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

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**FORM 10-K**

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

For the fiscal year ended December 31, 2002.

- ☐ **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

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**RAYTHEON COMPANY**

(Exact Name of Registrant as Specified in its Charter)

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

**95-1778500**  
(I.R.S. Employer  
Identification No.)

**141 SPRING STREET, LEXINGTON, MASSACHUSETTS 02421**

(Address of Principal Executive Offices) (Zip Code)

**(781) 862-6600**

Registrant's telephone number, including area code

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

Title of Each Class	Name of Each Exchange on Which Registered
<b>Common Stock, \$.01 par value</b>	<b>New York Stock Exchange</b>
<b>Series B Junior Participating Preferred Stock</b>	<b>Chicago Stock Exchange</b>
<b>Purchase Rights</b>	<b>Pacific Exchange</b>
<b>Equity Security Units</b>	<b>New York Stock Exchange</b>

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

**None**

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, as of January 26, 2003, was approximately \$12.3 billion.

Number of shares of Common Stock outstanding as of January 26, 2003: 408,673,000.

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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, 2002

Part I, Part II, Part IV

Portions of the Proxy Statement for Raytheon's 2003 Annual Meeting which will be filed with the Commission within 120 days after the close of Raytheon's fiscal year

Part III

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## PART I

### Item 1. Business

#### GENERAL

Raytheon Company (“Raytheon” or the “Company”), with worldwide 2002 sales of \$16.8 billion, is a leader in defense electronics, including missiles; radar; sensors and electro-optics; intelligence, surveillance and reconnaissance; command, control, communication and information systems; naval systems; air traffic control systems; and technical services. Raytheon’s commercial electronics businesses leverage defense technologies in commercial markets. Raytheon Aircraft is one of the leading providers of business and special mission aircraft and delivers a broad line of jet, turboprop, and piston-powered airplanes to corporate and government customers world-wide.

The Company’s principal executive offices are located at 141 Spring Street, Lexington, Massachusetts 02421. The Company’s Internet address is [www.raytheon.com](http://www.raytheon.com). The content on the Company’s website is available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-K.

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

#### BUSINESS SEGMENTS

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

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

ES produces the Patriot ground-based air defense missile system, which is capable of tracking and intercepting enemy aircraft, cruise missiles, and tactical ballistic missiles. In addition to the U.S., eight nations have selected Patriot as an integral part of their air defense systems. Since the end of the Gulf War in 1991, Raytheon has received approximately \$3.5 billion in international orders for Patriot equipment and services. In addition, ES leads Raytheon’s efforts as the prime contractor for the Hawk ground-launched missile, which is in service with the U.S. and 18 allied nations.

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

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

surface combatant ships, the DD-X.

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

ES supplies integrated sensor suites for applications such as the Global Hawk Unmanned Aerial Vehicle Reconnaissance System, which includes a synthetic aperture radar and electro-optical/infrared sensors. ES surveillance and reconnaissance systems are used on a variety of aircraft, such as the British Tornado, the U.S. Air Force U-2 and the U.S. Navy P-3 Orion. Through a joint venture, ES is developing next generation airborne ground surveillance radar, which will be scalable for multiple platforms. ES also provides space sensors for defense and scientific applications.

ES night vision and fire control systems equip combat vehicles like the M1 Abrams tank, Bradley Fighting Vehicle and a host of light armored vehicles, ships and submarines, and aircraft. The segment also puts state of the art technology in the hands of the infantry.

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

**Command, Control, Communication and Information Systems**. The Command, Control, Communication and Information Systems segment ("C3I") is classified into five principal businesses. They are: Intelligence, Surveillance, Reconnaissance ("ISR"), Air Traffic Management ("ATM"), Command and Control / Battle Management ("C2BM"), Communications and Information Technology / Information Systems.

C3I products include command, control and communication systems; air traffic control automation and radar systems; tactical radios; satellite communication and ground control terminals; wide area surveillance systems; ground-based information processing systems; image processing; large scale information retrieval, processing and distribution systems; global broadcast systems and secure information technology solutions.

In the ISR business, C3I is a leading provider of remote sensing and processing for national intelligence systems as well as control and mission management systems for Unmanned Aerial Vehicles (UAVs). C3I designs and develops systems that provide real-time battlefield information, signal intelligence and multi-source intelligence integration to the U.S. Department of Defense and several other Government agencies. C3I also participates in the commercial ISR marketplace as the prime contractor for the Brazilian System for the Vigilance of the Amazon (SIVAM) program, and is providing an integrated information network that will be used to enable the Brazilian Government to protect the environment, improve air safety and weather forecasting, manage land occupation and usage, and enable effective law enforcement and border control.

C3I designs and installs Communications, Navigation, Surveillance / Air Traffic Management (CNS / ATM) systems around the world. C3I is the largest CNS / ATM supplier to the Federal Aviation Administration (FAA). Internationally, C3I has installed numerous air traffic control systems and is currently providing CNS / ATM systems for: Australia, Canada, Germany, Hong Kong, India, Japan, Norway, the People's Republic of China, Switzerland, The United Kingdom and Taiwan.

In communications, C3I is a leading supplier of battlefield tactical radios and satellite ground terminals. The C3I Satcom programs group supplies Satcom terminals to the Navy, the Army and the Air Force. The C2BM programs group designs, develops and delivers tactical command and control systems that provide the means to effectively execute conventional and special operations missions. C2BM addresses market segments of fire control, joint command and control, sensor networking, modeling and simulation, command centers, sensor fusion and correlation, and command vehicles for a variety of military and non-military users.

C3I also performs contracts involving information technology for several U.S. Government Departments and agencies including Energy, Education, the Army and Navy and NASA. C3I efforts in this regard involve providing for information assurance, knowledge management, data storage and retrieval systems, web-based information systems and high performance computing.

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**Technical Services.** Raytheon Technical Services Company LLC (“RTSC”) provides technical services, training programs, and logistics and base operations support throughout the U.S. and in 30 other countries.

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

RTSC is a world leader in providing and supporting range instrumentation systems and bases worldwide for the Department of Defense. It also provides missile range calibration services for the U.S. Air Force, trains U.S. Army personnel in battlefield tactics and supports undersea testing and evaluation for the U.S. Navy. RTSC provides operations and engineering support to the Atlantic Underwater Test and Evaluation Center, range technical support, and facilities maintenance at several Department of Defense facilities.

RTSC supplies professional services to a broad range of customers in the areas of space and earth sciences, scientific data management, transportation management, remote sensing, and computer networking. RTSC also supports the U.S. Government’s demilitarization activities in countries of the former Soviet Union and the development and operation of Space Shuttle and Space Station simulators for NASA’s Johnson Space Center. It also provides logistics and science support for the National Science Foundation’s Antarctica program.

**Commercial Electronics.** Raytheon’s commercial electronics businesses produce, among other things, precision optical products for defense, medical, commercial, and telecommunications customers; gallium arsenide integrated circuits and power amplifiers for defense and wireless communications customers; thermal imaging products for the public safety, industrial, and transportation markets; navigation and communication systems for the commercial and military marine markets; and other electronic components for a wide range of applications.

**Aircraft.** Raytheon Aircraft Company (“RAC”) offers a broad product line of aircraft and aviation services in the general aviation market. RAC manufactures, markets, and supports business jets, turboprops, and piston-powered aircraft for the world’s commercial, fractional ownership, and military aircraft markets. RAC’s piston-powered aircraft line includes the single-engine Beech Bonanza and the twin-engine Beech Baron aircraft for business and personal flying. The King Air turboprop series includes the Beech King Air C90B, B200, and 350.

The jet line includes the Beechjet 400A light jet, the Hawker 800XP midsize business jet, and the Beechcraft Premier I entry-level business jet. A new super midsize business jet, the Hawker Horizon, is currently in development, with anticipated certification in 2003 or the first half of 2004, however, the Company’s primary objective is to produce a jet that meets all performance expectations and is ready to ship in 2004. Additionally, RAC produces special mission aircraft, including military versions of the King Air and the U-125 search-and-rescue variant of the Hawker 800. RAC also sells a 19-passenger regional airliner.

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

In the third quarter of 2002, the Company announced the realignment of its government and defense businesses into the following six segments:

**Missile Systems.** The Missile Systems (“MS”) segment will design, develop, and produce missile systems for critical requirements, including air-to-air, strike, surface Navy air defense, land combat missiles, guided projectiles, exoatmospheric kill vehicles, and directed energy weapons.

**Integrated Defense Systems.** The Integrated Defense Systems (“IDS”) segment will provide integrated air and missile defense and naval and maritime warfighting systems, including modeling and simulation capabilities for the Missile Defense Agency and global integrated capabilities for Army, Navy, Marine Corps, and technology customers. IDS combines the former Electronic Systems segment units of Air & Missile Defense Systems and Naval & Maritime Integrated Systems.

**Intelligence and Information Systems.** The Intelligence and Information Systems (“IIS”) segment will provide intelligence and information technology solutions drawing on capabilities in signals, imaging and geospatial intelligence; space and airborne command and control; ground engineering support; and weather and environmental management. IIS combines the former Command, Control, Communication and Information Systems segment units of Imagery and Geospatial Systems and Strategic Systems.

**Space and Airborne Systems.** The Space and Airborne Systems (“SAS”) segment will provide technology solutions for critical space and airborne missions. SAS is a combination of the former Electronic Systems segment units of Surveillance & Reconnaissance Systems and Air Combat & Strike Systems.

**Network Centric Systems.** The Network Centric Systems (“NCS”) segment will develop and produce network centric solutions that integrate sensors, systems and secure communications to manage the battlespace and airspace. NCS combines the former Electronic Systems segment unit of Tactical Systems and the former Command, Control, Communication and Information Systems segment unit of C3S.

**Technical Services.** RTSC continues to provide technical, scientific and professional services for defense, federal, and commercial customers.

The Company has also announced that its newly-formed Homeland Security business unit will provide systems and services to assess combat and respond to terrorism and the terrorist threat.

In the fourth quarter of 2002, the Company announced that it would realign its Commercial Electronics business units into its new IDS and NCS defense segments, effective January 1, 2003.

The Company will begin reporting financial results in the new business structure in 2003. Information reflecting the Company’s segment results during 2002 and 2001 in the realigned structure is set forth in “Segment Reorganization” within Item 7 of this Form 10-K.

#### **SALES TO THE UNITED STATES GOVERNMENT**

Sales to the United States Government (the “Government”), principally to the Department of Defense (“DoD”), were \$12.3 billion in 2002 and \$11.2 billion in 2001, representing 73% of total sales in 2002 and 70% of total sales in 2001. Of these sales, \$0.8 billion in 2002 and \$0.6 billion in 2001 represented purchases made by the Government on behalf of foreign governments.

#### **GOVERNMENT CONTRACTS**

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

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

The Company’s government business is performed under both cost reimbursement and fixed price prime contracts and subcontracts. Cost reimbursement contracts provide for the reimbursement of allowable costs plus the payment of a fee.

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

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

The remaining amount, including profits or incentive fees, is billed upon delivery and final acceptance of end items under the contract.

The Company's government business is subject to specific procurement regulations and a variety of socio-economic and other requirements. Failure to comply with such regulations and requirements could lead to suspension or debarment, for cause, from Government contracting or subcontracting for a period of time. Among the causes for debarment are violations of various statutes, including those related to procurement integrity, export control, government security regulations, employment practices, the protection of the environment, the accuracy of records and the recording of costs.

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

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

See "Sales to the United States Government" on page 7 of this Form 10-K for information regarding the percentage of the Company's revenues generated from sales to the Government.

## **BACKLOG**

The Company's backlog of orders was \$25.7 billion at December 31, 2002 and \$25.6 billion at December 31, 2001. The 2002 amount includes backlog of approximately \$18.3 billion from the Government compared with \$16.9 billion at the end of 2001.

Approximately \$3.3 billion of the overall backlog figure represents the unperformed portion of direct orders from foreign governments. Approximately \$1.4 billion of the overall backlog represents non-government foreign backlog.

Approximately \$13.6 billion of the \$25.7 billion 2002 year-end backlog is not expected to be filled during the following twelve months. For additional information related to backlog figures, see "Segment Results" within Item 7 of this Form 10-K.



## **RESEARCH AND DEVELOPMENT**

During 2002, Raytheon expended \$449 million on research and development efforts compared with \$456 million in 2001 and \$507 million in 2000. These expenditures principally have been for product development for the Government and for aircraft products. In addition, Raytheon conducts funded research and development activities under Government contracts which is included in net sales. For additional information related to research and development efforts, see “Note A – Accounting Policies” within Item 8 of this Form 10-K.

## **RAW MATERIALS, SUPPLIERS AND SEASONALITY**

Delivery of raw materials and supplies to Raytheon is generally satisfactory. Raytheon is sometimes dependent, for a variety of reasons, upon sole-source suppliers for procurement requirements. However, Raytheon has experienced no significant difficulties in meeting production and delivery obligations because of delays in delivery or reliance on such suppliers. In recent years, revenues in the second half of the year have generally exceeded revenues in the first half. The timing of Government awards, the availability of Government funding, product deliveries and customer acceptance are among the factors affecting the periods in which revenues are recorded. Management expects this trend to continue in 2003.

## **COMPETITION**

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

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

## **PATENTS AND LICENSES**

Raytheon and its subsidiaries own a large intellectual property portfolio which includes, by way of example, United States and foreign patents, unpatented know-how, trademarks and copyrights, all of which contribute significantly to the preservation of the Company’s competitive position in the market. In certain instances, Raytheon has augmented its technology base by licensing the proprietary intellectual property of others. Although these patents and licenses are, in the aggregate, important to the operation of the Company’s business, no existing patent, license, or similar intellectual property right is of such importance that its loss or termination would, in the opinion of management, have a material effect on the Company’s business.

## **EMPLOYMENT**

As of December 31, 2002, Raytheon had approximately 76,400 employees compared with approximately 87,200 employees at the end of 2001. The decrease is mainly due to divestitures during 2002.

Raytheon considers its union-management relationships to be satisfactory. In 2002, there was one work stoppage of 17 weeks involving less than one half of 1% of the workforce.

## **INTERNATIONAL SALES**

Raytheon’s sales to customers outside the United States (including foreign military sales) were 21% of total sales in 2002, 22% of total sales in 2001 and 20% of total sales in 2000. These sales were principally in the fields of air defense systems, air traffic control systems, sonar systems, aircraft products, electronic equipment, computer software and systems, personnel training, equipment maintenance and microwave communication. Foreign subsidiary working capital requirements generally are financed in the countries concerned. Sales and income from international operations are subject

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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. See revenues derived from external customers and long-lived assets by geographical areas set forth in “Note P – Business Segment Reporting” within Item 8 of this Form 10-K.

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

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

### RISK FACTORS

The following are some of the factors the Company believes could cause its actual results to differ materially from expected and historical results.

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

Consistent with our strategy of focusing on and streamlining our core businesses and paying down our debt, during 2000, 2001 and 2002, we divested several non-core business units. In March 2002, we sold our Aircraft Integration Systems business. As a result of these divestitures, we no longer receive revenues from these operations and, without offsetting increases in revenues in our other businesses, our overall revenues would decrease, which would have a negative effect on our financial condition.

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

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

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

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

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would be able to procure new Government contracts to offset the revenues lost as a result of any termination of our contracts. As our revenues are dependent on our procurement, performance and payment under our contracts, the loss of one or more critical contracts could have a negative impact on our financial condition.

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

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

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

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

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

The influence of any of these factors, which are largely beyond our control, could also negatively impact our financial condition. We also may experience problems associated with advanced designs required by the Government which may result in unforeseen technological difficulties and cost overruns. Failure to overcome these technological difficulties and the occurrence of cost overruns would have a negative impact on our results.

