of Wilmington, County of New Castle. The name of the Corporation's registered agent at such address is The Corporation Trust Company.

Article III.
Purpose

The purpose of the Corporation shall be to engage in any lawful act or activity for which corporations may be organized and incorporated under the General Corporation Law of the State of Delaware (the "DGCL").

Article IV.
Capital Stock

Section 1. The Corporation is authorized to issue 1,650,000,000 shares of capital stock of which (a) 1,450,000,000 shares shall be shares of Common Stock \$.01 par value per share ("Common Stock"), and which shares of Common Stock shall be divided into two classes, 450,000,000 shares of Common Stock shall be shares of Class A Common Stock ("Class A Common Stock") and 1,000,000,000 shares of Common Stock shall be shares of Class B Common Stock ("Class B Common Stock"), and (b) 200,000,000 shares shall be shares of Preferred Stock \$.01 par value per share ("Preferred Stock").

Section 2. Common Stock.

(a) Until the time that any shares of Class B Common Stock are first issued, the powers, preferences and rights, and the qualifications, limitations and restrictions of the Common Stock are as follows:

(i) Voting Rights. Except as otherwise required by law, the holders of Class A Common Stock will be entitled to one vote per share on all matters to be voted on by the Corporation's stockholders.

(ii) Dividends. The holders of Class A Common Stock will be entitled to dividends if, when and as declared by the Corporation's board of directors,

out of funds legally available therefor, whether payable in cash, property or securities of the Corporation.

(b) From and after the time that any shares of Class B Common Stock are first issued, the powers, preferences and rights, and the qualifications, limitations and restrictions of the Common Stock are as follows:

(i) Voting. The voting rights of the holders of record of shares of Class A Common Stock and Class B Common Stock on the relevant record date for each annual or special meeting of stockholders of the Corporation shall be as set forth below:

(A) With respect to the election or removal of directors (x) the holders of record of shares of Class B Common Stock shall be entitled to one (1) vote for each share of Class B Common Stock standing in each such person's name on the stock transfer records of the Corporation, which votes shall represent in the aggregate 19.9% of the total voting power of all holders of Common Stock entitled to vote thereon, and (y) the holders of record of shares of Class A Common Stock shall be entitled to such number of votes for each share of Class A Common Stock standing in each such person's name on the stock transfer records of the Corporation as shall be necessary to entitle the holders of all shares of Class A Common Stock to vote, in the aggregate, 80.1% of the total voting power of all holders of Common Stock entitled to vote thereon. Promptly following the fixing of a record date for each annual or special meeting of stockholders at which directors are to be elected or a vote with respect to removal is to be taken, the Board of Directors of the Corporation (the "Board") shall determine the number of votes per share of Class A Common Stock that each holder of record of Class A Common Stock shall be entitled to cast to implement the foregoing. The determination of such number of votes by the Board shall be final and shall be set forth in the notice of such meeting of stockholders delivered to the holders of Common Stock.

(B) With respect to all matters on which holders of Common Stock shall be entitled to vote other than the election or removal of directors, each share of Class A Common Stock and each share of Class B Common Stock shall be entitled to cast one (1) vote per share, and the approval of any such matter shall require the affirmative vote of the holders of the shares of Class A Common Stock and the shares of Class B Common Stock outstanding at the relevant record date, with each class voting separately, in each case acting by such vote as would be required under applicable law were such class of Common Stock the only class of Common Stock of the Corporation then outstanding (or by such greater vote than would be required under applicable law as may be set forth herein or in the By-Laws of the Corporation), as well as the approval of the holders of any class or series of Preferred Stock which may be entitled to vote thereon.

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(ii) Dividends. Subject to the rights of the holders of any class or series of outstanding Preferred Stock and subject to any other provisions hereof and applicable law, holders of shares of Class A Common Stock and holders of shares of Class B Common Stock shall be entitled to receive such dividends and other distributions in cash, stock or property of the Corporation as may be declared thereon by the Board from time to time out of assets or funds of the Corporation legally available therefor; provided that if a dividend or other distribution on any Common Stock is declared or paid by the Corporation (which declaration and payment shall be solely in the discretion of the Board), including, but not limited to, dividends or other distributions payable in cash, Common Stock or options or warrants to purchase Common Stock or securities exchangeable for or convertible into Common Stock or other securities or property of the Corporation, such dividend or other distribution shall be declared and paid to the holders of Class A Common Stock and Class B Common Stock and the holders of shares of Class A Common Stock and the holders of shares of Class B Common Stock shall be entitled to receive the same amount per share of any such dividends and other distributions in cash, securities or property of the Corporation (and with respect to dividends or distributions not in cash, in the same form); provided, however, that nothing in this Article IV shall prevent the declaration of a dividend or other distribution of shares of Class A Common Stock to holders of Class A Common Stock and shares of Class B Common Stock to holders of Class B Common Stock so long as, immediately following such dividend or other distribution, the number of shares of Class A Common Stock and Class B Common Stock then outstanding bears the same relationship to each other as did the number of shares of Class A Common Stock and Class B Common Stock outstanding immediately prior to such dividend or other distribution.

(iii) Split, Subdivision or Combination. In the case of any split, sub-division, combination or reclassification of Class A Common Stock or Class B Common Stock, the shares of Class B Common Stock or Class A Common Stock as the case may be, shall also be split, subdivided, combined or reclassified so that the number of shares of Class A Common Stock and Class B Common Stock outstanding immediately following such split, subdivision, combination or reclassification shall bear the same relationship to each other as did the number of shares of Class A Common Stock and Class B Common Stock outstanding immediately prior to such split, subdivision, combination or reclassification.

(iv) Liquidation, Dissolution, Mergers, etc. In the event of any liquidation, dissolution or winding up (either voluntary or involuntary) of the Corporation, the holders of Class A Common Stock and the holders of Class B Common Stock shall be entitled to receive the assets and funds of the Corporation available for distribution, after payments to creditors and to the holders of any Preferred Stock of the Corporation that may at the time be outstanding, in proportion to the number of shares held by them, respectively, without regard to class. In the event of any corporate merger, consolidation, purchase or acquisition of property or stock or other reorganization in which any consideration is to be received by the holders of Class A Common Stock or the holders of Class B Common Stock, the holders of Class A Common Stock and the holders of Class B Common Stock shall receive the same type and amount of consideration on a per share basis.

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(v) Repurchases, etc. The Corporation shall not directly or indirectly redeem, purchase, repurchase or otherwise acquire for consideration (including, without limitation, by directly or indirectly assisting or supporting any other person or entity in any direct or indirect redemption, purchase, repurchase or other acquisition for consideration), and shall not directly or indirectly in any other fashion agree to, facilitate, condone or support in any way or manner whatsoever any direct or indirect redemption, purchase, repurchase or other acquisition for consideration by any person or entity of, any shares of Common Stock unless such redemption, purchase, repurchase or other acquisition is effected ratably in accordance with the number of outstanding shares of Class A Common Stock and Class B Common Stock, is for consideration of the same type and amount as to shares of Class A Common Stock and shares of Class B Common Stock, and is not in any other way prejudicial to the rights of the holders of one class of Common Stock in favor of the other class of Common Stock; provided, however, that in the case of an offer to purchase shares of Common Stock by the Corporation made to all holders of Common Stock, the Corporation shall purchase shares of Common Stock ratably in accordance with the number of shares of each class of Common Stock tendered thereunder.

(vi) Rights Otherwise Identical. Except as expressly set forth herein, the rights of the holders of Class A Common Stock and the rights of the holders of Class B Common Stock shall be in all respects and for all purposes and in all circumstances absolutely and completely identical and the Corporation shall not in any other manner directly or indirectly take any other action or in any other fashion agree to, facilitate, condone or support any transaction in which the holders of the Class A Common Stock and the Class B Common Stock are subject to discriminatory or unequal treatment.

Section 3. Preferred Stock. The Preferred Stock may be issued from time to time in one or more series. The Board is hereby authorized to provide by resolution from time to time for the issuance of shares of Preferred Stock in series and, by filing a certificate pursuant to the DGCL (hereinafter referred to as a "Preferred Stock Designation"), to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, privileges, preferences and rights of the shares of each such series and the qualifications, limitations and restrictions thereof. The authority of the Board with respect to each series shall include, but not be limited to, determination of the following:

(a) the designation of the series, which may be by distinguishing number, letter or title;

(b) the number of shares of the series, which number the Board may thereafter (except where otherwise provided in the Preferred Stock Designation) increase or decrease (but not below the number of shares thereof then outstanding);

(c) whether dividends, if any, shall be cumulative or noncumulative, and, in the case of shares of any series having cumulative dividend rights, the

date or dates or method of determining the date or dates from which dividends on the shares of such series shall be cumulative;

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(d) the rate of any dividends (or method of determining such dividends) payable to the holders of the shares of such series, any conditions upon which such dividends shall be paid and the date or dates or the method of determining the date or dates upon which such dividends shall be payable;

(e) the price or prices (or method of determining such price or prices) at which, the form of payment of such price or prices (which may be cash, property or rights, including securities of the same or another corporation or other entity) for which, the period or periods within which and the terms and conditions upon which the shares of such series may be redeemed, in whole or in part, at the option of the Corporation or at the option of the holder or holders thereof or upon the happening of a specified event or events, if any;

(f) the obligation, if any, of the Corporation to purchase or redeem shares of such series pursuant to a sinking fund or otherwise and the price or prices at which, the form of payment of such price or prices (which may be cash, property or rights, including securities of the same or another corporation or other entity) for which, the period or periods within which and the terms and conditions upon which the shares of such series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

(g) the amount payable out of the assets of the Corporation to the holders of shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation;

(h) provisions, if any, for the conversion or exchange of the shares of such series, at any time or times at the option of the holder or holders thereof or at the option of the Corporation or upon the happening of a specified event or events, into shares of any other class or classes or any other series of the same or any other class or classes of stock, or any other security, of the Corporation, or any other corporation or other entity, and the price or prices or rate or rates of conversion or exchange and any adjustments applicable thereto, and all other terms and conditions upon which such conversion or exchange may be made;

(i) restrictions on the issuance of shares of the same series or of any other class or series, if any; and

(j) the voting rights, if any, of the holders of shares of the series.

Section 4. Series A Junior Participating Preferred Stock. The Board hereby authorizes the issuance of the Series A Junior Participating Preferred Stock as follows:

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(a) Designation and Amount. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" (the "Series A Preferred Stock") and the number of shares constituting the Series A Preferred Stock shall be 4,000,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series A Preferred Stock.

(b) Dividends and Distributions.

(i) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock, in preference to the holders of shares of Class A Common Stock and Class B Common Stock of the Corporation, and of any other junior stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment

Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock in an amount per share (rounded to the nearest cent) equal to the greater of (A) \$1 or (B) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (B) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

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(ii) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph (i) of this subsection immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$1 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(iii) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

(c) Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(i) Subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(ii) Except as otherwise provided herein, in any other Certificate of Designations creating a series of Preferred Stock or any similar stock or by

law, the holders of shares of Series A Preferred Stock and the holders of shares of Class B Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

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(iii) Except as set forth herein, or as otherwise provided by law, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

(d) Certain Restrictions.

(i) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 4(b) are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(A) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(B) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(C) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(D) redeem or purchase or otherwise acquire for consideration any shares of Series A Preferred Stock or any shares of stock ranking on a parity with the Series A Preferred Stock except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(ii) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (i) of this Section 4(d), purchase or otherwise acquire such shares at such time and in such manner.

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(e) Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth herein, in the Certificate of Incorporation, or in any other Certificate of Designations creating a series of Preferred Stock or any similar stock or as otherwise required by law.

(f) Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received \$100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series A Preferred Stock shall be

entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of shares of Common Stock or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock except distributions made ratably on the Series A Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(g) Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, other than the merger of Raytheon Company with and into the Corporation, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount of stock securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

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(h) No Redemption. The shares of Series A Preferred Stock shall not be redeemable.

(i) Rank. The Series A Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets, junior to all series of any other class of the Corporation's Preferred Stock.

(j) Amendment. The Certificate of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock voting together as a single class.

Section 5. General. The Common Stock shall be subject to the express terms of the Preferred Stock and any series thereof. Except as otherwise provided by law or by the resolution or resolutions adopted by the Board designating the rights, powers and preferences of any series of Preferred Stock the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes, and holders of Preferred Stock shall not be entitled to receive notice of any meeting of stockholders at which they are not entitled to vote. The Corporation shall be entitled to treat the person in whose name any share of its stock is registered as the owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the Corporation shall have notice thereof, except as expressly provided by applicable law.

Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders. Except as otherwise required by law and subject to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, special meetings of stockholders of the Corporation for any purpose or purposes may be called only by the Board pursuant to a resolution stating the purpose or purposes thereof approved by a majority of the total number of directors which the Corporation would have if there were no vacancies (the "Whole Board") or by the Chairman of the Board and any power of stockholders to call a special meeting is specifically denied. No business other than that stated in the notice shall be transacted at any special meeting.

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Article VI.
Board of Directors

Section 1. Number, election and terms. The number of directors of the Corporation shall be, except as otherwise fixed by or pursuant to the provisions of Article IV relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, fixed from time to time exclusively pursuant to a resolution adopted by a majority of the Whole Board (but shall not be less than three). The directors, other than those who may be elected by the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, one class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1998, another class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1999, and another class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 2000, with each director to hold office until such person's successor is duly elected and qualified. At each succeeding annual meeting of stockholders, directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election, with each director to hold office until such person's successor shall have been duly elected and qualified.

Section 2. Stockholder nomination of director candidates; Stockholder Proposal of Business. Advance notice of stockholder nominations for the election of directors and of the proposal of business by stockholders shall be given in the manner provided in the By-Laws of the Corporation, as amended and in effect from time to time.

Section 3. Newly created directorships and vacancies. Except as otherwise provided for or fixed by or pursuant to the provisions of Article IV relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, (i) newly created directorships resulting from any vacancies on the Board resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board, and not by the stockholders and (ii) newly created directorships resulting from any increase in the number of directors after the adoption of a resolution by a majority of the Whole Board in accordance with Section 1 of this Article VI shall be filled by the affirmative vote of the holders of Common Stock, voting in accordance with the provisions of Section 2(a) (i) of Article IV regarding election of directors at the next succeeding annual or special meeting of stockholders. Any director appointed in accordance with clause (i) of the preceding sentence shall hold office until the next annual or special meeting of stockholders and until such director's successor shall have been duly elected and qualified. Any director elected in accordance with clause (ii) of the preceding sentence shall hold office for the remainder of the full term of the class of director in which the new directorship was created and until such director's successor shall have been duly elected and qualified. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.

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Section 4. Removal. Subject to the rights of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, any director may

be removed from office only for cause by the affirmative vote of the holders of the shares of Common Stock, voting together as a single class in the same manner and with the same votes per share as provided in Section 2(a)(i) of Article IV with respect to the election of directors (i.e. with the holders of Class A Common Stock having 80.1% of the total voting power to remove directors and the number of votes per share necessary to achieve such voting power determined by the Board).

Article VII.
By-Laws

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

Article VIII.
Amendment of Certificate of Incorporation

The Corporation reserves the right at any time from time to time to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, and any other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and, except as set forth in Article X all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article.