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

Approximately 73% of our net sales in 2002 were for the U.S. Government. Therefore, any significant disruption or deterioration of our relationship with the U.S. Government would significantly reduce our revenues. Our U.S. Government programs must compete with programs managed by other defense contractors for a limited number of programs and for uncertain levels of funding. Our competitors continuously engage in efforts to expand their business relationships with the U.S. Government at our expense and are likely to continue these efforts in the future. The U.S. Government may choose to use other defense contractors for its limited number of defense programs. In addition, the funding of defense programs also competes with non-defense spending of the U.S. Government. Budget decisions made by the U.S. Government are outside of our control and have long-term consequences for the size and structure of Raytheon. A shift in Government defense spending to other programs in which we are not involved or a reduction in U.S. Government defense spending generally could have severe consequences for our results of operations.

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

In 2002, sales to international customers accounted for approximately 21% of our net sales. We expect that international sales will continue to account for a significant portion of our revenues for the foreseeable future. As a result, we are subject to risks of doing business internationally, including:

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- changes in regulatory requirements
- domestic and foreign government policies, including requirements to expend a portion of program funds locally and governmental industrial cooperation requirements
- fluctuations in foreign currency exchange rates
- delays in placing orders
- the complexity and necessity of using foreign representatives and consultants
- the uncertainty of adequate and available transportation
- the uncertainty of the ability of foreign customers to finance purchases
- uncertainties and restrictions concerning the availability of funding credit or guarantees
- imposition of tariffs or embargoes, export controls and other trade restrictions
- the difficulty of management and operation of an enterprise spread over various countries
- compliance with a variety of foreign laws, as well as U.S. laws affecting the activities of U.S. companies abroad
- economic and geopolitical developments and conditions, including international hostilities, acts of terrorism and governmental reactions, inflation, trade relationships and military and political alliances

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

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

Licenses for the export of many of our products are required from government agencies in accordance with various statutory authorities, including the Export Administration Act of 1979, the International Emergency Economic Powers Act, the Trading with the Enemy Act of 1917 and the Arms Export Control Act of 1976. We can give no assurance that we will be successful in obtaining these necessary licenses in order to conduct business abroad. In the case of certain sales of defense equipment and services to foreign governments, the U.S. Department of State must notify the Congress at least 15 to 30 days, depending on the size and location of the sale, prior to authorizing these sales. During that time, the Congress may take action to block the proposed sale.

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

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

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

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

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

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

Specifically, at Raytheon Aircraft Company, our future success is dependent on our ability to meet scheduled timetables for

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the development, certification and delivery of new product offerings.

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

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

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

***We may incur additional charges in connection with the sale of the Company's Engineering and Construction Business to Washington Group International, Inc. ("WGI"), including in connection with the satisfaction of support agreement obligations.***

We have significant letters of credit, surety bonds, guarantees and other support agreements in place related to a number of leases and other agreements of our engineering and construction business unit ("E&C Business"), which we sold to WGI in July 2000. Many of these relate to ongoing engineering and construction projects, including two large power plants being built in Massachusetts that WGI has abandoned (the "Massachusetts Projects").

To the extent the Company has outstanding support agreements, the Company has honored those agreements and is working on those projects. There are risks that the costs incurred on these projects will increase beyond the Company's estimates because of factors such as: equipment and subcontractor performance; performance of critical suppliers; the timing of project completion and customer acceptance; the continued decline of craft labor productivity and the successful completion of performance tests at the Massachusetts Projects; the Company's inability to recover amounts required to be paid in connection with pre-funded liquidated damages; the Company's lack of construction industry expertise resulting from the sale of the E&C Business to WGI; the recoverability of claims and the outcome of defending claims asserted against the Company; in connection with projects where construction has been completed, the risks associated with punch list items, warranty, retesting, commercial closeout and claims resolution phase of the project; and risks inherent with large long-term fixed price contracts and their final resolution and close out.

During 2002, we recorded charges totaling \$796 million relating to the Massachusetts Projects. We also recorded charges totaling \$53 million for warranty and start-up costs, final reliability testing and punch list items, and a contract adjustment relating to three other construction projects.

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

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

We are defendants in a number of litigation matters. These claims may divert financial and management resources that would otherwise be used to benefit our operations. Although we believe that we have meritorious defenses to the claims made in each and all of the litigation matters to which we have been named a party, and intend to contest each lawsuit

vigorously, no assurances can be given that the results of these matters will be favorable to us. An adverse resolution of any of these lawsuits could have a material adverse affect on our financial position and results of operations.

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

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

***Some of our workforce is represented by labor unions.***

Approximately 12,000 of our employees are unionized, which represented approximately 16% of our employees at December 31, 2002. As a result, we may experience prolonged work stoppages, which could adversely affect our business, and we are vulnerable to the demands imposed by our collective bargaining relationships. We cannot predict how stable these relationships, currently with 9 different U.S. labor organizations and 4 different non-U.S. labor organizations, will be or whether we will be able to meet the requirements of these unions without impacting the financial condition of Raytheon. In addition, the presence of unions may limit our flexibility in dealing with our workforce. Work stoppages and instability in our union relationships could negatively impact our ability to manufacture our products on a timely basis, resulting in strain on our relationships with our customers, as well as a loss of revenues. That would adversely affect our results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

**FORWARD-LOOKING STATEMENTS — SAFE HARBOR PROVISIONS**

This filing and the information we are incorporating by reference, including any statements relating to the Company's future plans, objectives, and projected future financial performance, contain or are based on, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Specifically, statements that are not historical facts, including statements accompanied by words such as "believe," "expect," "estimate," "intend," or "plan," variations of these words, and similar expressions, are intended to identify forward-looking statements and convey the uncertainty of future



events or outcomes. The Company cautions readers that any such forward-looking statements are based on assumptions that the Company believes are reasonable, but are subject to a wide range of risks, and actual results may differ materially. Given these uncertainties, readers of this filing should not rely on forward-looking statements. Forward-looking statements also represent the Company's estimates and assumptions only as of the date that they were made. The Company expressly disclaims any current intention to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this filing. Important factors that could cause actual results to differ include, but are not limited to those discussed in the immediately preceding section of this Item, under "Risk Factors."

## **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, 2002, the Company utilized approximately 34 million square feet of floor space for manufacturing, engineering, research, administration, sales and warehousing, approximately 95% of which was located in the United States. Of this total, approximately 44% was owned, approximately 52% was leased, and approximately 4% was made available under facilities contracts for use in the performance of U.S. Government contracts. At December 31, 2002 the Company had approximately 1.4 million square feet of additional floor space that was not in use, including approximately 525,000 square feet in Company-owned facilities.

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

At December 31, 2002, our business segments had major operations at the following locations:

- Electronic Systems—E. Camden, AR; Tucson, AZ; El Segundo, CA; Goleta, CA; Long Beach, CA; San Diego, CA; Louisville, KY; Andover, MA; Bedford, MA; Sudbury, MA; Tewksbury, MA; Portsmouth, RI; Dallas, TX; Plano, TX; Forrest, MI and Sherman, TX;
- Command, Control, Communication and Information Systems—Fullerton, CA; Aurora, CO; Largo, FL; St. Petersburg, FL; Ft. Wayne, IN; Landover, MD; Townson, MD; Marlboro, MA; State College, PA; Garland, TX; Falls Church, VA; and Waterloo, Ontario, Canada;
- Raytheon Technical Services Company—Chula Vista, CA; Long Beach, CA; Indianapolis, IN; Burlington, MA; Norfolk and Reston, VA;
- Commercial Electronics—Andover, MA; Kiel, Germany; and Midland, Ontario, Canada;
- Raytheon Aircraft Company—Little Rock, AR; Salina, KS and Wichita, KS;
- Administration and Services—Lexington, MA; and Arlington, VA; and
- Raytheon United Kingdom—Harlow, England; and Glenrothes, Scotland



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A summary of the utilized floor space at December 31, 2002, by business segment, follows:

(in square feet with 000's omitted)

	Leased	Owned	Gov't Owned	Total
Electronic Systems	8,586	7,168	1,260	17,014
Command, Control, Communication and Information Systems	3,314	2,759	0	6,073
Raytheon Aircraft Company	2,076	3,627	0	5,703
Administration and Services (includes domestic and international sales offices)	560	0	0	560
Raytheon Technical Services Company, LLC	3,167	149	0	3,316
Commercial Electronics	0	920	0	920
Raytheon United Kingdom	79	349	0	428
Raytheon International, Inc.	57	0	0	57
Discontinued Operations	115	0	0	115
TOTAL	17,954	14,972	1,260	34,186

Additional information regarding the effect of compliance with environmental protection requirements and the resolution of environmental claims against the Company and its operations is contained in the "Risk Factors" section beginning on page 10 of this Form 10-K, in Item 3. "Legal Proceedings" immediately below, in "Commitments and Contingencies" within Item 7 of this Form 10-K and in "Note M – Commitments and Contingencies" within Item 8 of this Form 10-K.

### Item 3. Legal Proceedings

The Company is primarily engaged in providing products and services under contracts with the U.S. Government and, to a lesser degree, under direct foreign sales contracts, some of which are funded by the U.S. Government. These contracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the U.S. Government investigate whether the Company's operations are being conducted in accordance with these requirements. U.S. Government investigations of the Company, whether relating to these contracts or conducted for other reasons, could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon the Company, the suspension of government export licenses, or the suspension or debarment from future U.S. Government contracting. U.S. Government investigations often take years to complete and many result in no adverse action against the Company. Defense contractors are also subject to many levels of audit and investigation. Agencies which oversee contract performance include: the Defense Contract Audit Agency, the Department of Defense Inspector General, the 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.

As previously reported, during late 1999, the Company and two of its officers were named as defendants in several purported class action lawsuits. These lawsuits were consolidated into a single complaint in June 2000, when four additional former or present officers were named as defendants in a Consolidated and Amended Class Action Complaint (the "Consolidated Complaint") with the caption, In Re Raytheon Securities Litigation (Civil Action No. 12142-PBS), filed in the U.S. District Court in Massachusetts. The Consolidated Complaint principally alleges that the defendants violated federal securities laws by purportedly making misleading statements and by failing to disclose material information concerning the Company's financial performance during the purported class period. In September 2000, the Company and the individual defendants filed a motion to dismiss the Consolidated Complaint. The plaintiffs opposed the motions. The court heard arguments in February 2001, and in August 2001 the court issued an order dismissing most of the claims asserted against the Company and the individual defendants. In March 2002, the court certified the class of plaintiffs as

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those people who purchased Raytheon stock between October 7, 1998 through October 12, 1999. On March 17, 2003 the named plaintiff filed a Second Consolidated and Amended Complaint which did not change the claims against the Company or the individual defendants, but which seeks to add the Company's auditor as an additional defendant. Discovery is proceeding on the two circumstances that remain the subject of claims.

As previously reported, the Company also was named as a nominal defendant and all of its directors at the time (except one) were named as defendants in purported derivative lawsuits filed on October 25, 1999 in the Court of Chancery of the State of Delaware in and for New Castle County by Ralph Mirarchi and others (No. 17495- NC), and on November 24, 1999 in Middlesex County, Massachusetts, Superior Court by John Chevedden (No. 99-5782). On February 28, 2000, Mr. Chevedden filed another derivative action in the Delaware Chancery Court entitled John Chevedden v. Daniel P. Burnham, et al., (No. 17838- NC) and on March 22, 2000, Mr. Chevedden's Massachusetts derivative action was dismissed. The Mirarchi and Chevedden derivative complaints contain allegations similar to those included in the Consolidated Complaint in the In Re Raytheon Securities Litigation, and further allege that the defendants purportedly breached fiduciary duties to the Company and allegedly failed to exercise due care and diligence in the management and administration of the affairs of the Company. In December 2001 the Company and the individual defendants filed a motion to dismiss the Mirarchi complaint (the only one of these actions for which service of process of the complaint was by then completed.) The court has since consolidated the Mirarchi and Chevedden actions, and plaintiffs have filed a Consolidated Amended Complaint. The defendants have advised the court that they intend to file a motion to dismiss the Consolidated Amended Complaint.

As previously reported, in June 2001, a purported class action lawsuit entitled, Muzinich & Co., Inc. et al v. Raytheon Company, et al., (Civil Action No. 01-0284-S-BLW) was filed in federal court in Boise, Idaho allegedly on behalf of all purchasers of common stock or senior notes of Washington Group International, Inc. ("WGI") during the period April 17, 2000 through March 1, 2001 (the class period). The putative plaintiff class claims to have suffered harm by purchasing WGI securities because the Company and certain of its officers allegedly violated federal securities laws by purportedly misrepresenting the true financial condition of RE&C in order to sell RE&C to WGI at an artificially inflated price. An amended complaint was filed on October 1, 2001 alleging similar claims. The Company and the individual defendants filed a motion seeking to dismiss the action in mid-November 2001. On April 30, 2002, the Court denied the Company's and the individual defendants' motion to dismiss the complaint. Thereafter, the defendants filed a petition with the District Court requesting permission to seek an immediate appeal of the District Court's decision to the United States Court of Appeals for the Ninth Circuit, which the District Court granted on July 1, 2002. In August 2002, the Ninth Circuit issued an order denying the petition for interlocutory appeal. Defendants have filed their answer to the amended complaint and discovery is proceeding.

As previously reported, the Company has been named as a nominal defendant and all of its directors at the time have been named as defendants in two identical purported derivative lawsuits filed in Chancery Court in New Castle County, Delaware in July 2001, entitled Melvin P. Haar v. Barbara M. Barrett, et al., (Civil Action No. 19018) and Howard Lasker v. Barbara M. Barrett, et al., (Civil Action No. 19027). The Haar and Lasker derivative complaints contain allegations similar to those included in the Muzinich class action complaint and further allege that the individual defendants breached fiduciary duties to the Company and purportedly failed to maintain systems necessary for prudent management and control of the Company's operations. In December 2001 the Company and the individual defendants filed a motion to dismiss the Haar complaint, the only one of these actions for which service was by then completed. In addition, the Company has been named as a nominal defendant and members of its Board of Directors and several current and former officers have been named as defendants in another purported shareholder derivative action entitled Richard J. Kager v. Daniel P. Burnham, et al., (Civil Action No. 01-11180-JLT) filed in July 2001 in the U. S. District Court in Massachusetts. The Kager derivative complaint contains allegations similar to those included in the Muzinich complaint, and further alleges that the individual defendants breached fiduciary duties to the Company and purportedly failed to maintain systems necessary for prudent management and control of the Company's operations. On June 28, 2002, all of the defendants in the Kager matter filed a motion to dismiss the complaint. In September 2002, the plaintiff agreed voluntarily to dismiss this action without prejudice so that the plaintiff may re-file the action in Delaware.

Although the Company believes that it has meritorious defenses to the claims made in each and all of the aforementioned complaints and intends to contest each proceeding vigorously, an adverse resolution of any of the proceedings could have a material adverse effect on the Company's financial position and results of operations in the period in which the lawsuits are resolved. The Company is not presently able to reasonably estimate potential losses, if any, related to any of the lawsuits.

On November 25, 2002, the SEC instituted and settled cease-and-desist proceedings against the Company and a former executive officer of the Company for alleged violations of Regulation FD in February 2001. The settlement did not impose any civil penalty or other monetary sanctions against the Company or any of its employees. The Company neither admitted nor denied the findings in the SEC's cease-and-desist order.

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On February 27, 2003, the Company entered into a settlement agreement with the U.S. Attorney for the District of Massachusetts, the U.S. Customs Service, and the office of Defense Trade Controls of the U.S. Department of State to resolve the U.S. government's investigation of the contemplated sale by the Company of troposcatter radio equipment to a customer in Pakistan. According to the terms of the settlement, the Company paid a \$23 million civil penalty, and will spend \$2 million to improve the Company's export compliance program. In addition, the Company has agreed to appoint a special compliance officer from outside the Company to oversee the Company's export activities principally at the communications business of NCS. The amount of the civil penalty was fully reserved and, therefore, will not affect the Company's results of operations.

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

The Company continues to cooperate with the staff of the SEC on an investigation related to the Company's accounting practices primarily related to the commuter aircraft business and the timing of revenue recognition at Raytheon Aircraft from 1997 to 2001. The Company has been providing documents and information to the SEC staff. The Company is unable to predict the outcome of the investigation or any action that the SEC might take.

Several claims have been asserted and certain proceedings have been commenced against the Company and certain third parties seeking schedule and performance liquidated damages and payment under certain outstanding Company guarantees in connection with the Jindal, Posven, Ratchaburi, Saltend, Ilijan and Red Oak construction contracts. These contracts were rejected by WGI in bankruptcy. Additionally, several other proceedings have been commenced against the Company by parties that had contractual relationships with certain former indirect subsidiaries of the Company which comprised its engineering and construction business. These former indirect subsidiaries were transferred to WGI in the sale of the engineering and construction business to WGI. The plaintiffs in these proceedings have alleged that the Company is responsible to them on various theories including alter ego liability and the assignment to, and/or the assumption by, the Company of the former indirect subsidiaries' obligations. While the Company cannot predict the outcome of these matters, in the opinion of management, any liability arising from them will not have a material adverse effect on the Company's financial position, liquidity or results of operations after giving effect to provisions already recorded.

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

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

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

The insurance policies for product liability coverage held by Raytheon Aircraft do not exclude punitive damages, and it is the position of Raytheon Aircraft and its counsel that punitive damage claims are therefore covered. Historically, the defense of punitive damage claims has been undertaken and paid by insurance carriers. Under the law of some states,

however, insurers are not required to respond to judgments for punitive damages. Nevertheless, to date no judgments for punitive damages have been sustained.

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 2002.

#### **Item 4(A). Executive Officers of the Registrant**

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

**Daniel P. Burnham:** Chairman and Chief Executive Officer since July 31, 1999. Prior thereto, Mr. Burnham served as President and Chief Executive Officer from December 1, 1998 to July 31, 1999 and as President and Chief Operating Officer from July 1, 1998 to December 1, 1998. Prior to joining the Company, Mr. Burnham was Vice Chairman of AlliedSignal, Inc. from October 1997 and President of AlliedSignal Aerospace and an Executive Vice President of AlliedSignal, Inc. from 1992 until becoming Vice Chairman in 1997. Director: FleetBoston Corporation. Age: 56.

**Thomas M. Culligan:** Executive Vice President for business development and CEO of Raytheon International, Inc. since March 2001. From 1999 to March 2001, Mr. Culligan was vice president and general manager of Defense and Space at Honeywell International Inc. Prior thereto, from 1994 to 1999, Mr. Culligan held various positions at Allied Signal, including Vice President, Europe, Africa and the Middle East for Allied Signal's Marketing, Sales & Service unit and President of Government Operations. Age: 51.

**Bryan J. Even:** Vice President of Raytheon Company since April 2002 and President of Raytheon Technical Services Company (RTSC) since October 2001. Before assuming leadership of RTSC, Mr. Even had oversight for the Engineering and Production Support business unit in Indianapolis, formerly the Naval Air Warfare Center, from 1999 to 2001. Between 1998 and 1999, Mr. Even was Director of East Coast Depot Operations for RTSC and prior thereto, was the Deputy General Manager of the Engineering and Depots Group of Raytheon Service Company. Age: 42.

**Richard J. Foley:** Vice President – Contracts since February 1999. Prior to assuming his present position, Mr. Foley was appointed Corporate Director of Contracts in April 1998. Between 1995 and 1998, Mr. Foley was the Manager of Contracts of Raytheon's Electronic Systems Division. Mr. Foley has served Raytheon for more than 35 years holding senior contract management positions with the Company. Age: 58.

**Louise L. Francesconi:** Vice President of Raytheon Company and President of Missile Systems since September 2002. From November 1999 to September 2002, Ms. Francesconi was Vice President of Raytheon Company and General Manager of the Missile Systems business unit within Electronic Systems. Previously, she was a Senior Vice President of the former Raytheon Systems Company and Deputy General Manager of the company's Defense Systems segment from February 1998 to November 1999. Between 1996 and the merger of Raytheon Company and Hughes Aircraft Company in 1998, Ms. Francesconi was president of the Hughes Missile Company. Age: 49.

**Charles E. Franklin:** Vice President of Raytheon Company and President of Integrated Defense Systems (IDS) since September 2002. Mr. Franklin joined Raytheon Company in 1998 and until his current assignment served as Vice President and General Manager of the Air and Missile Defense Systems business unit within Electronic Systems. Prior to that, Mr. Franklin was Vice President, Programs and Mission Success at Lockheed Martin Sanders Company for two years. Age: 64.

**Richard A. Goglia:** Vice President and Treasurer since January 1999. Prior to that, Mr. Goglia was Director, International Finance from March 1997. Prior to joining the Company, Mr. Goglia spent 16 years at GE and GE Capital Corporation. Age: 51.

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**Jack R. Kelble:** Vice President of Raytheon Company and President of Space and Airborne Systems (SAS) since September 2002. From October 2001 to September 2002, Mr. Kelble was Vice President and General Manager of the Surveillance and Reconnaissance business unit within Electronic Systems. Prior thereto, Mr. Kelble was Vice President of Engineering for Electronic Systems between January 2000 and October 2001, Senior Vice President and Deputy General Manager of the Sensors and Electronic Systems business unit within Electronic Systems between October 1998 and January 2000 and Vice President and General Manager of the Integrated Systems business unit within Electronic Systems between January 1998 and October 1998. Age: 60.

**Michael D. Keebaugh:** Vice President of Raytheon Company and President of Intelligence and Information Systems (IIS) since September 2002. From February 1998 to September 2002, Mr. Keebaugh was Vice President and General Manager of the Imagery and Geospatial Systems business unit within Command, Control, Communication and Information Systems. Prior thereto, Mr. Keebaugh was Vice President and General Manager of Imagery and Geospatial Systems within Raytheon Systems Company. Age: 57.

**Francis S. Marchilena:** Executive Vice President of Raytheon Company and Director of Discontinued Business since July 2002. Executive Vice President and President of Raytheon's Command, Control, Communication and Information Systems segment from 1999 to June 2002. Executive Vice President and General Manager of the Command, Control and Communication Systems segment of Raytheon Systems Company (1998-1999); Executive Vice President and General Manager of the Training and Services Segment of Raytheon Systems Company from January 1998 to June 1998; between 1996 and 1998, Mr. Marchilena was the Assistant General Manager for Raytheon Electronic Systems. Mr. Marchilena has served Raytheon for more than 34 years holding increasingly responsible management positions with the Company. Age: 57.

**Keith J. Peden:** Senior Vice President – Human Resources since March 2001. Prior to assuming his present position, Mr. Peden was Vice President Deputy Director – Human Resources since November 1997 and Corporate Director of Benefits and Compensation since April 1993. Age: 52.

**Edward S. Pliner:** Senior Vice President and Chief Financial Officer since December 2002. Prior to assuming his present position, Mr. Pliner was Vice President and Corporate Controller since April 2000. Between April 2000 and September 1995, Mr. Pliner was a Partner of PricewaterhouseCoopers LLP. Age: 45.

**Rebecca B. Rhoads:** Vice President and Chief Information Officer since April 2001. Prior to assuming her present position, Ms. Rhoads was Vice President of Information Systems Technology of Raytheon's Electronic Systems segment from February 2000 and Vice President of Information Technology, Defense Systems business unit of Raytheon Systems Company since July 1999. Between 1996 and 1999, Ms. Rhoads was Director of the Raytheon Test Systems Design Center. Age: 45.

**Colin Schottlaender:** Vice President of Raytheon Company and President of Network Centric Systems (NCS) since September 2002. From November 1999 to September 2002, Mr. Schottlaender was Vice President and General Manager of the Tactical Systems business unit within Electronic Systems. Between December 1997 and November 1999, Mr. Schottlaender was Vice President of Tactical Systems within the Sensors and Electronic Systems business unit of Raytheon Systems Company. Prior assignments included domestic and international business development, program management, quality assurance, test engineering and product design/manufacture. Age: 47.

**James E. Schuster:** Executive Vice President of Raytheon Company and Chairman and Chief Executive Officer—Raytheon Aircraft Company since May 2001. Prior to assuming his present position, Mr. Schuster was Vice President of Raytheon Company and President of Aircraft Integration Systems from April 2000 and Senior Vice President and Deputy General Manager for Aircraft Integration Systems since September 1999. Prior to joining the Company, Mr. Schuster was President, Motors & Generators, Magnetex, Inc. since 1996. Age: 49.

**Gregory S. Shelton:** Vice President – Engineering and Technology since May 2001. Prior to assuming his present position, Mr. Shelton served as Vice President of Engineering for Raytheon's Missile Systems business unit within the Electronic Systems segment since 1998. Prior to that, he was Vice President, Engineering for Hughes Weapons Systems segment from 1996 to 1997. He also served as Vice President and Product Line Manager, Air Missiles and Advanced Programs and Technology for Hughes Missile Systems Company from 1995 to 1996. Age: 52.

**Jay B. Stephens:** Senior Vice President and General Counsel of Raytheon since October 2002. Prior to joining Raytheon, Mr. Stephens was Associate Attorney General of the United States from January 2002 to October 2002. Before becoming

Associate Attorney General, Mr. Stephens was Corporate Vice President and Deputy General Counsel for Honeywell International (formerly AlliedSignal) from 1997 to 2001. From 1993 to 1997, he was a partner in the Washington office of the law firm of Pillsbury, Madison & Sutro (now Pillsbury and Winthrop). Mr. Stephens served as United States Attorney for the District of Columbia from 1988 to 1993. From 1986 to 1988, he served in the White House as Deputy Counsel to the President. Age 56.

**William H. Swanson:** President of Raytheon Company since July 2002. Before assuming this position, he was Executive Vice President of Raytheon Company and President of Raytheon's Electronic Systems segment from January 2000 to July 2002. Mr. Swanson was Executive Vice President of Raytheon Company and Chairman and CEO of Raytheon Systems Company from January 1998 to January 2000. He was Executive Vice President of Raytheon Company and General Manager of Raytheon's Electronic Systems segment from March 1995 to January 1998 and Senior Vice President and General Manager of Missile Systems Division from August 1990 to March 1995. Mr. Swanson has served Raytheon for more than 30 years holding increasingly responsible management positions with the Company. Age 54.

## **PART II**

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

At December 31, 2002, there were approximately 74,900 record holders of the Company's common stock. The Company's common stock is traded on the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange under the symbol RTN. For information concerning stock prices and dividends paid during the past two years, see "Note Q – Quarterly Operating Results (unaudited)" within Item 8 of this Form 10-K.

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## Item 6. Selected Financial Data

### Five-Year Statistical Summary

(In millions except share amounts and total employees)

	2002	2001	2000	1999	1998
<b>Results of Operations</b>					
Net sales	\$ 16,760	\$ 16,017	\$ 15,817	\$ 16,142 <sup>(5)</sup>	\$ 16,241
Operating income	1,754	766 <sup>(2)</sup>	1,580	1,645 <sup>(6)</sup>	2,122 <sup>(9)</sup>
Interest expense	497	696	761	724	722
Income from continuing operations	755	18 <sup>(2)</sup>	477	546 <sup>(7)</sup>	940 <sup>(10)</sup>
Net income (loss)	(640) <sup>(1)</sup>	(755) <sup>(3)</sup>	138 <sup>(4)</sup>	399 <sup>(8)</sup>	840 <sup>(11)</sup>
Diluted earnings per share from continuing operations	\$ 1.85	\$ 0.05 <sup>(2)</sup>	\$ 1.40	\$ 1.60 <sup>(7)</sup>	\$ 2.75 <sup>(10)</sup>
Diluted earnings (loss) per share	(1.57) <sup>(1)</sup>	(2.09) <sup>(3)</sup>	0.40 <sup>(4)</sup>	1.17 <sup>(8)</sup>	2.46 <sup>(11)</sup>
Dividends declared per share	0.80	0.80	0.80	0.80	0.80
Average diluted shares outstanding (in thousands)	408,031	361,323	341,118	340,784	341,861

### Financial Position at Year-End

Cash and cash equivalents	\$ 544	\$ 1,214	\$ 871	\$ 230	\$ 421
Current assets	7,190	9,647	9,444	10,732	10,816
Property, plant, and equipment, net	2,396	2,196	2,339	2,224	2,070
Total assets	23,946	26,773	27,049	28,222	28,345
Current liabilities	5,107	5,815	5,071	7,998	7,165
Long-term liabilities (excluding debt)	2,831	1,846	2,021	1,886	2,134
Long-term debt	6,280	6,874	9,051	7,293	8,157
Total debt	7,433	8,237	9,927	9,763	8,980
Mandatorily redeemable equity securities	858	857	—	—	—
Stockholders' equity	8,870	11,381	10,906	11,045	10,889

### General Statistics

Total backlog	\$ 25,666	\$ 25,605	\$ 25,709	\$ 24,034	\$ 18,924
U.S. government backlog included above	18,254	16,943	16,650	14,575	12,672
Capital expenditures	458	461	421	507	456
Depreciation and amortization	364	677	642	646	688
Total employees from continuing operations	76,400	81,100	87,500	90,600	92,900

- (1) Includes a loss from discontinued operations of \$1,013 million pretax and a cumulative effect of change in accounting principle of \$545 million pretax. The impact of these items combined was a charge of \$1,396 million after-tax or \$3.42 per diluted share.
- (2) Includes charges of \$745 million pretax, \$484 million after-tax, or \$1.34 per diluted share.
- (3) Includes charges of \$745 million pretax and a loss from discontinued operations of \$1,138 million pretax. The impact of these items combined was a net charge of \$1,241 million after-tax or \$3.44 per diluted share.
- (4) Includes a loss from discontinued operations of \$473 million pretax, \$339 million after-tax, or \$0.99 per diluted share.
- (5) Includes charges of \$84 million and special charges of \$15 million.
- (6) Includes charges of \$89 million and restructuring and special charges of \$196 million, offset by \$76 million of favorable adjustments to restructuring-related reserves.
- (7) Includes charges of \$89 million pretax and restructuring and special charges of \$210 million pretax, offset by favorable adjustments to restructuring-related reserves of \$76 million pretax and a net gain on sales of operating units and investments of \$23 million pretax. The impact of these items combined was a net charge of \$125 million after-tax or \$0.37 per diluted share.
- (8) Includes charges of \$89 million pretax, restructuring and special charges of \$210 million pretax, and a loss from discontinued operations of \$133 million pretax, offset by favorable adjustments to restructuring related reserves of \$76 million pretax and a net gain on sales of operating units and investments of \$23 million pretax. The impact of these items combined was a net charge of \$219 million after-tax or \$0.64 per diluted share.
- (9) Includes special charges of \$167 million.
- (10) Includes special charges of \$167 million pretax and a net gain on sales of operating units of \$141 million pretax. The impact of these items combined was a net charge of \$41 million after-tax or \$0.12 per diluted share.
- (11) Includes special charges of \$167 million pretax and a loss from discontinued operations of \$142 million pretax, offset by a net gain on sales of

operating units of \$141 million pretax. The impact of these items combined was a net charge of \$141 million after-tax or \$0.41 per diluted share.

Note: In 2002, the Company changed its method of inventory costing at Raytheon Aircraft from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. The change decreased the net loss in 2002 by \$7 million or \$0.02 per diluted share. Prior periods have been restated to reflect this change. The effect of the change on the reported net loss in 2001 was a decrease of \$8 million or \$0.02 per diluted share. The effect of the change on reported net income was a decrease of \$3 million or \$0.01 per diluted share in 2000, \$5 million or \$0.01 per diluted share in 1999, and \$4 million or \$0.01 per diluted share in 1998. In addition, certain prior year amounts have been reclassified to conform with the current year presentation.