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Article IX.
Corporate Action

In addition to any other considerations which the Board may lawfully take into account, in determining whether to take or to refrain from taking corporate action on any matter, including making or declining to make any recommendation to the stockholders of the Corporation, the Board may in its discretion consider the long-term as well as short-term best interests of the Corporation (including the possibility that these interests may be best served by the continued independence of the Corporation), taking into account, and weighing as the directors deem appropriate, the effects of such action on employees, suppliers and customers of the Corporation and its subsidiaries and the effect upon communities in which offices or other facilities of the Corporation are located, and any other factors the directors consider pertinent.

Article X.
Limited Liability; Indemnification

Section 1. Limited Liability of Directors. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL as the same exists or may hereafter be amended. Neither the amendment nor repeal of Section 1 of this Article X shall eliminate or reduce the effect of Section 1 of this Article X in respect of any matter occurring, or any cause of action, suit or claim that, but for Section 1 of this Article X would accrue or arise, prior to such amendment or repeal.

Section 2. Indemnification and Insurance.

(a) Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that such person, or a person of whom such person is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action

in an official capacity as a director or officer or in any other capacity while serving as a director or officer shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the DGCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, to the fullest extent permitted by law, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgment, fines, amounts paid or to be paid in settlement, and excise taxes or penalties arising under the Employee Retirement Income Security Act of 1974, as in effect from time to time) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director or

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officer, and shall inure to the benefit of such person's heirs, executors and administrators; provided, however, that, except as provided in paragraph (b) of this Section, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board. The right to indemnification conferred in this Section shall be a contract right and shall include the right to have the Corporation pay the expenses incurred in defending any such proceeding in advance of its final disposition; any advance payments to be paid by the Corporation within 20 calendar days after the receipt by the Corporation of a statement or statements from the claimant requesting such advance or advances from time to time; provided, however, that, if and to the extent the DGCL requires, the payment of such expenses incurred by a director or officer in such person's capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section or otherwise. The Corporation may, to the extent authorized from time to time by the Board, grant rights to indemnification, and rights to have the Corporation pay the expenses incurred in defending any proceeding in advance of its final disposition, to any employee or agent of the Corporation to the fullest extent of the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

(b) Right of Claimant to Bring Suit. If a claim under paragraph (a) of this Section is not paid in full by the Corporation within 30 calendar days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standard of conduct which makes it permissible under the DGCL for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because the claimant has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by the Corporation (including its Board, independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

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(c) Non-Exclusivity of Rights. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Section shall not be exclusive of any other right which any person (including, without limitation, any person other than an officer or director of the Corporation) may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, By-Laws, agreement, vote of stockholders or disinterested directors or otherwise. No repeal or modification of this Article shall in any way diminish or adversely affect the rights of any director or officer of the Corporation hereunder in respect of any

occurrence or matter arising prior to any such repeal or modification.

(d) Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the DGCL.

(e) Severability. If any provision or provisions of this Article X shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (1) the validity, legality and enforceability of the remaining provisions of this Article X (including, without limitation, each portion of any paragraph of this Article X containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (2) to the fullest extent possible, the provisions of this Article X (including, without limitation, each such portion of any paragraph of this Article X containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

IN WITNESS WHEREOF, the Corporation has caused this Restated Certificate of Incorporation to be duly executed this 11th day of February, 1998.

RAYTHEON COMPANY

By: /s/ Thomas D. Hyde
Thomas D. Hyde
Senior Vice President and
General Counsel

AMENDED AND RESTATED BY-LAWS

OF

RAYTHEON COMPANY

(As of January 28, 1998)

Incorporated under the Laws of the State of Delaware

ARTICLE I

Offices and Records

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

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

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

ARTICLE II

Stockholders

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

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

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

Section 2.4. Notice of Meeting. Written or printed notice stating (i) the place, day and hour of the meeting, (ii) with respect to a meeting to elect or remove directors, the number of votes per share of Class A Common Stock that record holders of Class A Common Stock will have at such meeting (as such number is determined in accordance with Section 2(a)(i) or 2(b)(i) of Article IV of the Amended and Restated Certificate of Incorporation of the Corporation (the "Certificate of Incorporation"), as the case may be), and (iii) the purpose or purposes for which the meeting is called, shall be delivered by the Corporation not less than 10 calendar days nor more than 60 calendar days before the date of the meeting, either personally or by mail, to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail with postage thereon prepaid, addressed to the stockholder at such person's address as it appears on the stock transfer books of the Corporation. Such further notice shall be given as may be required by law. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Meetings may be held without notice if all stockholders entitled to vote are present, or if notice is waived by those not present in accordance with Section 6.4 of these By-Laws. Any previously scheduled meeting of the stockholders may be postponed, and any special meeting

of the stockholders may be canceled, by resolution of the Board upon public notice given prior to the date previously scheduled for such meeting of stockholders.

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

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

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Section 2.7. Notice of Stockholder Business and Nominations.

(A) Annual Meetings of Stockholders.

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

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A)(1) of this By-Law, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 90th calendar day nor earlier than the close of business on the 120th calendar day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 calendar days before or more than 60 calendar days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th calendar day prior to such annual meeting and not later than the close of business on the later of the 90th calendar day prior to such annual meeting or the 10th calendar day following the calendar day on which public announcement of the date of such meeting is first made by the Corporation. For purposes of determining whether a stockholder's notice shall have been delivered in a timely manner for the annual meeting of stockholders in 1998, the first anniversary of the previous year's meeting shall be deemed to be May 31, 1998. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14a-11 thereunder (including such person's written

consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any financial interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

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

(B) Special Meetings of Stockholders.

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

(C) General.

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

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

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

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

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

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

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ARTICLE III
Board of Directors

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

Section 3.2. Number and Tenure. Except as otherwise fixed by or pursuant to the provisions of Article IV of the Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of the directors of the Corporation shall be as set forth in, and fixed from time to time exclusively in the manner set forth in, Article VI of the Certificate of Incorporation.

Section 3.3. Regular Meetings. A regular meeting of the Board shall be held without other notice than this By-Law immediately after, and at the same place as, the annual meeting of stockholders. The Board may, by resolution, provide the time and place for the holding of additional regular meetings without other notice than such resolution.

Section 3.4. Special Meetings. Special meetings of the Board shall be called at the request of the Chairman of the Board, the President or a majority of the Board then in office. The person or persons authorized to call special meetings of the Board may fix the place and time of the meetings.

Section 3.5. Notice. Notice of any special meeting of directors shall be given to each director at such person's business or residence in writing by hand delivery, first-class or overnight mail, courier service or facsimile transmission, or orally by telephone. If mailed by first-class mail, such notice shall be deemed adequately delivered when deposited in the United States mails so addressed, with postage thereon prepaid, at least 5 calendar days before such meeting. If by overnight mail or courier service, such notice shall be deemed adequately delivered when the notice is delivered to the overnight mail or courier service company at least 24 hours before such meeting. If by facsimile transmission, such notice shall be deemed adequately delivered when the notice is transmitted at least 12 hours before such meeting. If by telephone or by hand delivery, the notice shall be given at least 12 hours prior to the time set for the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in the notice of such meeting, except for amendments to these By-Laws, as provided under Section 8.1. A meeting may be held at any time without notice if all the directors are present or if those not present waive notice of the meeting either before or after such meeting.

Section 3.6. Action by Consent of Board of Directors. Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

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Section 3.7. Conference Telephone Meetings. Members of the Board or any committee thereof may participate in a meeting of the Board or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at such meeting.

Section 3.8. Quorum. Subject to Section 3.9, a whole number of directors equal to at least a majority of the Whole Board shall constitute a quorum for the transaction of business, but if at any meeting of the Board there shall be less than a quorum present, a majority of the directors present may adjourn the meeting from time to time without further notice. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board. The directors present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough directors to leave less than a quorum.

Section 3.9. Vacancies. Except as otherwise provided for or fixed by or pursuant to the provisions of Article IV of the Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, newly created directorships resulting from any increase in the number of Directors and any vacancies on the Board resulting from death, resignation, disqualification, removal or other cause shall be filled in accordance with, and any director elected to such newly created directorships shall hold office in accordance with, Article VI of the Certificate of Incorporation. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.

Section 3.10. Committees. (a) The Board, by resolution adopted by a majority of the Whole Board, may designate one or more committees which, to the extent permitted by law, may exercise such powers and have such responsibilities as shall be specified in the designating resolution. Each committee shall consist of two or more directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Each committee shall keep written minutes of its proceedings and shall report such proceedings to the Board when required.

(b) A majority of any committee may determine its action and fix the time and place of its meetings, unless the Board shall otherwise provide. Notice of such meetings shall be given to each member of the committee in the manner provided for in Section 3.5 of these By-Laws. The Board shall have power at any time to fill vacancies in, to change the membership of, or to dissolve any such

committee. Nothing herein shall be deemed to prevent the Board from appointing one or more committees consisting in whole or in part of persons who are not directors of the Corporation; provided, however, that no such committee shall have or may exercise any authority of the Board.

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Section 3.11. Removal. Any director may be removed from office only in accordance with Article VI of the Certificate of Incorporation.

Section 3.12. Records. The Board shall cause to be kept a record containing the minutes of the proceedings of the meetings of the Board and of the stockholders, appropriate stock books and registers and such books of records and accounts as may be necessary for the proper conduct of the business of the Corporation.

ARTICLE IV Officers

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

Section 4.2. Election and Term of Office. The elected officers of the Corporation shall be elected annually by the Board at the regular meeting of the Board held after the annual meeting of the stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as convenient. Each officer shall hold office until such person's successor shall have been duly elected and shall have qualified or until such person's death or until such person shall resign or be removed pursuant to Section 4.8.

Section 4.3. Chairman of the Board; Chief Executive Officer. The Chairman of the Board shall preside at all meetings of the stockholders and of the Board and shall be the Chief Executive Officer of the Corporation. The Chairman of the Board shall be responsible for the general management of the affairs of the Corporation and shall perform all duties incidental to such person's office which may be required by law and all such other duties as are properly required of such person by the Board. The Chairman of the Board shall make reports to the Board and the stockholders, and shall see that all orders and resolutions of the Board and of any committee thereof are carried into effect. The Chairman of the Board may also serve as President, if so elected by the Board. The directors also may elect a Vice-Chairman to act in the place of the Chairman upon his or her absence or inability to act.

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

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Section 4.5. President. The President, if any, shall act in a general executive capacity and shall assist the Chairman of the Board in the administration and operation of the Corporation's business and general supervision of its policies and affairs. The President, if he or she is also a director, shall, in the absence of or because of the inability to act of the Chairman of the Board, perform all duties of the Chairman of the Board and preside at all meetings of stockholders and of the Board.

Section 4.6. Vice Presidents. Each Senior Vice President and Executive

Vice President and any Vice President shall have such powers and shall perform such duties as shall be assigned to such person by the Board.

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

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

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

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

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

ARTICLE V Stock Certificates and Transfers

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

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

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

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ARTICLE VI
Miscellaneous Provisions

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

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

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

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

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

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

ARTICLE VII
Contracts, Proxies, Etc.

Section 7.1. Contracts. Except as otherwise required by law, the Certificate of Incorporation, a Preferred Stock Designation, or these By-Laws, any contracts or other instruments may be executed and delivered in the name and on the behalf of the Corporation by such officer or officers of the Corporation as the Board may from time to time direct. Such authority may be general or confined to specific instances as the Board may determine. The Chairman of the Board, the President or any Senior Vice President, Executive Vice President or Vice President may execute bonds, contracts, deeds, leases and other instruments

to be made or executed for or on behalf of the Corporation. Subject to any restrictions imposed by the Board or the Chairman of the Board, the President or any Senior Vice President, Executive Vice President or Vice President of the Corporation may delegate contractual powers to others under such person's jurisdiction, it being understood, however, that any such delegation of power shall not relieve such officer of responsibility with respect to the exercise of such delegated power.

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

ARTICLE VIII
Amendments

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

EXHIBIT 4.2

SUPPLEMENTAL INDENTURE (this "Supplemental Indenture"), dated as of December 17, 1997, between Raytheon Company, a Delaware corporation ("Raytheon"), HE Holdings, Inc., a Delaware corporation (the "Hughes"), and The Bank of New York, as trustee under the indenture referred to below (the "Trustee").

WITNESSETH:

WHEREAS, Raytheon has heretofore executed and delivered to the Trustee an indenture (the "Indenture"), dated as of July 3, 1995, providing for the issuance, from time to time, of one or more series of Senior Debt Securities;

WHEREAS, Raytheon has issued senior notes from time to time pursuant to the Indenture, as supplemented (collectively, the "Senior Notes");

WHEREAS, Section 801 of the Indenture permits Raytheon to merge with another corporation provided certain conditions are satisfied;

WHEREAS, Raytheon and Hughes, have entered into an Agreement and Plan of Merger dated January 16, 1997 (the "Merger Agreement"), pursuant to which Raytheon will merge with and into Hughes (the "Merger");

WHEREAS, Section 901 of the Indenture authorizes the Trustee and Raytheon to enter into a supplemental indenture without the consent of any Holders of the Senior Notes to, among other things, provide for the assumption of Raytheon's obligations to the Holders of the Senior Notes in the case of a merger permitted by Article 8 of the Indenture;

WHEREAS, Hughes, as the surviving company in the Merger, desires to assume all obligations of Raytheon under the Senior Notes and the Indenture and Raytheon and Hughes desire to execute this Supplemental Indenture as permitted by Section 901 of the Indenture;

WHEREAS, Raytheon has furnished the Trustee with a resolution of its Board of Directors authorizing the execution of this Supplemental Indenture;

WHEREAS, all things necessary to authorize the assumption by Hughes of Raytheon's obligations under the Indenture and to make this Supplemental Indenture a valid supplement of the Indenture have been satisfied; and

WHEREAS, pursuant to Section 901 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually covenant and agree for the equal and ratable benefit of the Holders of the Senior Notes as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition have the meanings assigned to them in the Indenture.

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2. ASSUMPTION OF OBLIGATIONS. Hughes, as the surviving company in the Merger, hereby acknowledges and assumes Raytheon's obligations for the due and punctual payment of the principal of (and premium, if any) and interest on the Senior Notes and the observance of all of the covenants and conditions of the Indenture to be performed by Raytheon.

3. SUBSTITUTION OF HUGHES. On the date hereof, by virtue of the execution and delivery of this Supplemental Indenture, Hughes (as the surviving company in the Merger) shall succeed to the rights and obligations of and be substituted for Raytheon for all purposes under the Senior Notes and the Indenture.

4. OBLIGATIONS CONTINUING. This Supplemental Indenture supplements and forms a part of the Indenture. As supplemented hereby, the Indenture and the Senior Notes issued thereunder are ratified and confirmed and, as so supplemented, shall continue in full force and effect.

5. NEW YORK LAW TO GOVERN. The internal law of the State of New York, as applied to contracts made and performed within the State of New York, without regard to the principles of conflicts of law, shall govern this Supplemental Indenture.

6. COUNTERPARTS. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together constitute the same agreement.

7. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction thereof.

8. THE TRUSTEE. The Trustee is not responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the correctness of the recitals of fact contained herein, all of which recitals are made solely by Hughes and Raytheon.