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

### **Overview**

Raytheon Company (the "Company") is one of the largest defense electronics contractors in the world, serving all branches of the U.S. military and other U.S. government agencies, NATO, and many allied governments. The Company is a leader in defense electronics, including missiles; radar; sensors and electro-optics; intelligence, surveillance, and reconnaissance (ISR); command, control, communication, and information systems; naval systems; air traffic control systems; and technical services. The Company's defense electronics businesses are well positioned to capitalize on emerging opportunities in missile defense; precision engagement; intelligence, surveillance, and reconnaissance; and homeland security. Due to the multi-year defense spending cycle, recent increased budget authorizations in these areas are expected to favorably impact the Company's defense electronics businesses over the next several years. Raytheon's commercial electronics businesses leverage defense technologies in commercial markets.

Raytheon Aircraft is a leading provider of business and special mission aircraft and delivers a broad line of jet, turboprop, and piston-powered airplanes to corporate and government customers worldwide. The Company continues to see soft demand for new and used aircraft in 2003.

### **Defense Industry Considerations**

Few recent developments have altered the defense and security environment of the United States as dramatically as the events of September 11, 2001. In response, the U.S. has committed itself to a long-term war on terrorism. Simultaneously, the U.S. must also replenish war materials consumed during operations in Afghanistan while also making progress toward Secretary Rumsfeld's goal of military transformation. The latest U.S. Department of Defense budget reflects these three diverse objectives.

Military transformation, which had been under review prior to September 11<sup>th</sup>, is expected to gain momentum. Secretary Rumsfeld is focused on 4 pillars of transformation:

- Strengthening joint operations
- Experimenting with new approaches to warfare
- Exploiting U.S. intelligence advantages
- Developing transformational capabilities

Transformation is focused on meeting the military challenges of the future. In this new environment, the need for advanced technology and defense electronics is clear. In order to respond quickly to global threats and protect our forces in-theater, the U.S. will have to rely more heavily on intelligence and instantaneous, secure communication. At the same time, our military must also help defend the homeland against terrorist and missile attack.

The Company's strategy is focused on meeting domestic and international customers' needs in areas where the Company has both experience and technology discriminators. The Company's growth strategy is focused on four strategic business areas:

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

The President has made a commitment to have a U.S. missile defense system operational by 2004. The Company has a broad array of technology and capabilities in this growing area. From the Company's hit-to-kill weapons, to radar sensors, to space-based infrared sensors, to command and control, the Company is positioned to meet the nation's needs.

While the Company's position as a leader in Missile Defense is well recognized, Precision Engagement is a much broader concept. It includes the identification and tracking of targets as well as engagement and effectiveness assessment. The Company produces products across the entire engagement chain.

The Company's innovative sensing, processing, and dissemination technologies effectively compress the information gap from hours to minutes. The Company's Intelligence, Surveillance and Reconnaissance programs cover the full spectrum of information management, providing the ability to task, collect, process, exploit, and disseminate national and tactical target data. These abilities are crucial for warfighters to achieve information dominance throughout the entire battlespace.

In the area of Homeland Security, the Company has skills, experience, and technology in areas such as airport security; command, control, and communications; and the integration and fusion of sensory inputs for real-time decision support. This is still a new market with significant uncertainty and the ultimate customers and available funding have yet to be determined.

Unlike many major defense contractors, the Company provides electronics for a wide range of missions and platforms. The Company has several thousand programs. This reduces some of the risk and volatility often inherent in the defense industry.

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

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

### **Consolidated Results of Operations**

Net sales were \$16.8 billion in 2002, \$16.0 billion in 2001, and \$15.8 billion in 2000. Sales to the U.S. Department of Defense were 62 percent of sales in 2002 and 59 percent in 2001 and 2000. Total sales to the U.S. government, including foreign military sales, were 73 percent of sales in 2002, 70 percent in 2001, and 65 percent in 2000. International sales, including foreign military sales, were 21 percent of sales in 2002, 22 percent in 2001, and 20 percent in 2000.

Gross margin, net sales less cost of sales, was \$3.4 billion in 2002, \$2.4 billion in 2001, and \$3.2 billion in 2000, or 20.3 percent of sales in 2002, 14.7 percent in 2001, and 20.3 percent in 2000. Included in gross margin in 2001 were charges of \$745 million at Raytheon Aircraft, described below in Segment Results, and goodwill amortization of \$334 million which was discontinued January 1, 2002 in accordance with SFAS No. 142, described below. Included in gross margin in 2000 was a \$74 million favorable adjustment to restructuring-related reserves that was more than offset by unfavorable contract adjustments. Also included in gross margin in 2000 was goodwill amortization of \$337 million. Excluding the Raytheon Aircraft charges and goodwill amortization, gross margin was \$3.4 billion or 21.4 percent of sales in 2001. Excluding goodwill amortization, gross margin was \$3.5 billion or 22.4 percent of sales in 2000. The decrease in gross margin as a percent of sales in 2002 was due to lower pension income. The decrease in gross margin as a percent of sales in 2001 was due to lower margins at Raytheon Aircraft. Included in gross margin was pension income of \$89 million, \$297 million, and \$143 million in 2002, 2001, and 2000, respectively. Beginning in the first quarter of 2003, the Company will change the way pension expense or income is reported in the Company's segment results, described below in Segment Reorganization.

Administrative and selling expenses were \$1,199 million or 7.2 percent of sales in 2002, \$1,131 million or 7.1 percent of sales in 2001, and \$1,117 million or 7.1 percent of sales in 2000.

Research and development expenses were \$449 million or 2.7 percent of sales in 2002, \$456 million or 2.8 percent of sales in 2001, and \$507 million or 3.2 percent of sales in 2000. The decrease in research and development expenses in 2002 and 2001 was due to more focused research and development efforts and new program investments made in 2000.

Operating income was \$1,754 million or 10.5 percent of sales in 2002, \$766 million or 4.8 percent of sales in 2001, and \$1,580 million or 10.0 percent of sales in 2000. Excluding the Raytheon Aircraft charges and goodwill amortization, operating income was \$1,845 million or 11.5 percent of sales in 2001. Excluding goodwill amortization,

## **Management's Discussion and Analysis of Financial Condition and Results of Operations** continued

operating income was \$1,917 million or 12.1 percent of sales in 2000. The changes in operating income by segment are described below in Segment Results.

Interest expense from continuing operations was \$497 million in 2002, \$696 million in 2001, and \$761 million in 2000. In 2002 and 2001, the Company allocated \$79 million and \$18 million, respectively, of interest expense to discontinued operations. The Company will not allocate interest expense to discontinued operations in 2003. Total interest expense was \$576 million in 2002 and \$714 million in 2001. The decrease in 2002 and 2001 was due to lower average debt and lower weighted-average cost of borrowing due, in part, to the interest rate swaps entered into in 2001, described below in Capital Structure and Resources. The weighted-average cost of borrowing was 6.7 percent in 2002, 7.1 percent in 2001, and 7.3 percent in 2000.

Interest income was \$27 million in 2002, \$36 million in 2001, and \$25 million in 2000.

Other expense, net was \$210 million in 2002 versus other income, net of \$18 million in 2001 and other expense, net of \$12 million in 2000. Included in other expense, net in 2002 was a \$175 million charge to write off the Company's investment in Space Imaging<sup>®</sup> and accrue for a related credit facility guarantee on which the Company expects to make payment in 2003, described below in Major Affiliated Entities, and a \$29 million gain on the sale of the Company's corporate headquarters. Other income and expense also included gains and losses on divestitures and equity losses in unconsolidated subsidiaries, as described in Note S, Other Income and Expense of the Notes to Consolidated Financial Statements.

The effective tax rate was 29.7 percent in 2002, reflecting the U.S. statutory rate of 35 percent reduced by foreign sales corporation tax credits, ESOP dividend deductions, and research and development tax credits applicable to certain government contracts. The effective tax rate was 85.5 percent in 2001, reflecting the U.S. statutory rate of 35 percent reduced by foreign sales corporation tax credits, ESOP dividend deductions, and research and development tax credits applicable to certain government contracts, and increased by non-deductible amortization of goodwill. The effective tax rate was 42.7 percent in 2000, reflecting the U.S. statutory rate of 35 percent reduced by foreign sales corporation tax credits and research and development tax credits applicable to certain government contracts, and increased by non-deductible amortization of goodwill. Excluding the effect of the Raytheon Aircraft charges and goodwill amortization, the effective tax rate was 32.9 percent in 2001. Excluding the effect of goodwill amortization, the effective tax rate was 32.7 percent in 2000. At December 31, 2002, the Company had net operating loss carryforwards of \$1.2 billion that expire in 2020 through 2022 and foreign tax credit carryforwards of \$87 million that expire in 2005 through 2007. The Company believes it will be able to utilize all of these carryforwards over the next 3 to 4 years.

Income from continuing operations was \$755 million or \$1.85 per diluted share on 408.0 million average shares outstanding in 2002, \$18 million or \$0.05 per diluted share on 361.3 million average shares outstanding in 2001, and \$477 million or \$1.40 per diluted share on 341.1 million average shares outstanding in 2000. Excluding the Raytheon Aircraft charges and goodwill amortization, income from continuing operations was \$807 million or \$2.23 per diluted share in 2001. Excluding goodwill amortization, income from continuing operations was \$787 million or \$2.31 per diluted share in 2000. The increase in average shares outstanding was due primarily to the issuance of 14,375,000 and 31,578,900 shares of common stock in May and October 2001, respectively.

The loss from discontinued operations, net of tax, described below in Discontinued Operations, was \$887 million or \$2.17 per diluted share in 2002, \$757 million or \$2.10 per diluted share in 2001, and \$339 million or \$0.99 per diluted share in 2000.

There was an extraordinary gain from debt repurchases of \$1 million after-tax in 2002 and an extraordinary loss from debt repurchases of \$16 million after-tax or \$0.04 per diluted share in 2001.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). This accounting standard addresses financial accounting and reporting for goodwill and other intangible assets and requires that goodwill amortization be discontinued and replaced with periodic tests of impairment. In accordance with SFAS No. 142, goodwill amortization was discontinued as of January 1, 2002. In 2002, the Company recorded a goodwill impairment charge of \$360 million related to its former Aircraft Integration Systems business (AIS) as a cumulative effect of change in accounting principle. Due to the non-deductibility of this goodwill, the Company did not record a tax benefit in connection with this impairment. Also in 2002, the Company completed its transitional review for potential goodwill impairment in accordance with SFAS No. 142, whereby the Company utilized a market multiple approach to determine the fair value of the 13 reporting units within the defense businesses and allocated goodwill to the defense businesses based upon an estimate of the fair value of the portion of a previously acquired company contribution to the new segment. The Company utilized a discounted cash flow approach to determine the fair value of the commercial business reporting units. As a result, the Company recorded a goodwill impairment charge of \$185 million pretax or \$149 million after-tax, which represented all of the goodwill at Raytheon Aircraft, as a cumulative effect of change in accounting principle. The Company also determined that there was no impairment of goodwill related to any of its defense businesses beyond the \$360 million related to AIS. The total goodwill impairment charge in 2002 was \$545 million pretax, \$509 million after-tax, or \$1.25 per diluted share.

The net loss was \$640 million or \$1.57 per diluted share in 2002 versus \$755 million or \$2.09 per diluted share in 2001 and net income of \$138 million or \$0.40 per diluted share in 2000. Excluding the Raytheon Aircraft charges and goodwill amortization, net income was \$62 million or \$0.17 per diluted share in 2001. Excluding goodwill amortization, net income was \$481 million or \$1.41 per diluted share in 2000.

### **Prior Period Restructuring Initiatives**

The Company essentially completed all prior period restructuring initiatives in 2000 except for ongoing idle facility costs. At December 31, 2002, the accrued liability related to prior period restructuring initiatives was \$4 million.

In 2002, the Company determined that the cost of certain prior period restructuring initiatives would be lower than originally planned and recorded a \$4 million favorable adjustment to cost of sales, a \$3 million favorable adjustment to general and administrative expenses, and a \$1 million reduction in goodwill.

In 2001, the Company determined that the cost of certain prior period restructuring initiatives would be lower than originally planned and recorded an \$8

million favorable adjustment to cost of sales.

In 2000, the Company determined that the cost of certain prior period restructuring initiatives would be lower than originally planned and recorded a \$74 million favorable adjustment to cost of sales and an \$11 million reduction in goodwill.

### **Segment Descriptions**

Electronic Systems (ES) is the largest segment and represents the majority of the Company's defense electronics businesses. ES focuses on missile systems including anti-ballistic missile systems; air defense; air-to-air, surface-to-air, and air-to-surface missiles; naval and maritime systems; ship self-defense systems; strike, interdiction, and cruise missiles; and advanced munitions. ES also specializes in radar, electronic warfare, infrared, laser, and GPS technologies with programs focusing on land, naval, airborne, and spaceborne systems used for surveillance, reconnaissance, targeting, navigation, commercial, and scientific applications. Some of the leading programs in ES include: the Patriot Air Defense System; the Ground-Based Radar for the THAAD system; technologies for the U.S. Missile Defense Agency; the Tomahawk Cruise Missile program; airborne radar systems for the B-2, F-14, F-15, F/A-18, AV-8B, and the next generation F-22 programs; sensors for applications such as the Global Hawk<sup>®</sup> and Predator Unmanned Aerial Vehicle Reconnaissance Systems; and advanced night vision technologies.

Command, Control, Communication and Information Systems (C3I) is involved in battle management systems; communication systems; network security software; fire control systems; high resolution space-based imaging systems; air traffic control systems; tactical radios; satellite communication ground control terminals; wide area surveillance systems;

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

ground-based information processing systems; image processing; large scale information retrieval, processing, and distribution systems; and global broadcast systems. Some of the leading programs in C3I include: the U.S. Navy's Cooperative Engagement Capability (CEC) program that integrates sensor information from multiple sources to provide ships, aircraft, and land-based installations an integrated air picture; the Brazilian System for the Vigilance of the Amazon (SIVAM®), which provides an integrated information network linking numerous sensors to regional and national coordination centers; and air traffic control and weather systems at airports worldwide, including the Federal Aviation Administration/Department of Defense Standard Terminal Automation Replacement System (STARS) program. Through C3I, the Company operates a trans-atlantic joint venture, Thales Raytheon Systems™ (TRS™), encompassing air defense/command and control centers, and ground-based air surveillance and weapon-locating radars.

Technical Services (TS) provides information technology services, training programs, and logistics and base operations support throughout the U.S. and other countries. TS performs complete engineering and depot-level cradle-to-grave support for the Company's manufactured equipment and to various commercial and military customers. TS is a world leader in providing and supporting range instrumentation systems and bases worldwide for the Department of Defense. TS also provides missile range calibration services for the U.S. Air Force, trains U.S. Army personnel in battlefield tactics, and supports undersea testing and evaluation for the U.S. Navy. TS provides operations and engineering support to the Atlantic Underwater Test and Evaluation Center and range technical support and facilities maintenance at several Department of Defense facilities.

The Company's commercial electronics businesses produce, among other things, precision optical products for defense, commercial, and telecommunications customers; gallium arsenide integrated circuits and power amplifiers for defense and wireless communications customers; thermal imaging products for the public safety, industrial, and transportation markets; navigation and communication systems for the commercial and military marine markets; and other electronic components for a wide range of applications.

Raytheon Aircraft Company (RAC) offers a broad product line of aircraft and aviation services in the general aviation market. RAC manufactures, markets, and supports business jets, turboprops, and piston-powered aircraft for the world's commercial, regional airline, fractional ownership, and military aircraft markets. RAC's piston-powered aircraft line includes the single-engine Beech® Bonanza® and the twin-engine Beech Baron® aircraft for business and personal flying. The King Air® turboprop series includes the Beech King Air C90B, B200, and 350. The jet line includes the Beechjet® 400A light jet, the Hawker® 800XP midsize business jet, and the Beechcraft Premier I™ entry-level business jet. A new super midsize business jet, the Hawker Horizon®, is currently in development, with anticipated certification in late 2003 or the first half of 2004, however, the Company's primary objective is to produce a jet that meets all performance expectations and is ready to ship in 2004. RAC also supplies aircraft training systems, including the T-6A trainer selected as the next-generation trainer for the U.S. Air Force and Navy under the Joint Primary Aircraft Training System. Additionally, RAC produces special mission aircraft, including military versions of the King Air and the U-125 search-and-rescue variant of the Hawker 800. RAC also sells a 19-passenger regional airliner.

**Segment Results**

Net Sales (In millions)	2002		2001		2000
Electronic Systems	\$	9,018	\$	8,167	\$ 7,657
Command, Control, Communication and Information Systems		4,140		3,770	3,419
Technical Services		2,133		2,050	1,822
Commercial Electronics		423		453	666
Aircraft		2,158		2,572	3,220
Corporate and Eliminations		(1,112)		(995)	(967)
<b>Total</b>	<b>\$</b>	<b>16,760</b>	<b>\$</b>	<b>16,017</b>	<b>\$ 15,817</b>

Operating Income (In millions)	2002		2001		2000
Electronic Systems	\$	1,260	\$	1,111	\$ 1,044
Command, Control, Communication and Information Systems		420		396	358
Technical Services		128		158	123
Commercial Electronics		(4)		(57)	(4)
Aircraft		(4)		(760)	159
Corporate and Eliminations		(46)		(82)	(100)
<b>Total</b>	<b>\$</b>	<b>1,754</b>	<b>\$</b>	<b>766</b>	<b>\$ 1,580</b>

ES had 2002 sales of \$9.0 billion versus \$8.2 billion in 2001 and \$7.7 billion in 2000. The increase in sales in 2002 was due to higher U.S. Department of Defense (DoD) expenditures. The increase in sales in 2001 was due to higher volume across most business units. Operating income was \$1,260 million in 2002 versus \$1,111 million in 2001 and \$1,044 million in 2000. Excluding goodwill amortization, operating income was \$1,302 million in 2001 and \$1,237 million in 2000. The decrease in operating income in 2002 was due to lower pension income, offset by higher volume. The increase in operating income in 2001

was due to higher volume and higher pension income.

C3I had 2002 sales of \$4.1 billion versus \$3.8 billion in 2001 and \$3.4 billion in 2000. The increase in sales in 2002 was due to higher U.S. DoD expenditures. The increase in sales in 2001 was due to higher volume in U.S. Navy, domestic air traffic control, classified, and secure network programs. Operating income was \$420 million in 2002 versus \$396 million in 2001 and \$358 million in 2000. Included in operating income in 2002 was a charge related to a dispute on a previously terminated commercial contract and a charge related to a current contract dispute that could affect the collection of amounts due. These charges totaled \$20 million. Also included was a charge of \$19 million to write down receivables related to programs that ended in prior years. Excluding goodwill amortization, operating income was \$496 million in 2001 and \$458 million in 2000. The decrease in operating income in 2002 was due to the charges described above, cost growth on certain programs, and lower pension income, offset by higher volume. The increase in operating income in 2001 was due to higher volume and higher pension income.

TS had 2002 and 2001 sales of \$2.1 billion versus \$1.8 billion in 2000. The sales volume at TS remained flat in 2002 despite higher U.S. DoD expenditures due to the loss of several key programs. The increase in sales in 2001 was due to higher volume from new programs. Operating income was \$128 million in 2002 versus \$158 million in 2001 and \$123 million in 2000. Excluding goodwill amortization, operating income was \$186 million in 2001 and \$152 million in 2000. The decrease in operating income in 2002 was due to a \$28 million write-off of contract costs that the Company determined were unbillable. The decrease was offset by a similarly sized reserve at corporate established by the Company in the second half of 2001 to address the issue. The increase in operating income in 2001 was due to higher volume and higher pension income.

Commercial Electronics (CE) had 2002 sales of \$423 million versus \$453 million in 2001 and \$666 million in 2000. The decrease in sales in 2002 and 2001 was due to the divestiture of the Company's recreational marine business in January 2001 and lower

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volume at RF Components due to reduced industry-wide demand and pricing pressures for cellular handset components. The operating loss was \$4 million in 2002 versus \$57 million in 2001 and \$4 million in 2000. The decrease in the operating loss in 2002 was due to the closure of certain unprofitable businesses and cost reduction actions taken. The increase in the operating loss in 2001 was due to the decline in volume. Contributing to the loss in 2000 was an \$8 million restructuring charge at Raytheon Marine's High Seas division and investments in new technology ventures, offset by a \$21 million favorable settlement on a commercial training contract. Excluding goodwill amortization, CE had an operating loss of \$50 million in 2001 and operating income of \$4 million in 2000.

RAC had 2002 sales of \$2.2 billion versus \$2.6 billion in 2001 and \$3.2 billion in 2000. The decrease in sales was due to lower aircraft deliveries, the divestiture of a majority interest in the Company's fractional ownership business in March 2002, and the divestiture of a majority interest in the Company's aviation support business in June 2001. The operating loss was \$4 million in 2002 versus \$760 million in 2001 and operating income of \$159 million in 2000.

Included in the 2001 results was a charge of \$693 million related to the Company's commuter aircraft business. This was a result of continued weakness in the commuter aircraft market and the impact of the events of September 11, 2001 on the commuter airline industry. During the first half of 2001, the Company experienced a significant decrease in the volume of used commuter aircraft sales. An evaluation of commuter aircraft market conditions and the events of September 11, 2001 indicated that the market weakness would continue into the foreseeable future. As a result, the Company completed an analysis of the estimated fair value of the various models of commuter aircraft and reduced the book value of commuter aircraft inventory and equipment leased to others accordingly. In addition, the Company adjusted the book value of long-term receivables and established a reserve for off balance sheet receivables based on the Company's estimate of exposures on customer financed assets due to defaults, refinancing, and remarketing of these aircraft. In 2002, the Company bought back the remaining off balance sheet receivables, described below in Off Balance Sheet Financing Arrangements. The Company also recorded a \$52 million charge related to a fleet of Starship® aircraft in 2001. During the first three quarters of 2001, the Company had not sold any of these aircraft and recorded a charge to reduce the value of the aircraft to their estimated fair value.

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

Excluding the 2001 charges and goodwill amortization, the operating loss was \$7 million in 2001. Excluding goodwill amortization, operating income was \$166 million in 2000. The decrease in the operating loss in 2002 was due to cost reductions and an \$18 million favorable contract adjustment recorded in 2002, partially offset by lower pension income and lower volume. The decrease in operating income in 2001 was due to adverse sales mix and margin pressure on T-6A, Beechjet, and used aircraft due to the market environment. The Company remains concerned about the market outlook for both new and used aircraft.

Backlog at December 31 (In millions)	2002		2001		2000
Electronic Systems	\$	13,632	\$	13,423	\$ 13,260
Command, Control, Communication and Information Systems		5,633		5,592	5,396
Technical Services		1,603		1,958	2,142
Commercial Electronics		402		467	513
Aircraft		4,396		4,165	4,398
Total	\$	25,666	\$	25,605	\$ 25,709
U.S. government backlog included above	\$	18,254	\$	16,943	\$ 16,650

Included in Aircraft backlog is approximately \$900 million related to an order for the Hawker Horizon which, due to current market conditions and development and certification delays, could be restructured or cancelled. Also included in Aircraft backlog is approximately \$850 million related to an order received from Flight Options®. If the Company consolidates Flight Options, as described below in Major Affiliated Entities, the Company would reduce its reported Aircraft backlog by approximately \$850 million. In addition, in connection with the sale of a majority interest in the Company's aviation support business in June 2001, Aircraft backlog was reduced by \$228 million. Approximately \$275 million of backlog was reclassified from Electronic Systems to Command, Control, Communication and Information Systems in 2001 in connection with the formation of TRS, described above.

Bookings (In millions)	2002		2001		2000
Electronic Systems	\$	8,986	\$	8,778	\$ 8,912
Command, Control, Communication and Information Systems		4,335		3,744	4,036
Technical Services		1,339		1,250	1,586
Commercial Electronics		240		331	615
Aircraft		2,409		2,567	3,336

Total	\$	17,309	\$	16,670	\$	18,485
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Significant bookings in 2002 included the U.S. Navy's contract award for the DD(X) program of \$1.1 billion at ES and the National Polar-orbiting Operational Environmental Satellite System of \$900 million at C3I. The decrease in bookings in 2001 was due to the impact of divestitures as well as several large bookings with extended periods of performance at C3I and TS in 1999. In addition, the Company's commercial businesses have been affected by softening market conditions, resulting in declining orders.

#### **Segment Reorganization**

Effective January 1, 2003, the Company will begin reporting its government and defense businesses in six segments. In addition, the Company's Commercial Electronics businesses have been reassigned to the new government and defense businesses. The Company's Aircraft segment will continue to be reported separately. Accordingly, beginning in the first quarter of 2003, the Company will report its financial results in the following segments: IDS, IIS, MS, NCS, SAS, TS, and RAC.

Integrated Defense Systems (IDS) provides integrated air and missile defense and naval and maritime war-fighting systems and modeling and simulation capabilities.

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

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

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

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

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

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

Also beginning in the first quarter of 2003, the Company will change the way pension expense or income is reported in the Company's segment results. Statement of Financial Accounting Standards (SFAS) No. 87, Employers' Accounting for Pensions, outlines the methodology used to determine pension expense or income for financial reporting purposes, which is not necessarily indicative of the funding requirements of pension plans,



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which are determined by other factors. A major factor for determining pension funding requirements are Cost Accounting Standards (CAS) that proscribe the allocation to and recovery of pension costs on U.S. government contracts. The Company will report the difference between SFAS No. 87 (FAS) pension expense or income and CAS pension expense as a separate line item in the Company's segment results called FAS/CAS Income Adjustment. The Company's individual segment results will now only include pension expense as determined under CAS, which can generally be recovered through the pricing of products and services to the U.S. government. Previously, the Company's individual segment results included FAS pension expense or income, which consisted of CAS pension expense and an adjustment to reconcile CAS pension expense to FAS pension expense or income.

The following information reflects the Company's segment results during 2002 and 2001 in the realigned structure. In addition, the individual segment results below include pension expense determined under CAS.

Net Sales (In millions)	2002		2001	
Integrated Defense Systems	\$	2,366	\$	2,265
Intelligence and Information Systems		1,887		1,736
Missile Systems		3,038		2,901
Network Centric Systems		3,091		2,865
Space and Airborne Systems		3,243		2,738
Technical Services		2,133		2,050
Aircraft		2,158		2,572
Corporate and Eliminations		(1,156)		(1,110)
Total	\$	16,760	\$	16,017

Operating Income (In millions)	2002		2001	
Integrated Defense Systems	\$	289	\$	238
Intelligence and Information Systems		180		139
Missile Systems		374		257
Network Centric Systems		278		246
Space and Airborne Systems		428		339
Technical Services		116		123
Aircraft		(51)		(822)
FAS/CAS Income Adjustment		210		386
Corporate and Eliminations		(70)		(140)
Total	\$	1,754	\$	766

Operating Cash Flow (In millions)	2002		2001	
Integrated Defense Systems	\$	194	\$	127
Intelligence and Information Systems		121		43
Missile Systems		176		293
Network Centric Systems		88		59
Space and Airborne Systems		153		215
Technical Services		174		(57)
Aircraft		(50)		(457)
Corporate		783		(44)
Total	\$	1,639	\$	179

Operating cash flow, as defined by the Company to evaluate cash flow performance by the segments, includes capital expenditures and expenditures for internal use software. Corporate operating cash flow includes the difference between amounts charged to the segments for interest and taxes on an intercompany basis and the amounts actually paid by the Company.

Capital Expenditures (In millions)	2002		2001	
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Integrated Defense Systems	\$	75	\$	89
Intelligence and Information Systems		30		49
Missile Systems		46		37
Network Centric Systems		79		73
Space and Airborne Systems		123		109
Technical Services		21		4
Aircraft		84		100
Total	\$	458	\$	461

Depreciation and Amortization (In millions)		2002		2001
Integrated Defense Systems	\$	44	\$	64
Intelligence and Information Systems		28		66
Missile Systems		46		148
Network Centric Systems		60		126
Space and Airborne Systems		69		126
Technical Services		13		37
Aircraft		104		110
Total	\$	364	\$	677

Identifiable Assets at December 31 (In millions)		2002		2001
Integrated Defense Systems	\$	1,612	\$	1,706
Intelligence and Information Systems		1,926		1,916
Missile Systems		4,429		4,412
Network Centric Systems		3,914		3,904
Space and Airborne Systems		3,875		3,848
Technical Services		1,372		1,503
Aircraft		3,891		3,273
Corporate		2,852		4,568
Total	\$	23,871	\$	25,130

Intersegment sales in 2002 and 2001, respectively, were \$102 million and \$106 million for Integrated Defense Systems, \$35 million and \$26 million for Intelligence and Information Systems, \$219 million and \$226 million for Network Centric Systems, \$299 million and \$324 million for Space and Airborne Systems, \$593 million and \$545 million for Technical Services, and \$4 million and \$4 million for Aircraft.

#### Discontinued Operations

In 2002, the Company sold its Aircraft Integration Systems business (AIS) for \$1,123 million, net, subject to purchase price adjustments. The Company is currently involved in a purchase price dispute related to the sale of AIS. There was no pretax gain or loss on the sale of AIS, however, due to the non-deductible goodwill associated with AIS, the Company recorded a tax provision of \$212 million, resulting in a \$212 million after-tax loss on the sale of AIS. As part of the transaction, the Company retained the responsibility for performance of the Boeing Business Jet<sup>®</sup> (BBJ) program. The Company also retained \$106 million of BBJ-related assets, \$18 million of receivables and other assets, and rights to a \$25 million jury award related to a 1999 claim against Learjet<sup>®</sup>. At December 31, 2002, the balance of these retained assets was \$64 million. Schedule delays, cost growth, and other variables could continue to have a negative effect on these retained assets. The timing and amount of net realizable value of these retained assets are uncertain and subject to a number of unpredictable market forces.

In 2002, the Company recorded charges related to AIS of \$66 million, which included a \$23 million write-down of a BBJ-related aircraft owned by the Company, a \$28 million charge for cost growth on one of the two BBJ aircraft not yet delivered, and a \$10 million

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charge to write down other BBJ-related assets to net realizable value, offset by a \$13 million gain resulting from the finalization of the 1999 claim, described above. The write-down of the BBJ-related aircraft resulted from the Company's decision to market this aircraft unfinished due to the current environment of declining prices for BBJ-related aircraft. The Company was previously marketing this aircraft as a customized executive BBJ. The write-down of other BBJ-related assets reflects the difficulty the Company has been experiencing in liquidating these assets.

In 2002, the pretax loss from discontinued operations related to AIS was \$47 million. In 2001 and 2000, pretax income from discontinued operations related to AIS was \$5 million and \$40 million, respectively.