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9. EFFECTIVENESS. This Supplemental Indenture shall become a legally effective and binding instrument upon the later of (i) the execution and delivery hereof and (ii) the Effective Time (as defined in the Merger Agreement). Hughes shall delivery written notice to the Trustee promptly following the occurrence of the Effective Time.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

RAYTHEON COMPANY

By: /s/ Herbert Deitcher
Name: Herbert Deitcher
Title: Senior Vice President - Treasury

HE HOLDINGS, INC.

By: /s/ Roxanne S. Austin
Name: Roxanne S. Austin
Title: Sr. V.P. and Chief Financial Officer

THE BANK OF NEW YORK,
as Trustee

By: /s/ Mary Jane Morrissey
Name: Mary Jane Morrissey
Title: Vice President

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS.

1997 versus 1996

Raytheon Company reported 1997 earnings of \$849 million, or \$3.55 per share, not including a restructuring and special charge, on sales of \$13.7 billion. For 1996, earnings were \$783 million, or \$3.31 per share, not including a special charge, on sales of \$12.3 billion.

For 1997, operating income increased 28 percent on an 11 percent increase in sales, before restructuring and special charges. Raytheon's 1997 results include only a partial year related to the July acquisition of the Texas Instruments' defense business (TI Defense) and less than two weeks' results related to the December merger with the defense business of Hughes Electronics Corporation (Hughes Defense). On a pro forma 1997 basis, Raytheon's revenues would have been in excess of \$20 billion.

Raytheon's 1997 net income was \$527 million, or \$2.20 per share, including a restructuring and special charge of \$322 million. For 1996, net income was \$761 million, or \$3.22 per share, including a special charge of \$22 million.

The restructuring and special charge of \$322 million, after tax (\$495 million pre-tax), included \$221 million (\$340 million pre-tax) applicable to the Electronics segment, principally Raytheon Systems Company, \$81 million (\$125 million pre-tax) applicable to the Engineering and Construction segment, and \$20 million (\$30 million pre-tax) applicable to the Aircraft segment. The charge principally includes the costs of facility and office closures, employee severance costs, one-time costs from the merger with Hughes Defense and the acquisition of TI Defense, nonrecurring charges related principally to contract valuations, and the write-down of non-current assets to fair market value to recognize a permanent impairment.

The Raytheon Systems Company provision was made in conjunction with the consolidation and reorganization of its four separate components into one structure in order to remain competitive in the defense industry. As announced on January 23, 1998, Raytheon Systems Company plans to make major changes at 26 facilities, closing 20 and partially closing six over the next two years. This will result in a planned reduction of facility space from 42 million square feet to 34 million square feet, or approximately 20 percent. In addition, Raytheon Systems Company plans to reduce employment by approximately 10 percent - or 8,700 jobs - over the next two years and 2,700 engineers will be reassigned to help fill technical positions. Raytheon Systems Company will also organize its operations to bring together the best practices and technologies from across the organization while optimizing the utilization of facilities and eliminating duplication and excess capacity.

It was also announced on January 23, 1998, that Raytheon Engineers & Constructors (RE&C) would close or partially close 16 offices in early 1998 and reduce its workforce by approximately nine percent, or 1,000 positions. These actions come in response to RE&C's 1997 profit performance, which declined from 1996. Raytheon believes that RE&C's results were adversely affected, in part, by a slowdown in some of RE&C's served global engineering and construction markets.

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Raytheon entered 1998 with a strong backlog of \$21.3 billion, including a U.S. government backlog of \$12.5 billion.

The Segment Financial results are as follows:

The Electronics segment led Raytheon's sales and earnings performance in 1997, with record sales and record operating income, not including the restructuring and special charge. Both sales and operating income were up for Raytheon Electronic Systems and Raytheon E-Systems, both of which are now part of Raytheon Systems Company, as well as for Commercial Electronics. Raytheon's 1997 results include partial results for Raytheon TI Systems, formerly TI Defense, which was acquired on July 11, 1997, for \$2.95 billion in cash, subject to post-closing adjustments, and for Hughes Defense, with which Raytheon merged

on December 17, 1997. The Hughes transaction was valued at \$9.5 billion, subject to post-closing adjustments, comprised of approximately \$5.5 billion in common stock and \$4.0 billion in debt which was assumed by the merged company. These two defense businesses are now also part of Raytheon Systems Company.

In December 1997, the company sold its Switchcraft and Semiconductor divisions, which were part of Commercial Electronics, for \$183 million in cash.

In March 1998, the company announced that it had reached an agreement to sell its European-based Raytheon Electronic Controls business. This sale will be the last resulting from the company's strategic assessment of its appliance business, which was begun in early 1997. In February 1998, the company announced that it had entered into an agreement to sell its commercial laundry business. There can be no assurance that these sales will be consummated. In September 1997, Raytheon completed the sale of its home appliance, heating and air conditioning, and commercial cooking operations. As a result of these dispositions, the company has included the remaining operations of the Major Appliances segment within the Electronics segment in 1997.

For 1997, Raytheon Aircraft reported record sales and record operating income, reflecting increased shipments of general aviation aircraft and contracts for services. Based in Wichita, Kansas, Raytheon Aircraft offers one of the broadest product lines in the general aviation market.

Sales for Raytheon Engineers & Constructors were essentially flat in 1997 compared with 1996, while income was lower than 1996 due, in part, to delays in funding of new international orders and slowdowns on several turnkey projects, along with the increased expenses required to develop international opportunities, the benefits of which will not be realized until future periods.

Sales to the U.S. Department of Defense were \$4.6 billion or 34 percent of consolidated sales in 1997 versus \$4.0 billion or 33 percent of consolidated sales in 1996. Total sales to the U.S. government were \$6.3 billion or 46 percent of consolidated sales in 1997 versus \$5.1 billion or 42 percent of consolidated sales in 1996.

Administration and selling expenses increased to \$1,095 million, or 8.0 percent of sales in 1997, from \$1,021 million, or 8.3 percent of sales in 1996, due principally to the acquisition of TI Defense.

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Research and development expenses increased to \$415 million, or 3.0 percent of sales in 1997, from \$323 million, or 2.6 percent of sales in 1996, due principally to the acquisition of TI Defense.

The company announced in the third quarter of 1996 that it would exit the manual-clean range market and dispose of the assets related to that operation, including its facility located in Delaware, Ohio, and recorded a \$34 million pre-tax charge for this closing. The after tax effect was \$22 million, or \$.09 per share.

Operating income in 1997, not including a restructuring and special charge of \$495 million pre-tax, was \$1,579 million, or 11.5 percent of sales versus \$1,232 million, not including a special charge of \$34 million pre-tax, or 10.0 percent of sales in 1996. A significant portion of the increase was due to the acquisition of TI Defense. Operating income for 1997, including the restructuring and special charge, was \$1,084 million, or 7.9 percent of sales versus \$1,198 million, or 9.7 percent of sales, including the special charge in 1996.

Interest expense increased to \$397 million in 1997 from \$256 million in 1996. The increase was due principally to the debt financed acquisitions of TI Defense in July 1997, Chrysler Technologies and Rust Engineering in the second quarter of 1996, and higher short-term interest rates available to the company.

Interest and dividend income decreased to \$38 million in 1997 from \$102 million in 1996. The 1996 amount included accrued interest on a retroactive federal income tax refund claim.

Other income, net was \$65 million in 1997 versus \$39 million in 1996. The 1997 amount includes a \$72 million net pre-tax gain from the sale of certain subsidiaries.

Federal and foreign income taxes were \$263 million in 1997 compared with \$322 million in 1996. The 1997 effective tax rate was 33.3 percent versus 29.7 percent in 1996. The effective tax rate reflects the statutory rate of 35 percent reduced principally by Foreign Sales Corporation tax credits and incremental research and development tax credits applicable to certain government contracts, partially offset by non-deductible amortization of goodwill. The increase in the effective tax rate in 1997 from 1996 was due to accrued retroactive research and development tax credits applicable to certain government contracts recorded in 1996.

For reasons discussed above, earnings, not including the after tax effect of the restructuring and special charge of \$322 million, were \$849 million in 1997 versus \$783 million in 1996, not including the special charge of \$22 million. Net income in 1997 was \$527 million versus \$761 million in 1996.

Basic earnings per share in 1997 were \$3.55, not including the restructuring and special charge of \$1.35 per share versus \$3.31 in 1996, not including the special charge of \$.09 per share. Basic earnings per share including the restructuring and special charge were \$2.20 in 1997 versus \$3.22 in 1996, including the special charge.

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Basic earnings per share calculations were based on 238.9 million average shares outstanding in 1997 and 236.6 million average shares outstanding in 1996. In November 1992, the Board of Directors authorized the purchase of up to 4 million shares of the company's common stock per year over the next five years to counter the dilution due to the exercise of stock options. During 1997, outstanding shares were reduced by the repurchase of 1.7 million shares on the open market at a cost of \$94 million, to offset 1.7 million shares issued due to the exercise of employee stock options. Additionally, the company issued 102.6 million shares of Class A common stock in connection with the merger with Hughes Defense. In January 1998, the Board of Directors authorized the purchase of up to 5 million shares of the company's common stock per year over the next five years to counter the dilution due to the exercise of stock options. In February 1995, the Board of Directors authorized the repurchase of up to 12 million shares of the company's common stock. There have been 9.5 million shares purchased under this authorization. In January 1998, the Board of Directors authorized the repurchase of the remaining 2.5 million shares originally authorized.

The book value of common shares outstanding at December 31, 1997, was \$30.79 as compared with \$19.46 at December 31, 1996. The increase in book value is primarily attributable to the issuance of approximately \$5.5 billion of Class A common stock in connection with the merger with Hughes Defense. Return on average equity was 16.8 percent in 1997, not including the restructuring and special charge versus 17.9 percent in 1996, not including the special charge.

Backlog consisted of the following at December 31:

(In millions)	1997	1996
Electronics	\$16,302	\$ 7,303
Engineering and Construction	3,239	3,565
Aircraft	1,709	1,163
Major Appliances	--	35
	-----	-----
Total backlog	\$21,250	\$12,066
U.S. government-funded backlog included above	\$12,547	\$ 5,637
	-----	-----

For the year ended December 31, 1997, cash flows from operating activities were \$963 million as compared with \$291 million for the year ended December 31, 1996. In 1997, funds were used for additions to property, plant and equipment of \$459 million, dividends of \$189 million, purchases of treasury stock of \$94 million, and net payments for acquired companies of \$3,087 million. Funds were provided primarily by increasing long-term debt by \$2,889 million.

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In August 1997, the company issued \$3.0 billion of debt securities in a public offering comprised of \$500 million of notes due 2000 which have a coupon rate of 6.3 percent, \$1.0 billion of notes due 2002 which have a coupon

rate of 6.45 percent, \$1.0 billion of notes due 2007 which have a coupon rate of 6.75 percent, and \$500 million of debentures due 2027 which have a coupon rate of 7.2 percent. Neither the notes nor the debentures are redeemable prior to maturity. This financing, along with increased short-term borrowing, was used principally to fund the acquisition of TI Defense and pre-fund the merger with Hughes Defense.

In February 1998, the company filed a shelf registration with the Securities and Exchange Commission registering the possible future issuance of up to \$3.0 billion of debt and/or equity securities. In March 1998, the company issued \$1.6 billion of debt off this shelf registration. Partial proceeds from the issuance were used to refinance debt assumed in connection with the merger with Hughes Defense. The company issued \$500 million of notes due 2001 which have a coupon rate of 5.95 percent, \$450 million of notes due 2005 which have a coupon rate of 6.3 percent, \$300 million of notes due 2010 which have a coupon rate of 6.55 percent, and \$350 million of debentures due 2018 which have a coupon rate of 6.75 percent. The notes due in 2001 and 2005 are not redeemable prior to maturity. The notes due in 2010 and the debentures due in 2018 are redeemable under certain circumstances. The issuance of \$900 million of debt securities essentially completes the company's previously announced plans to refinance the acquisition of TI Defense and its merger with Hughes Defense. The remaining \$700 million is additional refinancing of bank and commercial paper borrowings.

Debt, net of cash and marketable securities, was \$9,766 million at December 31, 1997, as compared with \$3,588 million at December 31, 1996. The increase is principally due to the financing requirements of the merger with Hughes Defense and the acquisition of TI Defense, partially offset by the sale of some appliance and other non-core operations. Net debt as a percent of capital was 48.4 percent at December 31, 1997, as compared with 43.8 percent at December 31, 1996.

Accounts receivable increased to \$1,056 million at December 31, 1997, from \$809 million at December 31, 1996, due principally to the merger with Hughes Defense and the acquisition of TI Defense.

Contracts in process increased to \$4,661 million at December 31, 1997, from \$2,592 million at December 31, 1996, due principally to the merger with Hughes Defense and the acquisition of TI Defense.

Property, plant and equipment, net, increased to \$2,891 million at December 31, 1997, from \$1,802 million at December 31, 1996, due principally to the merger with Hughes Defense and the acquisition of TI Defense.

Other assets increased to \$16,474 million at December 31, 1997, from \$3,868 million at December 31, 1996, due principally to goodwill of \$10,865 million arising from the merger with Hughes Defense and the acquisition of TI Defense.

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The changes in individual asset account balances noted above are due to the overall increase in the company's asset base resulting from the merger with Hughes Defense and the acquisition of TI Defense.

Capital expenditures were \$459 million in 1997 versus \$406 million in 1996. Capital expenditures in 1998 are expected to be slightly above the 1997 level, primarily due to the merger with Hughes Defense and the acquisition of TI Defense.

Dividends declared to stockholders during 1997 were \$209 million versus \$190 million in 1996. The quarterly dividend rate was \$.20 for all quarters of 1997 and 1996.

Total employment was approximately 119,200 at December 31, 1997, as compared with approximately 75,300 at December 31, 1996. The increase was due principally to the merger with Hughes Defense and the acquisition of TI Defense, partially offset by employee reductions in the Aircraft and Engineering and Construction segments and the sale of the home appliance, heating and air conditioning, and commercial cooking operations.

Credit ratings for the company, based on the merger with Hughes Defense and the acquisition of TI Defense, have been established by Moody's at P-2 for short-term borrowing and Ba1 for senior debt, and by Standard and Poor's at A-2 for short-term borrowing and BBB for senior debt. Duff & Phelps

has provided ratings of D-2 for short-term borrowing and BBB+ for senior debt. The company expects that its cash flow from operations and asset reductions will be sufficient to maintain investment grade credit ratings and available debt financing will be sufficient to meet any additional funding requirements in 1998.

Lines of credit with certain commercial banks exist as sources of direct borrowing and/or as a standby facility to support the issuance of commercial paper by the company. The lines of credit were \$9.0 billion and \$3.5 billion at December 31, 1997 and 1996, respectively. At December 31, 1997, \$3.5 billion had been borrowed under the lines of credit. During January 1998, the lines of credit were reduced to \$8.0 billion. The company does not currently anticipate making future borrowings under the remaining lines of credit.

The following discussion covering quantitative and qualitative disclosures about the company's market risk is "forward-looking" information. The company's primary market exposures are to interest rates and foreign exchange rates.