In 2000, the Company sold its Raytheon Engineers & Constructors businesses (RE&C) to Washington Group <sup>TM</sup> International, Inc. (WGI) for \$73 million in cash plus assumption of debt and other obligations. At the time of the sale, the Company had, either directly or through a subsidiary that it still owns, outstanding letters of credit, performance bonds, and parent guarantees of performance and payment (the "Support Agreements") on many long-term construction contracts and certain leases. The Support Agreements were provided to customers at the time of contract award as security to the customers for the underlying contract obligations. Often, the total security was capped at the value of the contract price to secure full performance, including, in some cases, the payment of liquidated damages available under the contract. At December 31, 2002, the maximum exposure on outstanding Support Agreements for which there were stated values was \$367 million for letters of credit, \$344 million for performance bonds, and \$25 million for parent guarantees. Of these amounts, \$49 million of letters of credit and \$258 million of performance bonds relate to projects assumed by WGI in its bankruptcy, as described below. There are additional guarantees of project performance for which there is no stated maximum value that also remain outstanding. Of the guarantees that have no maximum stated value, many relate to contract obligations that, by their terms, include caps on liability for certain types of obligations, and all of the underlying projects have substantially completed construction and are in the punchlist, warranty, commercial closeout, and claims resolution phase, except the two Massachusetts construction projects, described below. Some of these contingent obligations and guarantees include warranty provisions and extend for a number of years.

In connection with the sale of RE&C, the Company was entitled to the financial rewards of certain claims, equity investments, and receivables totaling \$159 million that were sold to WGI. In addition, the Company was obligated to indemnify WGI against certain obligations and liabilities totaling \$88 million. As a result of WGI's bankruptcy filing, described below, the realization of these various assets through WGI was no longer probable, however, the obligations and liabilities could be set off against the assets pursuant to the terms of the purchase and sale agreement. In 2001, the Company recorded a charge of \$71 million to write off these assets and liabilities.

In March 2001, WGI abandoned two Massachusetts construction projects, triggering the Company's guarantees to the customer. The Company honored the guarantees and commenced work on these projects. Construction and start-up activities continue on the two projects—the Mystic Station plant and the Fore River plant. Pursuant to the construction contract, since the Mystic Station plant had not achieved performance test completion by January 14, 2003, the Company made payments totaling \$68 million, which pre-funded the delay and performance liquidated damages to the maximum amount specified by the construction contract. Also pursuant to the construction contract, the customer has taken the position that a similar missed deadline occurred on February 24, 2003 for the Fore River plant and that a payment of \$67 million was required from the Company on that date to pre-fund the delay and performance liquidated damages to the maximum amount specified by the construction contract. The Company believes that this February 24, 2003 deadline was incorrect and should have been extended as a result of changes for which the Company is entitled to change orders, an issue that is now being arbitrated between the Company and the customer. Accordingly, the Company did not make the requested payment to the customer on that date and has informed the customer that the deadline and requested payment are in dispute. As a result, the customer drew down on certain letters of credit totaling \$27 million that had been posted by the Company as contract performance security. A resolution of the current dispute between the Company and the customer over the contract deadline and the applicable liquidated damages is dependent upon the outcome of the pending arbitration, which should be concluded later this year. In addition, risks remain in completing the two projects, including costs associated with the possibility of further delays, labor productivity, and the successful completion of required performance tests on the two projects. In 2002, the Company recorded a charge of \$796 million resulting from an increase in the estimated cost to complete (ETC) for the two projects. The Company had previously recorded a charge of \$814 million in 2001. The cost increases have resulted from declining productivity, schedule delays, misestimates of field engineered materials, and unbudgeted hours worked on the two projects. The Company expects to complete construction and performance testing on the two projects and turn them over to the customer during the second quarter of 2003.

In May 2001, WGI filed for bankruptcy protection. In the course of the bankruptcy proceeding, WGI rejected some ongoing construction contracts and assumed others. In January 2002, WGI emerged from bankruptcy and as part of that process, the stock purchase agreement between WGI and the Company was terminated and WGI and the Company entered into a settlement agreement that provided, among other things, that WGI take reasonable actions to protect the Company against future exposure under Support Agreements related to contracts assumed by WGI and that WGI reimburse the Company for any associated costs incurred. For those contracts rejected by WGI, the Company's obligations depend on the extent to which the Company has any outstanding Support Agreements. The contracts rejected by WGI included four large fixed price international turnkey projects that were close to completion. Construction has been completed on these projects and they are now in the commercial closeout and claims resolution phase. The Company recorded a charge of \$18 million in 2002 related to warranty and start-up costs associated with the last project to be completed. In 2001, the Company recorded a charge of \$54 million related to these projects.

The contracts rejected by WGI also included two large construction projects that have been provisionally accepted by the customer (Red Oak and Ilijan) on which the Company had Support Agreements. In 2002, the Company recorded a charge of \$14 million related to final reliability testing and punch list items. The Company also recorded a charge of \$21 million resulting from a contract adjustment on one of these projects due to turbine-related delays. In 2001, the Company recorded a charge of \$156 million related to these and the other WGI construction projects on which the Company has Support Agreements. Risks and exposures on the contracts rejected by WGI include equipment and subcontractor performance, punch list and warranty closeout and performance, schedule and performance liquidated damages, final resolution of contract closeout issues, collection of amounts due under the contracts, potential adverse claims resolution including possible subcontractor claims, lease exposures, availability guarantees, surety bonds, and warranties. For the contracts assumed by WGI, the Company's obligations under existing Support Agreements would arise if WGI does not meet the obligations that it has assumed. Risks on the contracts assumed by WGI that are subject to Support Agreements relate to non-performance or defaults by WGI.

The Company's cost estimates for construction projects are heavily dependent upon third parties, including WGI, and their ability to perform construction management and other tasks that require industry expertise the Company no longer possesses. In addition, there are risks that the ultimate costs to complete and close out the projects will increase beyond the Company's current estimates due to factors such as labor productivity and availability of labor, the nature and complexity of the work to be performed, the impact of change orders, the recoverability of claims included in the ETC, and the outcome of defending claims asserted against the Company. There also are claims asserted against the Company by vendors, subcontractors, and other project participants that are not beneficiaries of the Support Agreements. A significant change in an estimate on one or more of the projects could have a material adverse effect on the Company's financial position or results of operations.

In 2002, the Company allocated \$79 million of interest expense to RE&C versus \$18 million in 2001. Interest expense was allocated to RE&C based upon actual cash outflows since the date of disposition. The Company will not allocate interest expense to RE&C in

## **Management's Discussion and Analysis of Financial Condition and Results of Operations** continued

2003. In 2002, the Company recorded charges of \$38 million for legal, management, and other costs versus \$30 million in 2001.

In 2002, 2001, and 2000, the pretax loss from discontinued operations related to RE&C was \$966 million, \$1,143 million, and \$513 million, respectively.

Net cash used in operating activities from discontinued operations related to RE&C was \$1,129 million in 2002 versus \$635 million in 2001 and \$100 million in 2000. The Company expects its operating cash flow to be negatively affected by approximately \$300 million to \$375 million in 2003 which includes project completion, legal, and management costs related to RE&C. Further increases in project costs may increase the estimated operating cash outflow for RE&C in 2003.

### **Financial Condition and Liquidity**

Net cash provided by operating activities in 2002 was \$1,039 million versus \$193 million in 2001 and \$980 million in 2000. Net cash provided by operating activities from continuing operations was \$2,235 million in 2002 versus \$789 million in 2001 and \$1,009 million in 2000. The increase in net cash provided by operating activities from continuing operations in 2002 was due to better working capital management at the defense businesses, better inventory management at Raytheon Aircraft, a \$156 million tax refund received as a result of the Job Creation and Worker Assistance Act of 2002, and \$95 million received from the closeout of the Company's interest rate swaps, described below in Capital Structure and Resources. The decrease in net cash provided by operating activities from continuing operations in 2001 was due to an increase in used aircraft inventory at Raytheon Aircraft resulting from lower demand for new and used aircraft, advance payments received in 2000, and accelerated collections on several large programs in 2000.

Net cash used in investing activities was \$719 million in 2002 versus \$47 million in 2001 and \$213 million in 2000. The Company provides long-term financing to its aircraft customers and maintained a program under which it sold general aviation and commuter aircraft long-term receivables under a receivables purchase facility, described below in Off Balance Sheet Financing Arrangements. Origination of financing receivables was \$431 million in 2002, \$663 million in 2001, and \$969 million in 2000. Sale of financing receivables was \$263 million in 2002, \$696 million in 2001, and \$1,034 million in 2000. Repurchase of financing receivables was \$347 million in 2002, \$329 million in 2001, and \$258 million in 2000. Since the receivables purchase facility no longer provided any real economic benefit, the Company bought out the receivables that remained in the facility in 2002 for \$1,029 million, eliminating the cost of maintaining it, and brought the related assets onto the Company's books.

Capital expenditures were \$458 million in 2002, \$461 million in 2001, and \$421 million in 2000. Capital expenditures in 2003 are expected to approximate \$500 million. Proceeds from sales of property, plant, and equipment were \$11 million in 2002, \$9 million in 2001, and \$40 million in 2000. Expenditures for internal use software were \$138 million in 2002, \$149 million in 2001, and \$110 million in 2000. Expenditures for internal use software in 2003 are expected to approximate \$95 million as the Company continues to convert significant portions of its existing financial systems to a new integrated financial package.

Proceeds from the sale of operating units and investments were \$1,166 million in 2002 versus \$266 million in 2001, and \$403 million in 2000. In 2002, the Company sold its AIS business for \$1,123 million, described above in Discontinued Operations, and an investment for \$43 million, described below in Major Affiliated Entities.

In 2001, the Company sold a majority interest in its aviation support business for \$154 million, its recreational marine business for \$100 million, and other investments for \$12 million. Total sales and operating income related to these divested businesses were \$248 million and \$13 million, respectively, in 2001.

In 2000, The Company sold its RE&C business for \$73 million, described above in Discontinued Operations. The Company also sold its flight simulation business for \$160 million, its optical systems business for \$153 million, and other non-core business operations for \$17 million. Total sales and operating income related to these divested businesses (excluding RE&C) were \$166 million and \$2 million, respectively, in 2000.

In October 2001, the Company and Hughes® Electronics Corporation agreed to a settlement regarding the purchase price adjustment related to the Company's 1997 merger with Hughes Defense. Under the terms of the agreement, Hughes Electronics agreed to reimburse the Company approximately \$635 million of its purchase price, with \$500 million received in 2001 and the balance received in 2002. The settlement resulted in a \$555 million reduction in goodwill. The \$135 million receivable was included in prepaid expenses and other current assets at December 31, 2001.

Net cash used in financing activities was \$990 million in 2002 versus net cash provided of \$197 million in 2001 and net cash used of \$126 million in 2000. Dividends paid to stockholders were \$321 million in 2002, \$281 million in 2001, and \$272 million in 2000. The quarterly dividend rate was \$0.20 per share for each of the four quarters of 2002, 2001, and 2000.

### **Capital Structure and Resources**

Total debt was \$7.4 billion at December 31, 2002 and \$8.2 billion at December 31, 2001. Cash and cash equivalents were \$544 million at December 31, 2002 and \$1,214 million at December 31, 2001. The Company's outstanding debt has interest rates ranging from 4.5% to 8.3% and matures at various dates through 2028. Total debt as a percentage of total capital was 43.3 percent and 40.2 percent at December 31, 2002 and 2001, respectively.

In 2002, the Company issued \$575 million of long-term debt to reduce the amounts outstanding under the Company's lines of credit. Also in 2002, the Company repurchased debt with a par value of \$96 million. In addition, the Company eliminated its \$1.4 billion receivables purchase facility in 2002, described below in Off Balance Sheet Financing Arrangements. The Company has on file a shelf registration with the Securities and Exchange Commission registering the issuance of up to \$2.4 billion in debt securities, common or preferred stock, warrants to purchase any of the aforementioned securities, and/or stock purchase contracts.

In 2001, the Company entered into various interest rate swaps that corresponded to a portion of the Company's fixed rate debt in order to effectively hedge interest rate risk. The \$1.2 billion notional value of the interest rate swaps effectively converted approximately 15 percent of the Company's total debt to variable rate debt. In 2002, the Company closed out these interest rate swaps in order to reduce market rate risk. The Company received proceeds of \$95 million in 2002 for the fair value of the swaps. The \$95 million of value will be amortized over the remaining life of the corresponding debt as a reduction to

interest expense. Also in 2001, the Company repurchased long-term debt with a par value of \$1,375 million.

In 2000, the Company issued \$2.25 billion of long-term debt to repay outstanding short-term debt, extending the maturity of the Company's debt obligations.

Also in 2000, the Company issued \$350 million of floating rate notes due in 2001 to partially refinance \$500 million of long-term debt that matured in 2000.

The Company's most restrictive bank agreement covenant is an interest coverage ratio that currently requires earnings before interest, taxes, depreciation, and amortization (EBITDA), excluding certain charges, to be at least 2.5 times net interest expense for the prior four quarters. In July 2002, the covenant was amended to exclude charges of \$450 million related to discontinued operations. The Company was in compliance with the interest coverage ratio covenant, as amended, during 2002 and expects to continue to be in compliance throughout 2003.

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

Lines of credit with certain commercial banks exist to provide short-term liquidity. The lines of credit bear interest based upon LIBOR and were \$2.85 billion at December 31, 2002, consisting of \$1.55 billion which matures in November 2003, and \$1.3 billion which matures in 2006. The lines of credit were \$2.4 billion at December 31, 2001. There were no borrowings under the lines of credit at December 31, 2002, however, the Company had \$306 million of outstanding letters of credit which reduced the Company's borrowing capacity under the lines of credit to \$2.5 billion. There was \$140 million outstanding under the lines of credit at December 31, 2001. Credit lines with banks are also maintained by certain foreign subsidiaries to provide them with a limited amount of short-term liquidity. These lines of credit were \$79 million and \$129 million at December 31, 2002 and 2001,

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

respectively. There was \$1 million and \$26 million outstanding under these lines of credit at December 31, 2002 and 2001, respectively. In addition, the Company maintains other credit and synthetic lease facilities, described below in Off Balance Sheet Financing Arrangements.

In May 2001, the Company issued 17,250,000, 8.25% equity security units for \$50 per unit totaling \$837 million, net of offering costs of \$26 million. The net proceeds of the offering were used to reduce debt and for general corporate purposes. Each equity security unit consists of a contract to purchase shares of the Company's common stock on May 15, 2004, which will result in cash proceeds to the Company of \$863 million, and a mandatorily redeemable equity security, with a stated liquidation amount of \$50, due on May 15, 2006, which will require a cash payment by the Company of \$863 million. The contract obligates the holder to purchase, for \$50, shares of common stock equal to the settlement rate. The settlement rate is equal to \$50 divided by the average market value of the Company's common stock at that time. The settlement rate cannot be greater than 1.8182 or less than 1.4903 shares of common stock per purchase contract. Using the treasury stock method, there is no effect on the computation of shares for diluted earnings per share if the average market value of the Company's common stock is between \$27.50 and \$33.55 per share. For example, if the Company's average stock price during the period was \$40 per share, the diluted shares outstanding would increase by 4.1 million shares or one percent of total shares outstanding at December 31, 2002. At an average stock price of \$45 per share, the diluted shares outstanding would increase by 6.5 million shares, or two percent. During 2002, the average market value of the Company's common stock was \$35.41 per share, therefore, the Company included 1.4 million shares in its computation of shares for diluted earnings per share.

In May 2001, the Company issued 14,375,000 shares of common stock for \$27.50 per share. In October 2001, the Company issued 31,578,900 shares of common stock for \$33.25 per share. The proceeds of the offerings were \$1,388 million, net of \$56 million of offering costs, and were used to reduce debt and for general corporate purposes.

In 2001, the Company eliminated its dual class capital structure and reclassified its Class A and Class B common stock into a single new class of common stock. The Company also effected a 20-for-1 reverse-forward stock split that resulted in holders of fewer than 20 shares of common stock being cashed out of their holdings.

The Company's need for, cost of, and access to funds are dependent on future operating results, as well as conditions external to the Company. Cash and cash equivalents, cash flow from operations, proceeds from divestitures, and other available financing resources are expected to be sufficient to meet anticipated operating, capital expenditure, and debt service requirements during the next twelve months.

**Major Affiliated Entities**

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

(In millions)	Ownership%	2002	2001
<b>Equity method investments</b>			
TRS	50.0	\$ 59	\$ 18
HRL®	33.3	29	28
HAL	49.0	13	7
Indra™	49.0	12	12
Raytheon Aerospace™	25.9	5	—
TelASIC™	22.8	2	—
Flight Options	49.9	—	—
Space Imaging	30.9	—	48
Raytheon España	—	—	38
		<b>120</b>	<b>151</b>
<b>Other investments</b>			
Alliance Laundry Systems		19	19
Other		15	11
		<b>34</b>	<b>30</b>
<b>Total</b>		<b>\$ 154</b>	<b>\$ 181</b>

In 1995, through the acquisition of E-Systems®, Inc., the Company invested in Space Imaging and currently has a 31 percent equity investment in Space Imaging LLC. Since 1996, the Company has guaranteed a portion of Space Imaging's debt and currently guarantees 50 percent of a \$300 million Space Imaging credit facility that matures in March 2003. There were \$277 million of Space Imaging borrowings outstanding under this facility at December 31, 2002. In 2002, the Company recorded a \$175 million charge to write-off the Company's investment in Space Imaging and accrue for the credit facility guarantee on which the Company expects to make payment in 2003. The charge was a result of the Company's and Space Imaging's other major investor's decision not to provide additional funding at this time, whereby the Company does not believe that Space Imaging will be able to repay amounts outstanding under the credit facility.

To date, Space Imaging has purchased a significant amount of equipment from its major investors, including the Company. The Company's outstanding

receivables due from Space Imaging totaled \$28 million at December 31, 2002. Space Imaging is pursuing its business plan, including assessments relative to future investment in a replacement satellite system and related funding requirements. Space Imaging was recently successful in obtaining certain long-term commitments from the U.S. government for purchases of commercial satellite imagery. In order to fund future replacement satellites, Space Imaging will likely need, but has not yet been able to obtain, commitments for additional funding. In light of current market conditions and those uncertainties, there can be no assurance that Space Imaging will be successful in attracting additional funding.

In 2002, the Company formed a joint venture with Flight Options, Inc. whereby the Company contributed its Raytheon Travel Air<sup>®</sup> fractional ownership business and loaned the new entity \$20 million. The Company's investment in and other assets related to the joint venture totaled \$107 million at December 31, 2002, which includes equity losses the Company has recorded since the formation of the joint venture. There was approximately \$59 million of collateral value underlying amounts due from Flight Options at December 31, 2002. In addition, there was approximately \$88 million of additional transaction-related receivables that the Company recorded at zero due to the uncertainty of the ultimate realization of those amounts, due to the fact that the new entity, Flight Options LLC (FO), has been unprofitable to date and has not been generating adequate cash flow to finance current operations. Given these operating results, the Company has loaned FO an additional \$10 million since December 31, 2002.

FO had been pursuing additional equity financing, but was not successful in that regard. As a result, the Company offered to exchange the FO debt it currently holds for additional equity in the joint venture, restructure other debt, and invest additional funds for additional equity. If this restructuring is completed, the Company will be responsible for FO's operations, own a majority of FO's stock, and consolidate FO's results in the Company's financial statements. Negotiations related to the restructuring are ongoing. If the Company consolidates Flight Options, it is not expected to have a material effect on the Company's financial position or results of operations, although the Company would reduce its reported Aircraft backlog by approximately \$850 million related to an order received from Flight Options in 2002. In addition, the Company's reported revenue, operating income, and other expense would change as a result of the consolidation of Flight Options' results. Flight Options' customers, in certain instances, have the contractual ability to require Flight Options to buy back their fractional share based on its current fair market value. The estimated value of this potential obligation was approximately \$530 million at December 31, 2002.

In 2002, the Company sold its investment in Raytheon España for \$43 million and recorded a gain of \$4 million. Also in 2002, the Company agreed to provide \$30 million of financing to JT3, L.L.C., a joint venture formed by the Company to provide range support to the U.S. Air Force and U.S. Navy, under which \$21 million was outstanding at December 31, 2002. This financing is collateralized by JT3's customer receivables.

In 2001, the Company formed a joint venture, Thales Raytheon Systems (TRS), that has two major operating subsidiaries, one of which the Company controls and consolidates. In addition, the Company has entered into joint ventures formed specifically to facilitate a teaming arrangement between two contractors for the benefit of the customer, generally the U.S. government, whereby the Company receives a subcontract from the joint



## **Management's Discussion and Analysis of Financial Condition and Results of Operations** continued

venture in its capacity as prime contractor. Accordingly, the Company records the work it performs for the joint venture as operating activity. Certain joint ventures are not included in the table above as the Company's investment in these entities is less than \$1 million.

In 2001, the Company sold a majority interest in its aviation support business (Raytheon Aerospace) and retained \$66 million in preferred and common equity in the business. The \$66 million represents a 26 percent stake and was recorded at zero because the new entity is highly-leveraged. This initial investment will remain at zero until the new entity generates enough cash flow to show that the new entity will be able to liquidate the Company's investment after satisfying its third party debt service payments. The \$5 million investment balance noted above represents equity income the Company has recorded since the date of disposition.

The Company also has a 20 percent equity investment in Exostar™ LLC. Due to equity method losses recorded since formation, substantially all of the Company's investment in Exostar has been written off.

In 1998, the Company sold its commercial laundry business unit to Alliance Laundry Systems for \$315 million in cash and \$19 million in securities.

### **Commitments and Contingencies**

Defense contractors are subject to many levels of audit and investigation. Agencies that oversee contract performance include: the Defense Contract Audit Agency, the Department of Defense Inspector General, the General Accounting Office, the Department of Justice, and Congressional Committees. The Department of Justice, from time to time, has convened grand juries to investigate possible irregularities by the Company. Individually and in the aggregate, these investigations are not expected to have a material adverse effect on the Company's financial position or results of operations.

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

The Company continues to cooperate with the staff of the Securities and Exchange Commission (SEC) on an investigation related to the Company's accounting practices primarily related to the commuter aircraft business and the timing of revenue recognition at Raytheon Aircraft from 1997 to 2001. The Company has been providing documents and information to the SEC staff. The Company is unable to predict the outcome of the investigation or any action that the SEC might take.

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

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

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

In July 2001, the Company was named as a nominal defendant and all of its directors at the time have been named as defendants in two identical purported derivative lawsuits. The derivative complaints contain allegations similar to those included in the WGI Complaint and further allege that the individual defendants breached fiduciary duties to the Company and failed to maintain systems necessary for prudent management and control of the Company's operations. In December 2001, the Company and the individual defendants filed a motion to dismiss one of the derivative lawsuits.

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

Although the Company believes that it and the other defendants have meritorious defenses to each and all of the aforementioned class action and derivative complaints and intends to contest each lawsuit vigorously, an adverse resolution of any of the lawsuits could have a material adverse effect on the Company's

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

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

The Company is involved in various stages of investigation and cleanup related to remediation of various environmental sites. The Company's estimate of total environmental remediation costs expected to be incurred is \$143 million. On a discounted basis, the Company estimates the liability to be \$92 million before U.S. government recovery and has accrued this amount at December 31, 2002. A portion of these costs are eligible for future recovery through the pricing of products and services to the U.S. government. The recovery of environmental cleanup costs from the U.S. government is considered probable based on the Company's long history of receiving reimbursement for such costs. Accordingly, the Company has recorded \$49 million at December 31, 2002 for the estimated future recovery of these costs from the U.S. government, which is included in contracts in process. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative cleanup methods and technologies, the uncertainty of insurance coverage, and the unresolved extent of the Company's responsibility, it is difficult to determine the ultimate outcome of these matters, however, any additional liability is not expected to have a material adverse effect on the Company's financial position or results of operations.

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In 1997, the Company provided a first loss guarantee of \$133 million on \$1.3 billion of U.S. Export-Import Bank debt through 2015 related to the Brazilian government's System for the Vigilance of the Amazon (SIVAM) program.

The following is a schedule of the Company's contractual obligations outstanding at December 31, 2002:

(In millions)	Total	Less than 1 Year	1-3 years	4-5 years	After 5 years
Debt	\$ 7,433	\$ 1,153	\$ 1,129	\$ 1,943	\$ 3,208
Interest payments	3,752	476	835	605	1,836
Operating leases	1,498	421	422	306	349
IT outsourcing	458	66	135	128	129
Synthetic lease obligations	138	138	—	—	—
Equity security units (ESU)	—	—	(863)	863	—
ESU distributions	227	71	126	30	—
Total	\$ 13,506	\$ 2,325	\$ 1,784	\$ 3,875	\$ 5,522

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

The following is a schedule of the Company's other potential commitments outstanding at December 31, 2002:

(In millions)	Total	Less than 1 year	1-3 Years	4-5 Years	After 5 Years
Letters of credit	\$ 860	\$ 502	\$ 267	\$ 58	\$ 33
Debt guarantees	283	150	—	—	133
Discontinued operations	736	192	120	54	370

Letters of credit are issued by banks and insurance companies on the Company's behalf to meet various bid, performance, warranty, retention, and advance payment obligations primarily related to defense customers. Debt guarantees consist of the Space Imaging loan facility guarantee of \$150 million and the SIVAM guarantee of \$133 million, described above. Discontinued operations consist of letters of credit, performance bonds, and parent guarantees of performance and payment on certain long-term construction contracts, described above in Discontinued Operations, however, additional guarantees of project performance for which there is no maximum stated value also remain outstanding.

**Off Balance Sheet Financing Arrangements**

The following amounts were outstanding under the Company's off balance sheet receivables facilities at December 31:

(In millions)	2002	2001	2000
Aircraft Receivables Facility	\$ 1	\$ 1,448	\$ 1,755
Government Receivables Facility	—	—	25
Total	\$ 1	\$ 1,448	\$ 1,780

The Company provides long-term financing to its aircraft customers and maintained a program under which an indirect subsidiary of the Company sold general aviation and commuter aircraft long-term receivables to Raytheon Aircraft Receivables Corporation (RARC), a special purpose entity. RARC sold undivided interests in the receivables to a bank syndicate and other financial institutions that purchased these interests for cash under a receivables purchase facility (the "Aircraft Receivables Facility"). The purchasers had a first priority claim on all proceeds, including the underlying aircraft and any insurance proceeds, and had recourse against the Company, at varying percentages, depending upon the character of the receivables sold. Since the Aircraft Receivables facility no longer provided any real economic benefit, the Company bought out the receivables that remained in this facility in 2002, eliminating the cost of maintaining it, and brought the related assets onto the Company's books. The \$1 million balance in this facility at December 31, 2002 represented a remaining security interest in certain aircraft whose title had not yet been transferred back to the Company.

In 1998, the Company entered into a \$490 million property sale and five-year operating lease (synthetic lease) facility. Under this lease facility property, plant, and equipment was sold and leased back in order to diversify the Company's sources of funding and extend the term of a portion of the Company's financing obligations. In 2003, the Company is required to buy back the assets remaining in the lease facility for \$138 million. Remaining lease payments under the lease facility at December 31, 2002 total \$28 million in 2003.

**Critical Accounting Policies**

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

Sales under long-term contracts are recorded under the percentage of completion method. Costs and estimated gross margins are recorded as sales as work is performed based on the percentage that incurred costs bear to estimated total costs utilizing the most recent estimates of costs and funding. Cost estimates include direct and indirect costs such as labor, material, warranty, and overhead. Some contracts contain incentive provisions based upon performance in relation to established targets which are recognized in the contract estimates when deemed realizable. Contract change orders and claims are included in sales when they can be reliably estimated and realization is probable. Due to the long-term nature of many of the Company's programs, developing the estimates of costs and funding often requires significant judgment. Factors that must be considered in estimating the work to be completed and ultimate contract recovery include labor productivity and availability of labor, the nature and complexity of the work to be performed, the impact of change orders, availability of materials, the impact of delayed performance, availability and timing of funding from the customer, and the recoverability of claims included in any estimate to complete. In 2002, 2001, and 2000, operating income as a percent of net sales for the Company's defense businesses did not vary by more than 0.5 percent. If the aggregate combined cost estimates for all of the contracts in the Company's defense businesses had been higher or lower by 0.5 percent in 2002, the Company's operating income would have changed by approximately \$50 million to \$75 million.

As described above in Discontinued Operations, the Company's cost estimates for construction projects are heavily dependent upon third parties and their ability to perform construction management and other tasks that require industry expertise the Company no longer possesses. Identified risks related to the two Massachusetts construction projects, also described above in Discontinued Operations, include the possibility of further delays, reduced labor productivity, and the timely successful completion of required performance tests on the two projects. Historically, the Company has experienced problems associated with these identified risks. The current schedule calls for the successful completion of the performance tests at the Mystic Station plant in April and May 2003 and the Fore River plant in May 2003. If the Company is unable to meet these dates, the costs on these projects could increase materially. The current estimate also assumes the recovery of pre-funded liquidated damages totaling \$48 million related to these two projects. While the Company expects to recover these pre-funded liquidated damages from the customer, failure to do so would require an additional charge equal to the amount of pre-funded liquidated damages the Company is unable to recover.

The Company uses lot accounting for new aircraft introductions. Lot accounting involves selecting an initial lot size at the time a new aircraft begins to ship and measuring an average cost over the entire lot for each aircraft sold. The costs attributed to aircraft delivered are based on the estimated average cost of all aircraft expected to be produced and are determined under the learning curve concept which anticipates a predictable decrease in unit costs as tasks and production techniques become more efficient through repetition. Once production costs stabilize, which is expected by the time the initial lot has been completed, the use of lot accounting is discontinued. The selection of lot size is a critical judgment. The Company determines lot size based on several factors, including the size of firm backlog, the expected annual production on the aircraft, and experience on

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

similar new aircraft. The size of the initial lot for the Beechcraft Premier I, the only aircraft the Company is currently utilizing lot accounting for, is 200 units. The estimated average cost of the aircraft is reviewed and reassessed quarterly and changes in estimates are recognized over future deliveries remaining in the lot, however, the Company is not currently recording profit on aircraft sales in the initial lot. A 5 percent increase in the estimated cost to produce the aircraft would reduce the Company's operating income by approximately \$50 million.

The valuation of used aircraft in inventories, which are stated at the lower of cost or market, requires significant judgment. As part of its assessment of fair value, the Company must evaluate many factors including current market conditions, future market conditions, the age and condition of the aircraft, and availability levels for the aircraft in the market. A 10 percent decrease in the aggregate market value of used aircraft in inventory at December 31, 2002 would result in an impairment charge of approximately \$15 million.

The Company evaluates the recoverability of long-lived assets, upon indication of possible impairment, by measuring the carrying amount of the assets against the related estimated undiscounted cash flows. When an evaluation indicates that the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the asset is adjusted to its estimated fair value. The determination of what constitutes an indication of possible impairment, the estimation of future cash flows, and the determination of estimated fair value are all significant judgments. In addition, the company performs an annual goodwill impairment test in the fourth quarter of each year. In connection with the reorganization of the Company's government and defense businesses, described above in Segment Reorganization, the Company reallocated goodwill to the newly formed segments based upon an estimate of the fair value of the portion of a previously acquired company contribution to the new segment and performed an initial goodwill impairment test. The Company estimated the fair value of the new segments using a discounted cash flow model based on the Company's most recent five-year plan and compared the estimated fair value to the net book value of the segment, including goodwill. There was no indication of goodwill impairment as a result of this initial test. Preparation of forecasts for use in the five-year plan involves significant judgments. Changes in these forecasts could affect the estimated fair value of certain of the Company's segments and could result in a goodwill impairment charge in a future period.