The company meets its working capital requirements with a combination of variable rate short-term and fixed rate long-term financing. The company enters into interest rate swap agreements with commercial banks primarily to reduce the impact of changes in interest rates on short-term financing arrangements. The company also enters into foreign exchange contracts with commercial banks to minimize fluctuations in the value of payments due to

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international vendors and the value of foreign currency denominated receipts. The market risk sensitive instruments used by the company for hedging are transaction driven, are directly related to a particular asset, liability or transaction for which a commitment is in place, and are entered into with commercial banks.

Financial instruments held by the company which are subject to interest rate risk include notes payable, commercial paper, long-term debt, marketable securities, long-term receivables, investments, and interest rate swap agreements. The aggregate hypothetical loss in earnings for one month of those financial instruments held by the company at December 31, 1997, which are subject to interest rate risk resulting from a hypothetical increase in interest rates of 10 percent is approximately \$2 million, after tax. The hypothetical loss was determined by calculating the aggregate impact of a one month increase of 10 percent in the interest rate of each variable rate financial instrument held by the company at December 31, 1997, which is subject to interest rate risk. Fixed rate financial instruments were not evaluated as the risk exposure is not material. In March 1998, the company issued fixed rate debt securities and used the proceeds to pay down variable rate borrowings.

The company's outstanding foreign currency forward exchange contracts include contracts to buy and/or sell British Pounds Sterling, Japanese Yen, Netherlands Guilders, German Marks, Canadian Dollars, French Francs, and Australian Dollars. All foreign exchange contracts were related to specific transactions for which a firm commitment existed, and therefore the associated market risk of the market risk sensitive instruments and the underlying firm commitments in the aggregate is not material.

Recurring costs associated with the company's environmental compliance program are not material and are expensed as incurred. Capital expenditures in connection with environmental compliance are not material. The company is involved in various stages of investigation and cleanup relative to remediation of various sites. All appropriate costs expected to be incurred in connection therewith have been accrued at December 31, 1997. 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 additional 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.

The company is in the process of conducting a comprehensive review of its computer systems to identify the systems that could be affected by the "Year 2000" issue and has initiated an enterprise-wide program to resolve the issue and continues to evaluate appropriate courses of corrective action, including modification or replacement of certain systems. The total cost is not expected

to have a material effect on the company's financial position or results of operations.

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The company presently believes that, with modifications to existing software and conversions to new software, the "Year 2000" issue will not pose significant operational problems for the company's computer systems. The "Year 2000" issue also creates risk for the company from unforeseen problems from third parties with whom the company deals. The company is in the process of contacting its key suppliers and other third parties to determine the possible impact on its business. There can be no assurance that their "Year 2000" solutions will be successful. Such failures of the third parties' computer systems could have a material impact on the company's ability to conduct its business.

The company adopted the American Institute of Certified Public Accountants' Statement of Position 96-1, Environmental Remediation Liabilities, in 1997. The adoption of the standard did not have a material effect on the company's financial position or results of operations.

The company adopted Statement of Financial Accounting Standards No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, in 1997. The adoption did not have a material effect on the company's financial position or results of operations.

The company adopted Statement of Financial Accounting Standards No. 128, Earnings per Share, in the fourth quarter of 1997, which required restatement of prior year information. The adoption did not have a material effect on the company's financial position, results of operations, or earnings per share.

In 1998, the company will adopt Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, and Statement of Financial Accounting Standards No. 132, Employer's Disclosures about Pensions and Other Post-retirement Benefits by making the appropriate disclosures.

1996 versus 1995

Raytheon Company reported 1996 earnings of \$783 million, or \$3.31 per share, before a third quarter special charge of \$22 million, or \$.09 per share. For 1995, earnings were \$787 million, or \$3.24 per share, before a one-time gain of \$5 million, or \$.02 per share.

Total Raytheon sales in 1996 reached \$12.3 billion, with sales up in all four business segments.

Raytheon's total backlog at the end of 1996 stood at \$12.1 billion, up \$1.5 billion, or 14 percent, compared with year-end 1995. The backlog increase was driven principally by a 59 percent increase in the backlog of Raytheon Engineers & Constructors at the end of 1996 compared with the end of 1995. Raytheon Engineers & Constructors ended 1996 with a record backlog of \$3.6 billion.

The company made three acquisitions in 1996: the aircraft modification and defense electronics businesses of Chrysler Technologies, the engineering and construction assets of Rust International, and the marine communication assets of Standard Radio AB of Sweden.

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The Segment Financial results are as follows:

The Electronics segment's 1996 sales and income increased over 1995's results, which included a one-time special charge. Sales and income increased at Raytheon E-Systems, reflecting inclusion of a full year of E-Systems results as well as a partial year's results for the complementary acquisition of two Chrysler Technologies defense businesses. Raytheon's Massachusetts-based defense operations experienced declines in sales and income. Excluding D.C. Heath and Xyplex, which were divested in late 1995 and early 1996, respectively, sales and income increased in Raytheon's Commercial Electronics business.

Raytheon Aircraft, the world leader in general aviation, reported

record sales and increased income for the year over 1995, which included a one-time special charge, due to increased aircraft shipments and services.

Raytheon Engineers & Constructors, one of the largest engineering, construction, operations and maintenance firms in the world, reported record sales for the year. Although sales were higher than 1995 due primarily to increased engineering and construction effort, income was down due to the delay of higher margin international turnkey projects combined with the effects of strike-related losses at Cedarapids.

Raytheon Appliances had record sales for the year due to increased shipments of heating and air conditioning products, refrigerators, and self-clean ranges; however, income, before the special charge, was flat due principally to competitive pressures in the retail market and increased sales promotion costs.

Sales to the U.S. Department of Defense were \$4.0 billion or 33 percent of consolidated sales in 1996 versus \$4.0 billion or 34 percent of consolidated sales in 1995. Total sales to the U.S. government were \$5.1 billion or 42 percent of consolidated sales in 1996 versus \$4.7 billion or 40 percent of consolidated sales in 1995.

Administration and selling expenses decreased to \$1,021 million, or 8.3 percent of sales in 1996, from \$1,086 million, or 9.2 percent of sales in 1995, due principally to the inclusion of a full year of E-Systems results and a partial year's results for the acquired Chrysler Technologies businesses.

Research and development expenses increased to \$323 million, or 2.6 percent of sales in 1996, from \$316 million, or 2.7 percent of sales in 1995, due principally to the inclusion of a full year of E-Systems results and a partial year's results for the acquired Chrysler Technologies businesses.

Operating income in 1996, before the special charge of \$34 million pre-tax, was \$1,232 million, or 10.0 percent of sales versus \$1,320 million, or 11.2 percent of sales, in 1995. The 1995 operating income excludes a special charge of \$125 million and nonrecurring items of \$77 million. Operating income for 1996, including the special charge, was \$1,198 million, or 9.7 percent of sales, while operating income for 1995, including the special charge and nonrecurring items, was \$1,118 million.

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In the fourth quarter of 1995, the company recorded, in accordance with Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the company's past practice, a special pre-tax charge of \$125 million related principally to a provision for idle real estate of \$65 million and goodwill valuation adjustments of \$60 million. Of the \$125 million charge, \$115 million applied to the Electronics segment and \$10 million applied to the Engineering and Construction segment. Raytheon also reported an additional pre-tax charge of \$77 million to cost of sales related principally to provisions for inventory of \$42 million and contracts of \$35 million. Of the \$77 million charge, \$47 million applied to the Electronics segment and \$30 million applied to the Aircraft segment.

The company announced in the third quarter of 1996 that it would exit the manual-clean range market and dispose of the assets related to that operation, including its facility located in Delaware, Ohio, and recorded a \$34 million pre-tax charge for this closing. The after-tax effect was \$22 million, or \$.09 per share.

The company recorded in the first quarter of 1994 a restructuring provision of \$250 million before tax. The restructuring was driven by the significant reductions in the defense budget and increasing commercial competition. Approximately 65 percent of the restructuring costs were attributable to the company's defense business and the remainder to its commercial business. The company completed personnel reductions of 4,400 people under this restructuring provision, including both salaried and bargaining unit employees located in Massachusetts and other states and in foreign locations. Through December 31, 1996, \$249 million of restructuring costs had been incurred, of which \$103 million were employee-related costs and \$146 million were related principally to asset disposals and idle facilities.

Interest expense for 1996 increased to \$256 million from \$197 million in 1995. The increase was due principally to the higher average debt level.

Interest and dividend income increased to \$102 million in 1996 from \$26 million in 1995, due principally to accrued interest before tax on a retroactive federal income tax refund claim.

Other income, net was \$39 million in 1996 versus \$244 million in 1995. The 1995 amount includes a \$210 million net pre-tax gain from the sale of D.C. Heath.

Federal and foreign income taxes were \$322 million in 1996 compared with \$399 million in 1995. The 1996 effective tax rate was 29.7 percent versus 33.5 percent in 1995. The effective tax rate for 1996 reflects the statutory rate of 35 percent reduced by accrued research and development tax credits and Foreign Sales Corporation tax credits, partially offset by non-deductible amortization of goodwill. The decrease in the effective tax rate in 1996 from 1995 was due to the accrued retroactive research and development tax credits applicable to certain government contracts.

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For reasons discussed above, earnings, before the special charge of \$22 million, were \$783 million in 1996 versus \$787 million in 1995, before the one-time gain of \$5 million.

The composition of the \$5 million one-time gain recorded in 1995 is as follows (in millions):

	Pre-tax	Tax	After tax
	-----	-----	-----
Sale of D.C. Heath	\$210	\$ (74)	\$136
Special charge	(125)	44	(81)
Non-recurring charge	(77)	27	(50)
	----	----	----
	\$ 8	\$ (3)	\$ 5

Basic earnings per share were \$3.31, before the special charge of \$.09 per share versus \$3.24 per share in 1995, before the one-time gain of \$.02 per share. Basic earnings per share, including the special charge, were \$3.22 in 1996 versus \$3.26 in 1995, including the one-time gain.

Basic earnings per share calculations were based on 236.6 million average shares outstanding in 1996 and 243.0 million average shares outstanding in 1995. All share and per share amounts have been restated to reflect the two-for-one stock split in October 1995. During 1996, outstanding shares were reduced by 6.1 million shares as the result of the company's purchase of outstanding shares at a cost of \$306 million, partially offset by 1.8 million shares issued upon the exercise of employee stock options.

In November 1992, the Board of Directors authorized the purchase of up to 4 million shares of the company's common stock per year over the next five years to counter the dilution due to the exercise of stock options. During 1996, 1.8 million shares were purchased under this authorization. In February 1995, the Board of Directors authorized the repurchase of up to 12 million shares of the company's common stock. Through December 31, 1996, 9.5 million shares had been purchased under this authorization.

The book value of common shares outstanding at December 31, 1996, was \$19.46 as compared with \$17.83 at December 31, 1995. Return on average equity was 17.9 percent in 1996, before the special charge versus 19.2 percent in 1995, before the one-time gain.

Backlog consisted of the following at December 31:

(In millions)	1996	1995
	-----	-----
Electronics	\$ 7,303	\$7,411
Engineering and Construction	3,565	2,240
Aircraft	1,163	836
Major Appliances	35	64
	-----	-----
Total backlog	\$12,066	\$10,551
U.S. government-funded backlog included above	\$ 5,637	\$ 5,142

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The Electronics backlog at December 31, 1996, included \$1.1 billion related to the SIVAM contract awarded by the government of Brazil to monitor and protect the Amazon River rain forest. On March 14, 1997, the company announced that the contract had been signed by the government of Brazil and all financing agreements for the program had been finalized.

For the year ended December 31, 1996, cash flows from operating activities were \$291 million as compared with \$1,175 million for the year ended December 31, 1995. In 1996, funds were used for additions to property, plant and equipment of \$406 million, dividends of \$190 million, purchases of treasury stock of \$306 million, and net payments for acquired companies of \$584 million. Funds were provided by increasing short-term debt by \$1,007 million.

In 1995, under the company's 1992 shelf registration of \$500 million of debt securities and a 1995 registration of \$1,500 million of debt and/or equity securities, the company issued \$1,125 million of debt securities in a public offering comprised of \$750 million of notes due 2005, which have a coupon rate of 6.5 percent and \$375 million of debentures due 2025 which have a coupon rate of 7.375 percent. The notes are not redeemable prior to maturity, and the debentures are not redeemable prior to July 15, 2005. This financing, along with increased short-term borrowing, was used principally to fund the 1995 acquisition of E-Systems.

Debt, net of cash and marketable securities, was \$3,588 million at December 31, 1996, as compared with \$2,494 million at December 31, 1995. Net debt as a percentage of capital was 43.8 percent at December 31, 1996, as compared with 36.8 percent at December 31, 1995.

Accounts receivable decreased to \$809 million at December 31, 1996, from \$927 million at December 31, 1995, due principally to the sale of receivables to bank syndicates and other financial institutions.

Contracts in process increased to \$2,592 million at December 31, 1996, from \$2,213 million at December 31, 1995, due principally to increased effort on major foreign turnkey projects at the Engineering and Construction segment.

Property, plant and equipment, net, increased to \$1,802 million at December 31, 1996, from \$1,584 million at December 31, 1995, due to increased investment in the Aircraft segment and the acquisition of the Chrysler Technologies businesses and Rust Engineering.

Other assets increased to \$3,868 million at December 31, 1996, from \$2,884 million at December 31, 1995, due principally to goodwill arising from the acquisitions of the Chrysler Technologies businesses and Rust Engineering.

Capital expenditures were \$406 million in 1996 versus \$329 million in 1995. The increase was due principally to higher expenditures in the Aircraft segment.

Dividends declared to stockholders during 1996 were \$190 million versus \$182 million in 1995. The quarterly dividend rate was \$.20 for each quarter of 1996 versus \$.1875 for each quarter of 1995.

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Total employment was approximately 75,300 at December 31, 1996, as compared with approximately 73,200 at December 31, 1995. The increase was due principally to the acquisitions of the Chrysler Technologies businesses and Rust Engineering, partially offset by reductions in the defense electronics segment and the sale of Xyplex.

FORWARD LOOKING STATEMENTS

Statements which are not historical facts contained in this Report are forward-looking statements under the provisions of the Private Securities Litigation Reform Act of 1995. All forward looking statements involve risks and uncertainties. The company wishes to caution readers that several important factors, including those noted in the Management's Discussion and Analysis section of this Report, could affect the company's actual results and could cause its actual results in fiscal 1998 and beyond to differ materially from those expressed in any forward looking statements made by, or on behalf of, the company. Further information regarding the factors that could cause actual results to differ materially from projected results can be found in Raytheon's reports filed with the Securities and Exchange Commission, including statements under "Risk Factors" in our Consent Solicitation Statement/ Prospectus dated

Prepaid expenses	139	79
	-----	-----
Total current assets	9,233	5,528
Property, plant and equipment, net (notes A and G)	2,891	1,802
Other assets (notes A and H)	16,474	3,868
	-----	-----
Total assets	\$28,598	\$11,198
	=====	=====

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Liabilities and Stockholders' Equity

Current liabilities

Notes payable and current portion of long-term debt (notes I and J)	\$ 5,656	\$ 2,227
Payments, less contracts in process of \$420 in 1997 and \$803 in 1996	525	341
Accounts payable	1,845	1,126
Accrued salaries and wages	680	273
Other accrued expenses (notes B and C)	3,180	725
	-----	-----
Total current liabilities	11,886	4,692
Accrued retiree benefits (note N)	1,095	250
Income taxes, including deferred (notes A and K)	786	158
Long-term debt (note J)	4,406	1,500
Commitments and contingencies (note L)		

Stockholders' equity (note R)

Preferred stock, \$.01 par value Authorized: 200,000,000 shares Outstanding: none in 1997 and 1996		
Class A common stock, par value \$.01 per share Authorized: 450,000,000 shares Outstanding: 102,630,000 shares in 1997 and none in 1996	1	
Class B common stock, par value \$.01 per share Authorized: 1,000,000,000 shares Outstanding: 235,935,000 shares in 1997 and 236,250,000 shares in 1996 after deducting no treasury shares in 1997 and 69,124,000 treasury shares in 1996 (note M)	2	236
Additional paid-in capital	6,151	308
Equity adjustments (note A)	(23)	(12)
Retained earnings	4,294	4,066
	-----	-----
Total stockholders' equity	10,425	4,598
	-----	-----
Total liabilities and stockholders' equity	\$28,598	\$11,198
	=====	=====

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

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Raytheon Company and Subsidiaries Consolidated
STATEMENTS OF INCOME

(In millions except per share amounts)

	Years Ended December 31:	1997	1996	1995
		-----	-----	-----
Net sales (note A)		\$13,673	\$12,331	\$11,804
		-----	-----	-----
Cost of sales		10,584	9,755	9,159
Administrative and selling expenses		1,095	1,021	1,086
Research and development expenses (note A)		415	323	316
Restructuring and special charges (note C)		495	34	125
		-----	-----	-----

Total operating expenses	12,589	11,133	10,686
Operating income	1,084	1,198	1,118
Interest expense	397	256	197
Interest and dividend income	(38)	(102)	(26)
Other income, net (note C)	(65)	(39)	(244)
Non-operating expense (income), net	294	115	(73)
Income before taxes	790	1,083	1,191
Federal and foreign income taxes (notes A and K)	263	322	399
Net income	\$ 527	\$ 761	\$ 792
Earnings per share (note R)			
Basic	\$2.20	\$3.22	\$3.26
Diluted	\$2.18	\$3.17	\$3.23

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

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Raytheon Company and Subsidiaries Consolidated

STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions except per share amounts)	Common Stock	Additional	Equity	Retained	
Years Ended December 31, 1997, 1996, and 1995:	Class A	Class B	Paid-in Capital	Adjustments	Earnings
Balance at December 31, 1994	\$247		\$ 209	\$ (9)	\$3,482
Net income					792
Dividends declared-- \$.75 per share					(182)
Proceeds under common stock plans		2	65		
Treasury shares purchased	(8)		(8)		(305)
Treasury shares received on exercise of stock options			(7)		
Foreign exchange translation adjustments				10	
SFAS No. 115 unrealized valuation adjustment				3	
SFAS No. 87 pension adjustment				1	
Balance at December 31, 1995	241		259	5	3,787
Net income					761
Dividends declared-- \$.80 per share					(190)
Proceeds under common stock plans		1	64		
Treasury shares purchased	(6)		(7)		(292)
Treasury shares received on exercise of stock options			(8)		
Foreign exchange translation adjustments				(3)	
SFAS No. 115 unrealized valuation adjustment				(15)	
SFAS No. 87 pension adjustment				1	
Balance at December 31, 1996	236		308	(12)	4,066
Net income					527
Dividends declared-- \$.80 per share					(209)
Common stock plan activity		2	172		
Treasury shares purchased	(2)		(2)		(90)
Treasury shares received on exercise of stock options			(21)		
Reduction of par value		(234)	234		
Issuance of Class A Common Stock \$1			5,460		
Foreign exchange translation adjustments				(32)	
SFAS No. 115 unrealized valuation adjustment				26	
SFAS No. 87 pension adjustment				(5)	
Balance at December 31, 1997 \$1	\$ 2		\$6,151	\$ (23)	\$4,294

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

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Raytheon Company and Subsidiaries Consolidated

STATEMENTS OF CASH FLOWS

(In millions)	Years Ended December 31:	1997	1996	1995

Cash flows from operating activities				
Net income		\$ 527	\$ 761	\$ 792
Adjustments to reconcile net income to net cash provided by operating activities, net of the effect of acquired companies				
Depreciation and amortization		457	369	371
Net gain on sale of operating units		(72)	--	(210)
Gain on sale of an investment		--	--	(29)
Sale of receivables		1,752	1,209	1,081
Increase in accounts receivable		(1,519)	(994)	(964)
(Increase) decrease in contracts in process		(585)	(581)	174
Decrease (increase) in inventories		54	(38)	45
Decrease (increase) in long term receivables		43	(57)	(11)
Decrease in advance payments		(49)	(45)	(217)
Increase in accounts payable		128	49	37
Net change in federal and foreign income taxes		130	47	83
Increase (decrease) in other current liabilities		83	(374)	81
Other adjustments, net		14	(55)	(58)

Net cash provided by operating activities		963	291	1,175

Cash flows from investing activities				
Additions to property, plant and equipment		(459)	(406)	(329)
Disposals of property, plant and equipment		69	16	62
Increase in other assets		(84)	(31)	(174)
Payment for purchase of acquired companies, net of cash received		(3,087)	(584)	(2,341)
Proceeds from sale of operating units and investments		705	67	459

Net cash used in investing activities		(2,856)	(938)	(2,323)

Cash flows from financing activities				
Dividends		(189)	(190)	(182)
(Decrease) increase in short-term debt		(597)	1,007	140
Increase in long-term debt		2,889	4	1,463
Purchase of treasury shares		(94)	(306)	(320)
Proceeds under common stock plans		44	57	59
All other, net		--	3	(5)

Net cash provided by financing activities		2,053	575	1,155

Effect of foreign exchange rates on cash		(1)	--	1

Net increase (decrease) in cash and cash equivalents		159	(72)	8
Cash and cash equivalents at beginning of year		137	209	201

Cash and cash equivalents at end of year		\$ 296	\$ 137	\$ 209
=====				

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

NOTES TO FINANCIAL STATEMENTS

Note A: Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the parent company and all domestic and foreign subsidiary companies. The books of the parent and all subsidiaries are maintained on a calendar year basis. All material intercompany transactions have been eliminated. Certain amounts in the 1996 and 1995 financial statements and notes have been reclassified to conform with the 1997 presentation.

Cash Equivalents and Marketable Securities

Cash and cash equivalents include only cash and short-term, highly liquid investments (those with original maturities of 90 days or less when purchased).

Cash equivalents and marketable securities are valued in accordance with the provisions of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115). Dividends are recorded as income when declared.

Contracts in Process

Sales under long-term contracts are primarily recorded under the percentage of completion method, wherein costs and estimated gross margin are recorded as sales as the work is performed. Costs include direct engineering and manufacturing costs, applicable overheads, and special tooling and test equipment. Estimated gross margin provides for the recovery of allocable research, development (including bid proposal), marketing, and administration costs, and for accrued income. Accrued income is based on the percentage of estimated total income that incurred costs to date bear to estimated total costs after giving effect to the most recent estimates of cost and funding at completion. When appropriate, increased funding is assumed based on expected adjustments of contract prices for increased scope and other changes ordered by the customer. Some contracts contain incentive provisions based upon performance in relation to established targets to which applicable recognition has been given in the contract estimates. 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 in the current period earnings applicable to performance in prior periods. When the current contract estimate indicates a loss, provision is made for the total anticipated loss. In accordance with these practices, contracts in process are stated at cost plus estimated profit but not in excess of realizable value.

Sales under certain fixed price contracts are recorded as products are shipped or services are rendered.

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Inventories

Aircraft inventories at Raytheon Aircraft, except finished goods, are stated at the lower of cost (principally last-in, first-out) or market. Work in process is stated at total cost incurred reduced by estimated costs of units delivered.

All other inventories are stated at cost (principally first-in, first-out or average cost) but not in excess of net realizable value.

Research and Development Expenses

Research and development expenditures for company-sponsored projects are expensed as incurred.

Property, Plant and Equipment

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

Provisions for depreciation are computed generally on the sum-of-the-years-digits method, except for certain operations, which use the straight-line or declining-balance method. Depreciation provisions are based on estimated useful lives: buildings--20 to 45 years, machinery and equipment, including production tooling--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.

Excess of Cost Over Net Assets of Acquired Companies

The excess of cost over net assets acquired is amortized on the

straight-line method over its estimated useful life but not in excess of 40 years. The company evaluates the possible impairment of goodwill at each reporting period based on the undiscounted projected cash flows of the related business unit.

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. Other investments are stated at the lower of cost or fair market value and certain available for sale investments are accounted for in accordance with the provisions of SFAS No. 115.

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Commissions

The company pays commissions to sales representatives, distributors, and agents under various arrangements in return for services rendered in connection with obtaining orders. Such commissions are charged to income as related sales are recorded and, for income statement purposes, are applied as a reduction of sales. In some cases, payment of such commissions is made upon the company's receipt of advance payments under the related contracts or in accordance with schedules contained in the contracts governing commissions, and such amounts are applied as a reduction of advance payments received. Sales have been reduced by \$31 million, \$30 million, and \$37 million in 1997, 1996, and 1995, respectively, for commission expense.

Federal and Foreign Income Taxes

The company and its domestic subsidiaries provide for federal income taxes on pre-tax accounting income at rates in effect under existing tax law. The recovery of foreign tax credits related to foreign contracts, Foreign Sales Corporation (FSC) tax benefits, and other tax credits are recorded on a flow-through basis. Foreign subsidiaries have recorded provisions for income taxes at applicable foreign tax rates in a similar manner.

Lease Accounting

Revenue from certain qualifying non-cancelable aircraft lease contracts are accounted for as sales-type leases wherein the present values of all payments, net of executory costs, are recorded currently 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.

Pension Cost

The company and its subsidiaries have several pension and retirement plans covering the majority of employees, including certain employees in foreign countries.

Annual charges to income are made for costs of the plans, including current service costs, interest on projected benefit obligations, and net amortization and deferral [unrecognized net obligation (asset) at transition, unrecognized prior service costs, and actuarial net gains or losses], increased or reduced by the return on assets. Unfunded accumulated benefit obligations are accounted for as a long-term liability on the balance sheet. It is the company's policy to fund annually those pension costs which are calculated in accordance with Internal Revenue Service regulations and standards issued by the Cost Accounting Standards Board.

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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 equity adjustments in stockholders' equity. The balance at December 31, 1997, 1996, and 1995 was (\$28 million), \$4 million,

and \$7 million, respectively. Foreign exchange transaction gains and losses in 1997, 1996, and 1995 were not material.

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 of the stock option price over par value is credited to additional paid-in capital. There are no charges or credits to income for stock options. The market 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 market value is also charged to income as compensation expense over the vesting period. Income tax benefits arising from restricted stock transactions, employees' premature disposition of stock option shares, and exercise of nonqualified stock options are credited to additional paid-in capital.

The company adopted Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123) in 1996. The standard defines a fair value based method of accounting for employee stock options. The pro forma net income and earnings per share effect of the fair value based accounting is disclosed in the notes to the financial statements.

Interest Rate and Foreign Currency Interest Rate Swap Agreements and Foreign Exchange 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 with commercial banks primarily to reduce the impact of changes in interest rates on short-term financing arrangements. Interest rate swaps are used to provide purchasers of the company's products with fixed financing terms over extended time periods. Cross-currency interest rates swaps have allowed the company's foreign subsidiaries to meet borrowing needs at lower interest rates compared to local borrowing. Settlement accounting is used for interest rate swaps. The company also enters into foreign exchange contracts 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 transaction for which a commitment is in place. Hedge accounting is used for foreign exchange contracts. 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 and foreign exchange contracts are held to maturity and no exchange traded or over-the-counter instruments have been purchased. Cash flows are recognized in the statement of cash flows in the same category as the related item. The impact on the 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 commitments.

Risks and Uncertainties

Companies, such as Raytheon, which are engaged in supplying defense-related equipment to the government, are 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. As a result of the 1985 Balanced Budget and Emergency Deficit Reduction Control Act, the federal deficit, and changing world order conditions, Department of Defense (DoD) budgets have been subject to increasing pressure resulting in an uncertainty as to the future effects of DoD budget cuts. Raytheon has, nonetheless, maintained a solid foundation of defense systems which meet the needs of the United States and its allies, as well as servicing a broad government program base and range of commercial electronics businesses. These factors lead management to believe that there is high probability of continuation of Raytheon's current major defense programs.

The company provides long-term financing principally to its aircraft customers. The company sells receivables, including appliance, general and commuter aviation eligible long-term receivables and eligible engineering and construction and appliance short-term receivables to a bank syndicate and other financial institutions. The banks have recourse against the company, at varying percentages, depending on the character of the receivables sold. 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 the company's experience to date with resale activities and pricing, management believes that any liability arising from these transactions will not have a material effect on the company's financial position, liquidity, or results of operations.

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 materially from those estimates.

Note B: Acquisitions and Divestitures

The company acquired the Texas Instruments' defense business (TI Defense) in July 1997 and merged with the defense business of Hughes Electronics Corporation (Hughes Defense) in December 1997. The company also acquired E-Systems in May 1995.

The following unaudited pro forma financial information combines the results of operations of: Raytheon and Hughes Defense as if the merger had taken place on January 1, 1997 and January 1, 1996, Raytheon and TI Defense as if the acquisition had taken place on January 1, 1997 and January 1, 1996, and Raytheon and E-Systems as if the acquisition had taken place on January 1, 1995.

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(In millions except per share amounts)	1997	1996	1995
Net sales	\$21,359	\$20,514	\$12,397
Net income	564	917	794
Basic earnings per share	1.67	2.70	3.27
Diluted earnings per share	1.66	2.68	3.24

The pro forma results are not necessarily indicative of what the results of operations would have been if the transactions had occurred on the applicable dates indicated, do not reflect the cost and revenue synergies expected to be realized, and are not intended to be indicative of future results of operations.

The Hughes transaction was valued at \$9.5 billion, subject to post-closing adjustments, comprised of approximately \$5.5 billion in common stock and \$4.0 billion in debt, which was assumed by the merged company. TI Defense was acquired for \$2.95 billion in cash, subject to post-closing adjustments. The assets acquired and liabilities assumed in connection with these two transactions have been included in the financial statements based on preliminary estimates of fair value and may be revised as additional information becomes available. As a result, the financial information included in the company's financial statements is subject to adjustment from subsequent revisions in estimates of fair value, if any are necessary.

Assets acquired in conjunction with the merger with Hughes Defense include contracts in process of \$1,820 million, inventories of \$408 million, other current assets of \$337 million, property, plant and equipment of \$942 million, and other assets of \$1,776 million (primarily pension related). Liabilities assumed include debt of \$4,033 million, current liabilities of \$2,659 million and long-term liabilities of \$961 million. Goodwill resulting from the preliminary estimates of fair value associated with this transaction was \$7,950 million.

Assets acquired in conjunction with the acquisition of TI Defense include accounts receivable of \$229 million, inventories of \$223 million, other current assets of \$126 million, and property, plant and equipment of \$306 million. Liabilities assumed include current liabilities of \$598 million and long-term liabilities of \$147 million. Goodwill resulting from the preliminary estimates of fair value associated with this transaction was \$2,915 million.

In connection with the company's consolidation and organization of its defense and electronics unit, a \$300 million restructuring accrual was recorded as an adjustment to the liabilities assumed in connection with the acquisition of TI Defense and the merger with Hughes Defense. The accrual includes \$98 million for the costs of facility and office closures and \$202 million for

employee severance costs (covering approximately 6,650 employees).

The company has included in its consolidated results of operations the acquisitions, under the purchase method of accounting, of the following companies: the aircraft modification and defense electronics businesses of Chrysler Technologies (from June 1996), the engineering and construction assets of Rust International (from June 1996), and the marine communication assets of Standard Radio AB of Sweden (from June 1996). The cash paid for the acquisitions, net of cash acquired, was \$584 million. No pro forma results have been presented since they would not be material to the consolidated results.

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In September 1997, the company sold the home appliance, heating and air conditioning and commercial cooking operation of its Appliance Group. In December 1997, the company sold its Switchcraft and Semiconductor divisions. Total proceeds from these dispositions were \$705 million. In April 1996, the company sold Xyplex, its data networking subsidiary, for \$118 million in cash and securities.

Note C: Restructuring and Special Items

The company announced in the first quarter of 1998, the consolidation and organization of its defense and electronics unit. At the same time, the company announced a consolidation of operations at Raytheon Engineers & Constructors. A \$495 million pre-tax restructuring and special charge (\$322 million after tax) was recorded in the fourth quarter of 1997 in connection with these actions. The restructuring charge of \$295 million includes \$220 million related to the Electronics segment, and \$75 million related to the Engineering and Construction segment consisting of \$72 million for the costs of facility and office closures and \$148 million for employee severance costs (covering approximately 5,150 employees). The special charge of \$200 million includes \$120 million related to the Electronics segment, \$50 million related to the Engineering and Construction segment, and \$30 million related to the Aircraft segment consisting of \$46 million for one-time costs from the merger with Hughes Defense and the acquisition of TI Defense, \$67 million for nonrecurring charges related principally to contract valuations, and \$87 million for the write-down of non-current assets to fair market value to recognize a permanent impairment. For 1997, earnings, basic earnings per share, and diluted earnings per share were \$849 million, \$3.55, and \$3.51 respectively, excluding the restructuring and special charge.

The company announced in the third quarter of 1996 that it would exit the manual-clean range market and dispose of the assets related to that operation, including its facility located in Delaware, Ohio, and recorded a \$34 million pre-tax charge (\$22 million after tax) for this closing. For 1996, earnings, basic earnings per share, and diluted earnings per share were \$783 million, \$3.31, and \$3.26 respectively, excluding the special charge.

The company recorded in the fourth quarter of 1995 a net pre-tax gain of \$210 million from the sale of D.C. Heath, its educational publishing unit. The company adopted statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of, in the fourth quarter of 1995 which resulted in a \$125 million pre-tax special charge (\$81 million after tax) related to specific assets, liabilities, or commitments, and non-recurring charges of \$77 million, related principally to inventory and contract valuations. These transactions combined resulted in a \$5 million after tax one-time gain. For 1995, earnings, basic earnings per share, and diluted earnings per share were \$787 million, \$3.24, and \$3.21 respectively, excluding the one-time gain.

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Note D: Cash and Marketable Securities

(In millions) Cash and marketable securities consisted of the following at December 31:

	1997	1996
Cash and cash equivalents	\$ 296	\$ 137
Marketable securities	--	2
	-----	-----
	\$ 296	\$ 139

Under the company's cash management program, checks and amounts in transit are not considered reductions of cash or accounts payable until presented to the appropriate banks for payment. At December 31, 1997 and 1996, checks and amounts in transit were \$290 million and \$178 million, respectively.

Note E: Contracts in Process

(In millions) Contracts in process consisted of the following at December 31, 1997

	Cost Type	Fixed Price Type	Total

U.S. government end-use contracts			
Billed	\$ 534	\$ 400	\$ 934
Unbilled	404	3,658	4,062
Less progress payments	--	1,968	1,968

Total	938	2,090	\$3,028

Other customers			
Billed	70	321	391
Unbilled	210	1,308	1,518
Less progress payments	--	276	276

Total	280	1,353	1,633

	\$1,218	\$3,433	\$4,661
=====			

(In millions) Contracts in process consisted of the following at December 31, 1996

	Cost Type	Fixed Price Type	Total

U.S. government end-use contracts			
Billed	\$ 206	\$ 140	\$ 346
Unbilled	349	1,813	2,162
Less progress payments	--	1,069	1,069

Total	555	884	1,439

Other customers			
Billed	63	164	227
Unbilled	124	1,265	1,389
Less progress payments	--	463	463

Total	187	966	1,153

	\$ 742	\$1,850	\$2,592
=====			

The U.S. government has a security title to unbilled amounts associated with 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. It is anticipated that substantially all of these unbilled amounts, net of progress payments, will be collected during 1998.

Billed and unbilled contracts in process include retentions arising from contractual provisions. At December 31, 1997, retentions amounted to \$256 million and are anticipated to be collected as follows: 1998--\$107 million, 1999--\$72 million, and the balance thereafter.

Note F: Inventories

(In millions) Inventories consisted of the following at December 31: 1997 1996

Finished goods	\$ 314	\$ 617
Work in process	1,340	702

Materials and purchased parts	509	482
Excess of current cost over LIFO values	(154)	(158)

	2,009	1,643
Less progress payments	172	52

	\$1,837	\$1,591
=====		

Included in inventories at December 31, 1997, are amounts related to certain fixed price contracts under which sales are recorded as products are shipped. The inventory values from which the excess of current cost over LIFO values are deductible were \$504 million and \$424 million at December 31, 1997 and 1996, respectively.

Note G: Property, Plant and Equipment

(In millions) Property, plant and equipment
consisted of the following at
December 31:

	1997	1996

Land	\$ 78	\$ 66
Buildings and leasehold improvements	1,754	1,274
Machinery and equipment	3,299	3,077
Equipment leased to others	119	73

	5,250	4,490
Less accumulated depreciation and amortization	2,359	2,688

	\$2,891	\$1,802
=====		

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Accumulated amortization of equipment leased to others was \$8 million and \$6 million at December 31, 1997 and 1996, respectively.

Future minimum lease payments due to the company from non-cancelable aircraft operating leases, which extend to 2012, amounted to \$52 million.

At December 31, 1997, these payments were due as follows:

(In millions)		
	1998	14
	1999	9
	2000	8
	2001	8
	2002	5
	Thereafter	8

Note H: Other Assets

(In millions) Other assets consisted of the following
at December 31:

	1997	1996

Long-term receivables		
Due from customers in installments to 2012	\$ 148	\$ 176
Sales-type leases, due in installments to 2015	27	22
Other, principally due through 2009	42	31
Investments	372	251
Prepaid pension and other noncurrent assets	2,049	321
Excess of cost over net assets of acquired companies (net of accumulated amortization of		

\$308 million and \$184 million
at December 31, 1997 and 1996,
respectively)

13,836 3,067

\$16,474 \$3,868
=====

Long-term receivables and sales-type leases due from customers of \$175 million and \$198 million at December 31, 1997 and 1996, respectively, included commuter airline receivables of \$63 million and \$116 million, respectively. Since it is the company's policy to have the aircraft serve as collateral for the commuter airline receivables, management does not expect to incur any material losses against the net book value of the long-term receivables. The company sold receivables, including appliance, general and commuter aviation eligible long-term receivables and eligible engineering and construction and appliance short-term receivables to a bank syndicate and other financial institutions.

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The interest rate on general and commuter aviation receivables is LIBOR plus .525 percent, on warehousing receivables is the prime rate (8.5 percent at December 31, 1997), and on trade receivables is the commercial paper rate of specific bank related finance companies plus .27 percent to .30 percent.

The interest rates are adjusted based on the company's debt rating. 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. The balance of receivables sold to banks or financial institutions outstanding at December 31, 1997 and 1996, was \$2,909 million and \$2,494 million, respectively, of which 1997 net proceeds of \$445 million included \$502 million for commuter and general aviation aircraft.

The company adopted Statement of Financial Accounting Standards No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, in 1997. The adoption did not have a material effect on the company's financial position or results of operations.

Note I: Notes Payable

(In millions) Notes payable consisted of the
following at December 31:

	1997	1996
Notes payable	\$3,641	\$ 63
Commercial paper	2,010	2,156
Weighted average interest rate		
Average notes payable	6.37%	6.51%
Average commercial paper	6.11%	5.40%
Notes payable at December 31	6.30%	5.11%
Commercial paper at December 31	6.46%	5.53%
Aggregate borrowings outstanding		
Maximum month-end balance	\$5,744	\$3,136
Average during the year	\$3,472	\$2,890

Credit lines or commitments with banks were maintained by subsidiary companies amounting to \$252 million and \$188 million in 1997 and 1996, respectively. Compensating balance arrangements are not material. In addition, lines of credit with certain commercial banks exist as sources of direct borrowing and/or as a standby facility to support the issuance of commercial paper by the company. The lines of credit were \$9.0 billion and \$3.5 billion at December 31, 1997 and 1996, respectively. At December 31, 1997, \$3.5 billion had been borrowed under the lines of credit. Total interest payments were \$295 million, \$257 million, and \$160 million for 1997, 1996, and 1995, respectively.

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Note J: Long-term Debt

(In millions) Long-term debt consisted of the following at
December 31:

	1997	1996
3 year 6.3% notes due 2000, not redeemable prior to maturity	\$ 498	\$ --
5 year 6.45% notes due 2002, not redeemable prior to maturity	975	--
10 year 6.5% notes due 2005, not redeemable prior to maturity	733	730
10 year 6.75% notes due 2007, not redeemable prior to maturity	957	--
30 year 7.375% debentures due 2025, redeemable after July 15, 2005	362	362
30 year 7.2% debentures due 2027, not redeemable prior to maturity	464	--
Commercial paper backed by 5 year fixed for variable interest rate swap at 6.40%	375	375
Notes (including \$16 million and \$19 million at December 31, 1997 and 1996, respectively, of mortgage notes and industrial revenue bonds), interest in the range of .1% to 11.01% in installments, maturing at various dates from 1999 to 2006	47	41
Less installments due within one year	5	8
	\$4,406	\$1,500

The aggregate amounts of installments due for the next five years are:

(In millions)

1998	\$ 5
1999	11
2000	880
2001	5
2002	1,005

Interest expense on long-term debt was \$190 million, \$103 million, and \$52 million for 1997, 1996 and 1995, respectively.

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Commercial paper in the amount of \$375 million has been classified as long-term due to company borrowings of that amount which are supported by a 5 year Syndicated Bank Credit Agreement combined with a 5 year fixed for variable interest rate swap.

In 1997, the company issued \$500 million of 7.20 percent debentures due in 2027, \$1,000 million of 6.75 percent notes due in 2007, \$1,000 million of 6.45 percent notes due in 2002, and \$500 million of 6.30 percent notes due in 2000. The proceeds from these issues were used for acquisition financing.

In 1995, the company issued \$375 million of 7.375 percent debentures due in 2025, redeemable after ten years, and \$750 million of 6.50 percent notes due in 2005. The proceeds from these issues were used for acquisition financing.

The principal amounts of debt were reduced by debt issue discounts and interest rate hedging costs of \$42 million and \$105 million, on the date of issuance, and are reflected as follows at:

(In millions)	December 31, 1997	December 31, 1996
Principal	\$4,125	\$1,125
Unamortized issue discounts	(38)	(17)
Unamortized interest rate hedging costs	(98)	(16)
Net debt	\$3,989	\$1,092

The company has bank agreement covenants. The most restrictive requires that the ratio of total debt to total capitalization not exceed 65%. The company was in compliance with this covenant during 1997 and 1996.

Note K: Federal and Foreign Income Taxes

Income reported for federal and foreign tax purposes differs from pre-tax accounting income due to variations between requirements of Internal Revenue codes and the company's accounting practices. The provisions for federal and foreign income taxes in 1997, 1996, and 1995 consisted of the following:

(In millions)	1997	1996	1995
Years ending December 31:			
Current income tax expense			
Federal	\$191	\$170	\$263
Foreign	9	34	(23)
Deferred income tax expense			
Federal	61	151	124
Foreign	2	(33)	35
	\$263	\$322	\$399

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The provision for income taxes for 1997, 1996, and 1995 differs from the U.S. statutory rate due to the following:

Tax at statutory rate	35.0%	35.0%	35.0%
Research and development tax credit	(2.2) (1)	(4.6) (1)	(0.4)
FSC tax benefit	(2.1)	(2.5)	(2.0)
Goodwill amortization	3.2	1.7	1.3
Recovery of foreign tax credits	--	--	(0.5)
Other, net	(0.6)	0.1	0.1
	33.3%	29.7%	33.5%

(1) Accrued retroactive research and development tax credits applicable to certain government contracts.

In 1997, 1996, and 1995, domestic profit before taxes amounted to \$743 million, \$1,061 million, and \$1,126 million, respectively, and foreign profit before taxes amounted to \$47 million, \$22 million, and \$65 million, respectively.

Actual cash income tax payments were \$169 million, \$275 million, and \$275 million for 1997, 1996, and 1995, respectively.

In 1997, 1996, and 1995 net deferred tax assets were increased by \$393 million, \$108 million, and \$176 million, respectively, in connection with acquisitions.

Federal and foreign income taxes, including deferred consisted of the following at December 31:

(In millions)	1997	1996
Current deferred tax assets (liabilities)		
Inventory and other	\$ 444	\$ 10
Long-term contracts	582	199
Restructuring reserve	126	--
Inventory capitalization	(24)	17
Other	85	28
Net current deferred tax assets	1,213	254
Current period tax prepaid	31	64
Federal and foreign income taxes, including deferred--current	\$1,244	\$ 318

Noncurrent deferred tax assets (liabilities)

Depreciation	\$ (284)	\$ (126)
Revenue on leases	(75)	(58)
Pension	(588)	(66)
Postretirement benefits	247	105
Other	(86)	(13)

Net noncurrent deferred tax liabilities	(786)	(158)

Income taxes, including deferred -- noncurrent	\$ (786)	\$ (158)
=====		

Note L: Commitments and Contingencies

At December 31, 1997, the company had commitments under long-term leases requiring approximate annual rentals on a net lease basis as follows:

(In millions)

1998	\$231
1999	225
2000	204
2001	189
2002	151
Thereafter	868

Certain lease commitments will be terminated or reduced in connection with facility and office closures and the optimization of facility utilization.

Rental expense for 1997, 1996, and 1995 amounted to \$136 million, \$113 million, and \$103 million, respectively.

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. Management believes that such investigations, individually and in the aggregate, will not have a material adverse effect on the company's financial position or results of operations.

The company self-insures for losses and expenses for aircraft product liability up to a maximum of \$50 million annually. Excess insurance is purchased from third parties to cover excess aggregate liability exposure from \$50 million to \$1 billion. This coverage also includes the excess of liability over \$10 million per occurrence. The aircraft product liability reserve at December 31, 1997 was \$29 million.

Recurring costs associated with the company's environmental compliance program are not material and are expensed as incurred. Capital expenditures in connection with environmental compliance are not material. The company is involved in various stages of investigation and cleanup relative to remediation of various sites. All appropriate costs expected to be incurred in connection therewith have been accrued at December 31, 1997. 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 additional 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.

The company adopted the American Institute of Certified Public Accountants' Statement of Position 96-1, Environmental Remediation Liabilities, in 1997. The adoption of the standard did not have a material effect on the company's financial position or results of operations.

The company issues guarantees and has banks issue, on its behalf, letters of credit to meet various bid, performance, warranty, retention, and advance payment obligations. Approximately \$1,148 million, \$1,363 million, and \$979 million of these contingent obligations, net of related outstanding advance payments, were outstanding at December 31, 1997, 1996, and 1995, respectively. These instruments expire on various dates through the year 2006.

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, in the opinion of management, any additional 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.

Note M: 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% of the fair market value on the date of grant. The 1991 Stock Plan provides for the grant of incentive stock options at an exercise price which is 100% of the fair market value, and nonqualified stock options at an exercise price which may be less than the fair market 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% of the fair market value on the date of grant.

The plans also provide that all stock options may be exercised in their entirety 12 months 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 in connection with the 1995 Stock Option Plan. In 1997, Raytheon issued conversion stock options covering 4.8 million shares in substitution of nonqualified stock options held by employees of TI Defense and Hughes Defense. In accordance with the terms of the original grants, these replacement stock options have remaining exercise periods of up to 10 years and become exercisable at various times through January 2001. The number of shares granted and option exercise prices are consistent with applicable provisions of the Internal Revenue Code. These shares are included in the tables below and in the reported shares reserved at December 31, 1997.

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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 awards are made at prices determined by the 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.

No further grants are allowed under these plans after March 22, 1998, March 26, 2001, March 21, 2005, and November 25, 2006, respectively.

All 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. Upon issuance of restricted shares, unearned compensation is charged to stockholders' equity for the cost of restricted stock and recognized as compensation expense ratably over the vesting periods, as applicable. Awards of 115,920, 19,500, and 256,000 shares of restricted stock were made to employees and directors at a weighted average value at the grant date of \$54.69, \$50.87, and \$38.07 in 1997, 1996 and 1995, respectively. The amount of compensation expense recorded was \$18 million, \$7 million, and \$5 million for 1997, 1996, and 1995, respectively. In 1997, \$12 million of compensation expense was related to accelerated vesting of restricted stock as a result of the merger with Hughes Defense.

There were 52.8 million, 49.6 million, and 51.4 million shares of common stock (including shares held in treasury) reserved for stock options and restricted stock awards at December 31, 1997, 1996, and 1995, respectively.

Shares exercisable at the corresponding weighted average exercise price at December 31, 1997, 1996, and 1995, respectively, were 13.0 million at \$37.35, 8.8 million at \$31.32, and 7.3 million at \$26.71.

Information for 1995, 1996, and 1997 follows:

	Shares	Weighted Average Option Price

(Share amounts in thousands)		
Outstanding at December 31, 1994	9,158	\$ 26.30
Granted	4,071	36.61
Exercised	(2,132)	22.92
Expired	(316)	34.04

Outstanding at December 31, 1995	10,781	\$ 30.63
Granted	3,890	52.53
Exercised	(1,845)	26.91
Expired	(256)	45.47

Outstanding at December 31, 1996	12,570	\$ 37.65
Granted	8,950	43.84
Exercised	(1,698)	31.18
Expired	(312)	49.13

Outstanding at December 31, 1997	19,510	\$ 40.87
=====		

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The following table summarizes information about stock options outstanding at December 31, 1997 (share amounts in thousands):

Exercise Price Range	Options Outstanding		Options Exercisable		
	Shares Outstanding at December 31, 1997	Weighted Average Contractual Remaining Life	Weighted Average Exercise Price	Shares Exercisable at December 31, 1997	Weighted Average Exercise Price
\$14.51 to \$29.63	3,735	5.9 years	\$22.68	3,231	\$22.31
\$31.13 to \$46.50	7,499	7.5 years	\$37.41	5,816	\$35.55
\$47.13 to \$58.16	8,276	8.7 years	\$52.21	3,907	\$52.49

Total	19,510			12,954	
=====					

The 1976 Stock Option Plan, 1991 Stock Plan, 1995 Stock Option Plan, and 1997 Nonemployee Directors Restricted Stock Plan utilize Class B common stock.

The company applies Accounting Principles Board Opinion No.25, Accounting for Stock Issued to Employees, and related interpretations, in accounting for its plans. Accordingly, no compensation expense has been recognized for its stock-based compensation plans other than for restricted stock. The company has adopted the disclosure-only provisions of SFAS No. 123, accordingly, no compensation expense was recognized for the stock option plans. Had compensation cost 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:

(n millions except per share amounts)	1997	1996	1995

Net income-as reported	\$527	\$761	\$792
Net income-pro forma	\$484	\$739	\$779

Basic earnings per share-as reported	\$2.20	\$3.22	\$3.26
Basic earnings per share-pro forma	\$2.02	\$3.12	\$3.21

Diluted earnings			
per share-as reported	\$2.18	\$3.17	\$3.23
Diluted earnings			
per share-pro forma	\$2.00	\$3.08	\$3.18

The weighted-average fair value of each option granted in 1997, 1996, and 1995, respectively, is estimated as \$17.41, \$10.79, and \$8.30 on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

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Expected life	4 years
Assumed annual dividend growth rate (5 year historical rate)	6%
Expected volatility	15%
Risk free interest rate (month-end yields on 4 year treasury strips equivalent zero coupon)	5% to 7.5% range
Assumed annual forfeiture rate	5%

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 does not apply to awards prior to 1995 and additional awards in future years are anticipated.

Note N: Pension and Other Employee Benefits

The company and its subsidiaries have several pension and retirement plans covering the majority of employees, including certain employees in foreign countries. The major plans covering salaried and management employees provide pension benefits that are based on the five highest consecutive years of the employee's compensation in the ten years before retirement. Plans covering hourly and union employees generally provide benefits of stated amounts for each year of service, but in some cases can also use a final average pay based calculation. The company's funding policy for the salaried plans is to contribute annually at a rate that is intended to remain at a level percentage of compensation for the covered employees. The company's funding policy for the hourly and union plans is to contribute annually at a rate that is intended to remain level for the covered employees. Unfunded prior service costs under the funding policy are generally amortized over periods from 10 to 30 years.

Total pension expense was \$62 million, \$93 million, and \$31 million in 1997, 1996, and 1995, respectively, including foreign pension expense of \$11 million, \$10 million, and \$8 million in 1997, 1996, and 1995, respectively.

Net periodic pension cost for the company and its subsidiaries in 1997, 1996 and 1995 included the following components:

(In millions)

Years ending December 31:	1997	1996	1995 (2)
Service cost--benefits earned during the period	\$ 143	\$ 127	\$ 98
Interest cost on projected benefit obligation	332	307	268
Actual gain on assets	(1,121)	(670)	(956)
Net amortization and deferral, net	711	325	626
Curtailement adjustments	(6) (1)	1	(8) (3)
Net periodic pension costs	59	90	28
Defined contribution pension plans	3	3	3
Total pension costs	\$ 62	\$ 93	\$ 31

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Assumptions used in the accounting were

Discount rate	7.25%	7.75%	7.50%
Expected long-term rate of return on assets	9.25%-9.50%	9.25%	9.00%

Rate of increase in compensation levels	4.25%-5.00%	4.50%	4.50%
--	-------------	-------	-------

The following table sets forth the funded status of the plans at:

(In millions)	December 31, 1997(4)		December 31, 1996	
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets

Actuarial present value of benefit obligations				
Vested benefit obligation	\$ (7,869)	\$ (314)	\$ (3,603)	\$ (69)
Accumulated benefit obligation	\$ (8,404)	\$ (322)	\$ (3,753)	\$ (71)
Projected benefit obligation	\$ (9,577)	\$ (350)	\$ (4,184)	\$ (83)
Plan assets at fair value	12,141	47	4,961	--

Projected benefit obligation (in excess of) less than plan assets	2,564	(303)	777	(83)
Unrecognized net (gain) loss	(973)	22	(763)	15
Prior service cost not yet recognized in net periodic pension cost	187	10	213	13
Unrecognized net obligation (asset) at transition	(26)	1	(35)	1
Adjustment required to recognize additional minimum liability	--	(24)	--	(18)

Prepaid pension cost (liability)	\$ 1,752	\$ (294)	\$ 192	\$ (72)
=====				

Plan assets consist primarily of equity and fixed income securities.

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The company's salaried pension plan provides that in the event of a termination of the plan within three years after an involuntary change of control of the company, the assets of the plan will be applied to satisfy all liabilities to participants and beneficiaries in accordance with section 4044 of the Employee Retirement Income Security Act of 1974. Any remaining assets will be applied on a pro rata basis to increase the benefits to the participants and beneficiaries.

In addition to providing pension benefits, the company and most of its subsidiaries provide 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 if they reach normal retirement age while working for the company. Retiree health plans are paid for in part by retiree contributions, which are adjusted annually. Benefits are provided through various insurance companies whose charges are based either on the benefits paid during the year or annual premiums. Health benefits are provided to retirees, their covered dependents and beneficiaries. Retiree life insurance plans are noncontributory and cover the retiree only.

In 1993, the company adopted Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other than Pensions, which requires recognition of an accumulated postretirement benefit obligation for retiree costs existing at the time of implementation, as well as an incremental expense recognition for changes in the obligation attributable to each successive year. Prior to 1995, all company segments had elected to amortize past service costs over the allowable 20 year period. During 1995, the company acquired E-Systems, Inc. that had elected in 1992 to recognize all its past service cost immediately upon implementation.

The company is funding the liability for many salaried and hourly employees and plans to continue to do so. The net postretirement benefit cost

for the company and its subsidiaries in 1997, 1996, and 1995 included the following components:

(In millions)	Years ending December 31:	1997	1996	1995(2)
Service cost--benefits earned during the period		\$ 10	\$ 9	\$ 8
Interest cost on accumulated postretirement benefit obligation		57	52	48
Actual gain on assets		(19)	(29)	(8)
Amortization of transition obligation		27	27	27
Other amortizations and deferrals, net		(8)	7	(11)
Curtailement and other adjustments		11(1)	3(5)	19(5)
Net postretirement benefit cost		\$ 78	\$ 69	\$ 83

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Assumptions used in the accounting were

Discount rate	7.25%	7.75%	7.50%
Expected long-term rate of return on assets	8.50%	8.75%	8.50%
Rate of increase in compensation levels	4.50%	4.50%	4.50%
Health care trend rate in the next year	6.50%	7.00%	7.50%
Gradually declining to a trend rate of	5.00%	5.00%	5.00%
In the years	2001 & beyond	2001 & beyond	2001 & beyond

The following amounts are recognized in the balance sheet at:

(In millions)	December 31:	1997	1996
Accumulated postretirement benefit obligation			
Retirees		\$ (871)	\$ (560)
Active employees eligible for benefits		(99)	(41)
Active employees not yet eligible for benefits		(333)	(131)
Total obligation		(1,303)	(732)
Plan assets at fair value		289	184
Total obligation in excess of plan assets		(1,014)	(548)
Unrecognized net gain		(15)	(67)
Unrecognized prior service cost		(13)	(13)
Unrecognized net obligation at transition		316	360
Accrued postretirement benefit cost		\$ (726)	\$ (268)

The effect of a one percentage point increase in the assumed health care trend rate for each future year on:

(In millions)	1997	1996	1995
Aggregate of service and interest cost	\$ 5	\$ 4	\$ 3
Accumulated postretirement benefit obligation	\$ 62	\$ 44	

Under the terms of the Raytheon Savings and Investment Plan, a defined contribution plan, covered employees are allowed to contribute up to 17 percent of their pay limited to \$9,500 per year. The company contributes amounts equal

to 50 percent of the employee's contributions, up to a maximum of 3 percent of the employee's pay. Total expense for the plan was \$75 million, \$68 million, and \$65 million for 1997, 1996, and 1995, respectively.

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The company's annual contribution to the Raytheon Employee Stock Ownership Plans is approximately one-half of one percent of salaries and wages, limited to \$160,000, of substantially all United States salaried and a majority of hourly employees. The expense was \$15 million, \$15 million, and \$12 million and the number of shares allocated to participant accounts was 290,000, 296,000, and 177,000 for 1997, 1996, and 1995, respectively.

(1) Reflects curtailment adjustment resulting from the sale of the home appliance, heating and air conditioning, and commercial cooking operations of the Appliance Group in September 1997.

(2) 1995 data, including \$17 million of Net Periodic Pension Cost, \$8 million of Accrued Pension Cost, \$15 million of Net Periodic Postretirement Benefit Cost, and \$235 million of Accrued Postretirement Benefit Cost, were a result of having acquired E-Systems, Inc. in April 1995.

(3) Various plan curtailments were recognized as a result of workforce reductions which were planned as part of the restructuring program.

(4) Increases from 1996 are primarily attributable to the acquisition of TI Defense and the merger with Hughes Defense.

(5) Benefit enhancements were made to various plans during the year in order to accelerate attrition through voluntary retirements.

Note O: Business Segment Reporting

The company continues to operate in three major business areas: Electronics, both commercial and defense, Engineering and Construction, and Aircraft. The principal contributors to Electronics sales and earnings are defense missile systems and other products. The Engineering and Construction segment does business in some 60 countries around the world. The Aircraft segment manufactures, markets, and supports piston, jetprops, and medium and light jet aircraft for commercial, regional airline, and military markets around the world. The Major Appliances segment, which manufactured and sold household and commercial appliances to dealers and distributors in the United States and to foreign locations, was substantially divested in 1997. As a result of these dispositions, the company has included the remaining operations of the Major Appliances segment within the Electronics segment in 1997.

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OPERATIONS BY BUSINESS SEGMENTS

(In millions)	Sales to unaffiliated customers			Segment income		
	1997	1996	1995	1997	1996	1995
Electronics	\$ 8,194	\$ 5,424	\$ 5,389	\$1,159	\$ 766	\$ 740(4)
Engineering and Construction	3,033	3,053	2,883	181	211(2)	262
Aircraft	2,446	2,345	2,060	239	181	167(5)
Major Appliances	--	1,509	1,472	--	74	74
Total operating segments	\$13,673	\$12,331	\$11,804	1,579	1,232	1,243
Restructuring and special charges				(495) (1)	(34) (3)	(125) (6)
Gain on sale of Switchcraft and Semiconductor				59	--	--
Gain on sale of Appliances				13	--	--
Gain on sale of D.C. Heath				--	--	210
Net interest expense				(359)	(154)	(171)

Other (expense) income	(7)	39	5
Gain on sale of an investment	--	--	29
	-----	-----	-----
Income before taxes	\$ 790	\$1,083	\$1,191
	=====	=====	=====

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-
- (1) The restructuring and special charge relates to the business segments as follows: Electronics, \$340, Engineering and Construction, \$125, and Aircraft, \$30.
 - (2) Excludes second quarter fee adjustment on a major foreign project which was covered by a pre-existing contingency reserve.
 - (3) The special charge relates to the Major Appliances segment.
 - (4) Includes a nonrecurring charge of \$47 million.
 - (5) Includes a nonrecurring charge of \$30 million.
 - (6) The special charge relates to the business segments as follows: Electronics, \$115, and Engineering and Construction, \$10.

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(In millions)	Capital expenditures			Depreciation and amortization		
	1997	1996	1995	1997	1996	1995
-----	-----	-----	-----	-----	-----	-----
Electronics	\$239	\$160	\$147	\$351	\$220	\$228
Engineering and Construction	36	27	26	42	37	32
Aircraft	184	140	80	64	50	51
Major Appliances	--	79	76	--	62	60
	-----	-----	-----	-----	-----	-----
Total	\$459	\$406	\$329	\$457	\$369	\$371
	=====	=====	=====	=====	=====	=====

Identifiable assets at December 31,

(In millions)	1997	1996	1995
-----	-----	-----	-----
Electronics	\$24,171	\$ 5,953	\$5,539
Engineering and Construction	2,188	2,059	1,544
Aircraft	2,239	2,372	1,832
Major Appliances	--	814	992
	-----	-----	-----
Total	\$28,598	\$11,198	\$9,907
	=====	=====	=====

OPERATIONS BY GEOGRAPHIC AREAS

(In millions)	United States	Outside United States (Principally Europe)	Consolidated
-----	-----	-----	-----
Sales to unaffiliated customers			
-----	-----	-----	-----
1997	\$12,907	\$ 766	\$13,673
1996	11,570	761	12,331
1995	11,017	787	11,804

Net income			
-----	-----	-----	-----
1997	\$ 491	\$ 36	\$ 527
1996	740	21	761
1995	738	54	792

Identifiable assets at			
-----	-----	-----	-----
December 31, 1997	\$27,976	\$ 622	\$28,598
December 31, 1996	10,545	653	11,198
December 31, 1995	9,237	670	9,907

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Sales between business segments and between geographic areas are not

material. In the operations by geographic area, U.S. sales of \$12,907 million, \$11,570 million, and \$11,017 million include export sales, principally to Europe, the Middle East, Far East, of \$2,756 million, \$2,137 million, and \$1,907 million for 1997, 1996, and 1995, respectively.

Sales to major customers, principally in Electronics, for 1997, 1996, and 1995, respectively, were: U.S. government (end user), \$5,787 million, \$4,638 million, and \$4,079 million, U.S. government (foreign military sales), \$483 million, \$502 million, and \$597 million.

Note P: Quarterly Operating Results (unaudited)

The fourth quarter of 1997 includes a restructuring and special charge of \$322 million after tax, or \$1.29 per share principally including the costs of facility and office closures, employee severance costs, one-time costs from the merger with Hughes Defense and the acquisition of TI Defense, nonrecurring charges related principally to contract valuations, and the write-down of non-current assets to fair market value to recognize a permanent impairment.

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. Class A common stock began trading on December 18, 1997.

The third quarter of 1996 includes a special charge of \$22 million after tax, or \$.09 per share to exit the manual-clean range market and dispose of the assets related to that operation including its facility located in Delaware, Ohio.

At December 31, 1997, there were 441,356 record holders of Class A common stock and 21,389 record holders of Class B common stock.

(In millions except per share amounts)

	First	Second	Third	Fourth
1997				
Net sales	\$2,899	\$3,325	\$3,445	\$4,004
Cost of sales	2,221	2,570	2,636	3,157
Net income	183	210	211	(77)
Earnings per share				
Basic	0.78	0.89	0.90	(0.31)
Diluted	0.77	0.88	0.88	(0.31)
Cash dividends				
per common share				
Declared	0.20	0.20	0.20	0.20
Paid	0.20	0.20	0.20	0.20
Common stock prices				
per the Composite				
Tape				
Class A - High				57.00
Class A - Low				48.00
Class B - High	51.25	53.88	60.56	60.50
Class B - Low	43.25	41.75	50.81	49.19

1996				
Net sales	\$2,788	\$3,127	\$3,032	\$3,384
Cost of sales	2,141	2,435	2,428	2,751
Net income	186	209	188	178
Earnings per share				
Basic	0.78	0.89	0.80	0.75
Diluted	0.77	0.87	0.79	0.74
Cash dividends				
per common share				
Declared	0.20	0.20	0.20	0.20
Paid	0.1875	0.20	0.20	0.20
Common stock prices				
per the Composite				
Tape				
High	54.13	53.63	55.00	56.13

Low 45.00 48.75 43.38 45.75

Note Q: Financial Instruments

The carrying value of certain financial instruments, including cash, cash equivalents, marketable securities, and short-term debt, is estimated to approximate fair value due to their short maturities and varying interest rates of the debt.

The carrying value of notes receivable is estimated to approximate fair value based principally on the underlying interest rates and terms, maturities, collateral, and credit status of the receivables.

The carrying value of marketable securities and investments are based on quoted market prices or the present value of future cash flows and earnings which approximate fair value.

The value of the guarantees and letters of credit reflect fair value.

The fair value of long-term debt was estimated based on current rates offered to the company for similar debt with the same remaining maturities and approximates the carrying value.

At December 31, 1997 and 1996, the company had outstanding interest rate swap agreements, with notional amounts, and foreign currency forward exchange contracts which minimized or eliminated risk associated with interest rate changes or foreign currency exchange rate fluctuations. All of these financial instruments were related to specific transactions and particular assets or liabilities for which a firm commitment existed. These instruments were executed with credit-worthy institutions and the majority of the foreign currencies were denominated in currencies of major industrial countries and are summarized as follows at December 31:

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(In millions)	1997	1996
Interest rate swaps	\$386	\$389
Foreign exchange contracts	\$425	\$270

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

(In millions)	1997		1996	
	Buy	Sell	Buy	Sell
Pound Sterling	\$ 70	\$ 27	\$ 95	\$ 5
Japanese Yen	5	17	9	31
Netherlands Guilder	45	--	3	76
German Mark	71	19	1	--
Canadian Dollar	13	66	17	1
French Franc	4	--	11	--
Australian Dollar	38	--	16	--
Danish Kroner	--	11	--	--
Hong Kong Dollar	--	21	--	--
All others	10	8	3	2
Total	\$256	\$169	\$155	\$115

Foreign currencies are translated at current rates at the reporting date. "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.

Swap contracts mature at various dates through the year 2000 and essentially fix the interest rates on that portion of debt at rates from 4.7 percent to 5.7 percent, and 4.7 percent to 9.5 percent at December 31, 1997 and 1996, respectively.

Foreign exchange forward contracts, used primarily to minimize fluctuations in the values of foreign currency payments and receipts, have maturities at various dates through June 2002. Fair values for these contracts

were determined by applying December 31, 1997 spot rates to the nine major currencies and comparing the U.S. dollar equivalents to the U.S. dollar contract amounts for the same currencies. The resulting difference was not material and approximates the contract amounts.

The company, in order to lock in favorable interest rates, entered into interest rate swaps and locks in connection with the 1997 issuance of \$500 million three-year notes, \$1.0 billion five-year notes, \$1.0 billion ten-year notes, and \$500 million thirty-year debentures and the 1995 issuance of \$750 million ten-year notes and \$375 million thirty-year debentures. Both the interest rate swaps and locks were unwound prior to the issuance of the 1997 and 1995 debt.

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Note R: Common Stock

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% of the total voting power and the Class B stockholders have the remaining 19.9%. 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 common stockholders are identical.

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 its merger with Hughes Defense. The company has agreed with the former parent of Hughes Defense that it will not propose a plan of recapitalization or certain other equity transactions that would adversely affect the tax free status of the merger.

In December 1997, the company retired 71.1 million shares of Class B common stock previously held in treasury.

The company adopted Statement of Financial Accounting Standards No. 128, Earnings per Share, during 1997. This statement established new standards for computing and presenting earnings per share (EPS) and required restatement of all prior-period EPS data presented. It replaces the presentation of primary EPS with basic EPS and requires dual presentation of basic and diluted EPS on the face of the income statement. Basic 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 basic and diluted EPS calculation, which follows:

Years ending December 31:	1997	1996	1995
Net income for basic and diluted EPS	\$ 527	\$ 761	\$ 792
Share information (in thousands):			
Average common shares outstanding			
- for basic EPS	238,915	236,600	243,030
Dilutive effect of stock options and restricted stock	2,971	3,565	2,367
Shares for diluted EPS	241,886	240,165	245,397
Basic EPS	\$2.20	\$3.22	\$3.26
Diluted EPS	\$2.18	\$3.17	\$3.23

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Stock options to purchase 8.2 million, 3.7 million, and .1 million shares of common stock outstanding at December 31, 1997, 1996, and 1995, respectively, were not included in the computation of diluted EPS because the stock options' exercise price was greater than the average market price of the company's common stock during the year.

All share data have been restated to reflect the two-for-one stock split in October 1995.

Note S: Subsequent Events

In January 1998, the company sold its Monolithic Microwave Integrated Circuit (MMIC) operations for approximately \$39 million.

In February 1998, the company announced that it had entered into an agreement to sell its commercial laundry business for approximately \$358 million. There can be no assurance that the sale will be consummated.

In March 1998, the company issued \$1.6 billion of debt. Partial proceeds from the issuance were used to refinance debt assumed in connection with the company's recent merger Hughes Defense. The company issued \$500 million of notes due 2001 which have a coupon rate of 5.95 percent, \$450 million of notes due 2005 which have a coupon rate of 6.3 percent, \$300 million of notes due 2010 which have a coupon rate of 6.55 percent, and \$350 million of debentures due 2018 which have a coupon rate of 6.75 percent. The notes due in 2001 and 2005 are not redeemable prior to maturity. The notes due in 2010 and the debentures due in 2018 are redeemable under certain circumstances. \$900 million of the issuance essentially completes the company's previously announced plans to refinance the acquisition of TI Defense and its merger with Hughes Defense. The remaining \$700 million is additional refinancing of bank and commercial paper borrowings.

On March 26, 1998, the company announced that it had reached an agreement to sell its European-based Raytheon Electronic Controls business for \$38 million. There can be no assurance that the sale will be consummated.

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Company Responsibility for Financial Statements

Raytheon Company has prepared the financial statements and related data contained in this Annual Report. The company's financial statements have been prepared in conformity with generally accepted accounting principles and reflect judgments and estimates as to the expected effects of transactions and events currently being reported. Raytheon is responsible for the integrity and objectivity of the financial statements and other financial data included in this 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.

/s/ Peter R. D'Angelo
Peter R. D'Angelo

Executive Vice President,
Chief Financial Officer

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, Coopers & Lybrand L.L.P., independent accountants, have been selected by the Board of Directors to audit the company's financial statements and their report follows.

/s/ Dennis J. Picard
Dennis J. Picard

Chairman and
Chief Executive Officer

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Report of Independent Accountants
To the Board of Directors and Stockholders

Raytheon Company
Lexington, Mass.

We have audited the accompanying balance sheets of Raytheon Company and Subsidiaries Consolidated as of December 31, 1997 and 1996, and the related statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. 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 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Raytheon Company and Subsidiaries Consolidated as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.
Coopers & Lybrand L.L.P.

Boston, Mass.
January 26, 1998, except as to the information presented in note S for which the date is March 26, 1998

EXHIBIT 21

SIGNIFICANT SUBSIDIARIES OF THE REGISTRANT

Subsidiary	Where Organized	Percentage Owned
Raytheon Systems Company LLC	Delaware	100%
Raytheon E-Systems, Inc.	Delaware	100%
Raytheon TI Systems, Inc.	Delaware	100%
Raytheon Missile Systems Company	Delaware	100%
Raytheon Technical Services Company	California	100%
Raytheon Information Systems Company	Delaware	100%
Raytheon Training, Inc.	Delaware	100%
Raytheon Support Services Company	Delaware	100%
Raytheon Data Systems	California	100%
Hughes Aircraft Systems International	California	100%
Raytheon Service Company	Delaware	100%
Raytheon Aircraft Company	Kansas	100%
Raytheon Engineers & Constructors International, Inc.	Delaware	100%
Raytheon Commercial Laundry LLC	Delaware	100%

EXHIBIT 23.1

CONSENT OF
INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements of Raytheon Company and Subsidiaries Consolidated on Form S-8 (File Nos. 333-29445 and 333-45629) and Form S-3 (File No. 333-44321) of our reports dated January 26, 1998 except as to information presented in Note S for which the date is March 26, 1998, on our audits of the consolidated financial statements and financial statement schedule of Raytheon Company and Subsidiaries Consolidated as of December 31, 1997 and 1996, and for each of the three years in the period ended December 31, 1997, which reports are included in this Annual Report on Form 10-K.

/s/ Coopers & Lybrand L.L.P.
Coopers & Lybrand L.L.P.

Boston, Massachusetts
March 30, 1998

EXHIBIT 23.2

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
Raytheon Company:

Our report on the consolidated financial statements of Raytheon Company and Subsidiaries Consolidated is included on page 50 of Exhibit 13 to this Form 10-K. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in Item 14(a) of this Form 10-K. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, represents fairly, in all material respects, the information required to be included therein.

/s/ Coopers & Lybrand L.L.P.
Coopers & Lybrand L.L.P.

Boston, Massachusetts
January 26, 1998, except for the
information presented in Note S for
which the date is March 26, 1998

EXHIBIT 24

POWER OF ATTORNEY

RAYTHEON COMPANY

The undersigned hereby constitutes Christoph L. Hoffmann and Thomas D. Hyde, and each of them, jointly and severally, his or her lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, including, but not limited to, that listed below, in connection with the preparation, execution and filing with the Securities and Exchange Commission (the "Commission"), under the Securities Exchange Act of 1934 of an Annual Report on Form 10-K of Raytheon Company (the "Company") and any amendments thereto for the Company's fiscal year ended December 31, 1997 with exhibits thereto, including, but not limited to, the Company's Audited Consolidated Financial Statements as of December 31, 1997 and 1996 and for each of the three years in the period ended December 31, 1997 and Management's Discussion and Analysis of Financial Condition and Results of Operations for the Company's fiscal year ended December 31, 1997, and other documents in connection therewith (collectively, the "Form 10-K"), and all matters required by the Commission in connection with the Form 10-K, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney's-in-fact and agents, and each of them, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Dated: March 25, 1998

Dennis J. Picard
(Dennis J. Picard)
Chairman of the Board and Director
(Principal Executive Officer)

Dated: March 25, 1998

Ferdinand Colloredo-Mansfeld
(Ferdinand Colloredo-Mansfeld)

Dated: March 25, 1998

Steven D. Dorfman
(Steven D. Dorfman)

Dated: March 25, 1998

Thomas E. Everhart
(Thomas E. Everhart)

Dated: March 25, 1998

Theodore L. Eliot, Jr.
(Theodore L. Eliot, Jr.)

Dated: March 25, 1998

John R. Galvin
(John R. Galvin)

Dated: March 25, 1998

Barbara B. Hauptfuhrer
(Barbara B. Hauptfuhrer)

Dated: March 25, 1998

Richard D. Hill
(Richard D. Hill)

2

Dated: March 25, 1998

L. Dennis Kozlowski
(L. Dennis Kozlowski)

Dated: March 25, 1998

James N. Land, Jr.
(James N. Land, Jr.)

Dated: March 25, 1998

A. Lowell Lawson
(A. Lowell Lawson)

Dated: March 25, 1998

Charles H. Noski
(Charles H. Noski)

Dated: March 25, 1998

Thomas L. Phillips
(Thomas L. Phillips)

Dated: March 25, 1998

Warren B. Rudman

(Warren B. Rudman)

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