The Company has pension and retirement plans covering the majority of its employees, including certain employees in foreign countries. The selection of the assumptions used to determine pension expense or income in accordance with Statement of Financial Accounting Standards No. 87, Employer's Accounting for Pensions (SFAS No. 87) involves significant judgment. The investment performance of the Company's pension plan assets for the year ended October 31, 2002, the measurement date for the Company's pension plans, of (4.5)% did not meet the Company's long-term return on asset (ROA) assumption under SFAS No. 87 of 9.5% per annum. Due to changes in the extended outlook of the investment markets, the Company has reduced the long-term ROA assumption to 8.75%. The Company's long-term ROA assumption is based on target asset allocations of 60% equities with a 10.5% expected return, 30% fixed income with a 5.4% expected return, and 10% other (including real estate, venture capital, and cash) with an 8.3% expected return. Current allocations are within 3% of the target for each category. In addition, due to changes in the interest rate environment, the Company has reduced the discount rate to 7.0% from 7.25%. As a result, the Company's SFAS No. 87 pension expense is expected to be approximately \$300 million in 2003 and \$625 million in 2004. If the Company adjusts both the long-term ROA assumption and the discount rate for 2004 up or down by 25 basis points, the Company's SFAS No. 87 pension expense would change by approximately \$50 million. In selecting the long-term ROA and discount rate, which are considered to be the key variables in determining pension expense or income, the Company considers both current market conditions and expected future market trends, including changes in interest rates and equity market performance. The Company currently estimates that cash contributions to the pension plans will be approximately \$60 million in 2003 and \$360 million in 2004.

**Accounting Standards**

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46). This interpretation addresses the consolidation of certain variable interest entities (VIEs) for which a controlling financial interest exists. FIN 46 applies immediately to financial interests obtained in VIEs after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which a financial interest was obtained before February 1, 2003. FIN 46 may be applied prospectively with a cumulative effect adjustment or by restating previously issued financial statements with a cumulative effect adjustment as of the beginning of the first year restated. The effect of adopting FIN 46 on the Company's financial position and results of operations has not yet been determined.

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34 (FIN 45). This interpretation clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. It also elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. The recognition and measurement provisions of FIN 45 are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements of periods ending after December 15, 2002. The effect of adopting the recognition and initial measurement provisions of FIN 45 on the Company's financial position and results of operations has not yet been determined.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146) which nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This accounting standard, which is effective for exit or disposal activities that are initiated after December 31, 2002, addresses financial accounting and reporting for costs associated with exit or disposal activities. The adoption of SFAS No. 146 is not expected to have a material effect on the Company's financial position or results of operations.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

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

The Company meets its working capital requirements with a combination of variable rate short-term and fixed rate long-term financing. The Company enters into interest rate swap agreements with commercial and investment banks primarily to manage interest rates associated with the Company's financing arrangements. The Company also enters into foreign currency forward contracts with commercial banks only to fix the dollar value of specific commitments and payments to international vendors and the value of foreign currency denominated receipts. The market-risk sensitive instruments used by the Company for hedging are entered into with commercial and investment banks and are directly related to a particular asset, liability, or transaction for which a firm commitment is in place. The Company has used a special purpose entity to sell aircraft receivables and retains a partial interest that includes servicing rights, interest only strips, and subordinated certificates.

Financial instruments held by the Company which are subject to interest rate risk include notes payable, long-term debt, long-term receivables, investments, and interest rate swap agreements. There was no aggregate after tax hypothetical loss in earnings for one year of those financial instruments held by the Company at December 31, 2002 which are subject to interest rate risk resulting from a hypothetical increase in interest rate of 10 percent. The aggregate hypothetical loss in earnings for one year of those financial instruments held by the Company at December 31, 2001 and 2000, which are subject to interest rate risk resulting from a hypothetical increase in interest rates of 10 percent, was \$2 million and \$3 million, respectively, after-tax. The hypothetical loss was determined by calculating the aggregate impact of a 10 percent increase in the interest rate of each variable rate financial instrument held by the Company at December 31, 2002 and December 31, 2001, which was subject to interest rate risk. Fixed rate financial instruments were not evaluated, as the risk exposure is not material.

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**Item 8. Financial Statements and Supplementary Data**
**Raytheon Company Consolidated Balance Sheets**

(In millions except share amounts)

**December 31, 2002**

December 31, 2001

<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$	544	\$ 1,214
Accounts receivable, less allowance for doubtful accounts of \$22 in 2002 and 2001		675	480
Contracts in process		3,016	3,204
Inventories		2,032	2,177
Deferred federal and foreign income taxes		601	620
Prepaid expenses and other current assets		247	309
Assets from discontinued operations		75	1,643
Total current assets		7,190	9,647
Property, plant, and equipment, net		2,396	2,196
Deferred federal and foreign income taxes		281	—
Prepaid pension		676	2,311
Goodwill		11,170	11,358
Other assets, net		2,233	1,261
Total assets	\$	23,946	\$ 26,773
<b>Liabilities and Stockholders' Equity</b>			
Current liabilities			
Notes payable and current portion of long-term debt	\$	1,153	\$ 1,363
Advance payments, less contracts in process of \$1,688 in 2002 and \$1,213 in 2001		819	883
Accounts payable		776	910
Accrued salaries and wages		710	573
Other accrued expenses		1,316	1,536
Liabilities from discontinued operations		333	550
Total current liabilities		5,107	5,815
Accrued retiree benefits and other long-term liabilities		2,831	1,283
Deferred federal and foreign income taxes		—	563
Long-term debt		6,280	6,874
Mandatorily redeemable equity securities		858	857
Commitments and contingencies (note M)			
Stockholders' equity			
Preferred stock, par value \$0.01 per share, 200,000,000 shares authorized, none outstanding in 2002 and 2001			
Common stock, par value \$0.01 per share, 1,450,000,000 shares authorized, 408,209,000 and 395,432,000 shares outstanding in 2002 and 2001, respectively, after deducting 97,000 and 18,000 treasury shares in 2002 and 2001, respectively		4	4
Additional paid-in capital		8,146	7,723
Accumulated other comprehensive income		(2,180)	(212)
Treasury stock, at cost		(4)	(1)
Retained earnings		2,904	3,867
Total stockholders' equity		8,870	11,381
Total liabilities and stockholders' equity	\$	23,946	\$ 26,773

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





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**Raytheon Company Consolidated Statements of Operations**

(In millions except per share amounts)	Years Ended December 31: <b>2002</b>		2001	2000
Net sales	\$ 16,760	\$	16,017	\$ 15,817
Cost of sales	13,358		13,664	12,613
Administrative and selling expenses	1,199		1,131	1,117
Research and development expenses	449		456	507
Total operating expenses	15,006		15,251	14,237
Operating income	1,754		766	1,580
Interest expense	497		696	761
Interest income	(27)		(36)	(25)
Other expense (income), net	210		(18)	12
Non-operating expense, net	680		642	748
Income from continuing operations before taxes	1,074		124	832
Federal and foreign income taxes	319		106	355
Income from continuing operations	755		18	477
Loss from discontinued operations, net of tax	(887)		(757)	(339)
Income (loss) before extraordinary items and accounting change	(132)		(739)	138
Extraordinary gain (loss) from debt repurchases, net of tax	1		(16)	—
Cumulative effect of change in accounting principle, net of tax	(509)		—	—
Net income (loss)	\$ (640)	\$	(755)	\$ 138
Earnings per share from continuing operations				
Basic	\$ 1.88	\$	0.05	\$ 1.41
Diluted	1.85		0.05	1.40
Earnings (loss) per share				
Basic	\$ (1.59)	\$	(2.12)	\$ 0.41
Diluted	(1.57)		(2.09)	0.40

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

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**Raytheon Company Consolidated Statements of Stockholders' Equity**

Years Ended December 31, 2002, 2001, and 2000 (In millions except per share amounts)	Common Stock	Additional Paid-in Capital	Accumulated Other Compre- hensive Income	Treasury Stock	Retained Earnings	Compre- hensive Income	Total Stockholders' Equity
Balance at December 31, 1999	\$ 3	\$ 6,475	\$ (69)	\$ (413)	\$ 5,049		\$ 11,045
Net income					138	\$ 138	138
Other comprehensive income							
Foreign exchange translation						(36)	(36)
Unrealized losses on investments						(1)	(1)
Other comprehensive income			(37)			(37)	
Comprehensive income—2000						\$ 101	
Dividends declared—\$0.80 per share					(273)		(273)
Common stock plan activity		17					17
Treasury stock activity		(15)		31			16
Balance at December 31, 2000	3	6,477	(106)	(382)	4,914		10,906
Net loss					(755)	\$ (755)	(755)
Other comprehensive income							
Minimum pension liability						(100)	(100)
Foreign exchange translation						(4)	(4)
Unrealized losses on interest-only strips						(2)	(2)
Other comprehensive income			(106)			(106)	
Comprehensive income—2001						\$ (861)	
Dividends declared—\$0.80 per share					(292)		(292)
Issuance of common stock	1	1,369					1,370
Common stock plan activity		36					36
Trust preferred security distributions		(6)					(6)
Treasury stock activity		(153)		381			228
Balance at December 31, 2001	4	7,723	(212)	(1)	3,867		11,381
Net loss					(640)	\$ (640)	(640)
Other comprehensive income							
Minimum pension liability						(2,002)	(2,002)
Interest rate lock						(2)	(2)
Foreign exchange translation						31	31
Cash flow hedges						5	5
Other comprehensive income			(1,968)			(1,968)	
Comprehensive income—2002						\$ (2,608)	
Dividends declared—\$0.80 per share					(323)		(323)
Issuance of common stock		328					328
Common stock plan activity		106					106
Trust preferred security distributions		(11)					(11)
Treasury stock activity				(3)			(3)
Balance at December 31, 2002	\$ 4	\$ 8,146	\$ (2,180)	\$ (4)	\$ 2,904		\$ 8,870

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

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**Raytheon Company Consolidated Statements of Cash Flows**

(In millions)	Years Ended		
	December 31: <b>2002</b>	2001	2000
<b>Cash flows from operating activities</b>			
Income from continuing operations	\$ 755	\$ 18	\$ 477
Adjustments to reconcile income from continuing operations to net cash provided by operating activities from continuing operations, net of the effect of acquisitions and divestitures			
Depreciation and amortization	364	677	642
Net gain on sales of operating units and investments	(4)	(74)	(35)
(Increase) decrease in accounts receivable	(20)	(20)	305
Decrease (increase) in contracts in process	152	528	(70)
Decrease (increase) in inventories	10	(288)	(47)
Decrease (increase) in current deferred federal and foreign income taxes	43	(238)	22
Decrease (increase) in prepaid expenses and other current assets	124	(74)	22
Decrease in advance payments	(52)	(268)	(58)
Decrease in accounts payable	(105)	(109)	(135)
Increase in accrued salaries and wages	137	57	46
Increase (decrease) in other accrued expenses	223	251	(223)
Increase in long-term deferred federal and foreign income taxes	341	258	219
Other adjustments, net	267	71	(156)
Net cash provided by operating activities from continuing operations	2,235	789	1,009
Net cash used in operating activities from discontinued operations	(1,196)	(596)	(29)
Net cash provided by operating activities	1,039	193	980
<b>Cash flows from investing activities</b>			
Origination of financing receivables	(431)	(663)	(969)
Sale of financing receivables	263	696	1,034
Repurchase of financing receivables	(347)	(329)	(258)
Collection of financing receivables not sold	156	121	101
Buy-out of off balance sheet receivables facility	(1,029)	—	—
Expenditures for property, plant, and equipment	(458)	(461)	(421)
Proceeds from sales of property, plant, and equipment	11	9	40
Expenditures for internal use software	(138)	(149)	(110)
Increase in other assets	(36)	(6)	(19)
Proceeds from sales of operating units and investments	1,166	266	403
Payment for purchase of acquired companies, net of cash received	(10)	—	—
Hughes Defense settlement	134	500	—
Net cash used in investing activities from continuing operations	(719)	(16)	(199)
Net cash used in investing activities from discontinued operations	—	(31)	(14)
Net cash used in investing activities	(719)	(47)	(213)
<b>Cash flows from financing activities</b>			
Dividends	(321)	(281)	(272)
(Decrease) increase in short-term debt and other notes	(163)	140	(1,943)
Issuance of long-term debt, net of offering costs	566	—	2,587
Repayments of long-term debt	(1,294)	(1,910)	(500)
Issuance of equity security units	—	837	—
Issuance of common stock	147	1,388	—
Proceeds under common stock plans	75	25	4
Net cash (used in) provided by financing activities from continuing operations	(990)	199	(124)
Net cash used in financing activities from discontinued operations	—	(2)	(2)

Net cash (used in) provided by financing activities	(990)	197	(126)
Net (decrease) increase in cash and cash equivalents	(670)	343	641
Cash and cash equivalents at beginning of year	1,214	871	230
Cash and cash equivalents at end of year	\$ 544	\$ 1,214	\$ 871

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

## Notes to Consolidated Financial Statements

### Note A: Accounting Policies

#### Principles of Consolidation

The consolidated financial statements include the accounts of Raytheon Company (the “Company”) and all wholly-owned and majority-owned subsidiaries. All material intercompany transactions have been eliminated. Certain prior year amounts have been reclassified to conform with the current year presentation.

#### Revenue Recognition

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

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

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

#### Product Warranty

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

(In millions)

Balance at December 31, 2001	\$	17
Accruals for aircraft deliveries in 2002		22
Accruals related to prior year aircraft deliveries		10
Warranty services provided in 2002		(27)
Balance at December 31, 2002	\$	22

Costs incurred under warranty provisions related to the Company’s commercial electronics businesses are not material.

#### Lot Accounting

The Company uses lot accounting for new aircraft introductions. Lot accounting involves selecting an initial lot size at the time a new aircraft begins to ship and measuring an average cost over the entire lot for each aircraft sold. The costs attributed to aircraft delivered are based on the estimated average cost of all aircraft expected to be produced and are determined under the learning curve concept which anticipates a predictable decrease in unit costs as tasks and production techniques become more efficient through repetition. Once production costs stabilize, which is expected by the time the initial lot has been completed, the use of lot accounting is discontinued. The Company determines lot size based on several factors, including the size of firm backlog, the expected annual production on the aircraft, and experience on similar new aircraft. The size of the initial lot for the Beechcraft Premier I, the only aircraft the Company is currently utilizing lot accounting for, is 200 units. The estimated average cost of the aircraft is reviewed and reassessed quarterly and changes in estimates are recognized over future deliveries remaining in the lot.

#### Research and Development Expenses

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

#### Federal and Foreign Income Taxes

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

#### Cash and Cash Equivalents

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

#### Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts to provide for the estimated amount of accounts receivable that will not be collected. The

allowance is based upon an assessment of customer creditworthiness, historical payment experience, and the age of outstanding receivables. Activity related to the allowance for doubtful accounts was as follows:

(In millions)

Balance at December 31, 1999	\$	26
Provisions		4
Utilizations		(7)
Balance at December 31, 2000		23
Provisions		2
Utilizations		(3)
Balance at December 31, 2001		22
Provisions		2
Utilizations		(2)
Balance at December 31, 2002	\$	22

#### **Prepaid Expenses and Other Current Assets**

Included in prepaid expenses and other current assets at December 31, 2002 was \$56 million of cash received in 2002 that was restricted for payment in connection with the Company's merger with the defense business of Hughes Electronics Corporation in December 1997. Also included was \$48 million of restricted cash from the sale of the Company's corporate headquarters. This cash will be used primarily to fund the construction of the Company's new corporate headquarters.

#### **Contracts in Process**

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

#### **Inventories**

Inventories are stated at cost (principally first-in, first-out or average cost) but not in excess of realizable value. In 2002, the Company changed its method of inventory costing at Raytheon Aircraft from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. Prior periods have been restated to reflect this change.

#### **Property, Plant, and Equipment**

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

## Notes to Consolidated Financial Statements continued

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

### Impairment of Long-Lived Assets

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

During the first half of 2001, the Company experienced a significant decrease in the volume of used commuter aircraft sales. An evaluation of commuter aircraft market conditions and the events of September 11, 2001 indicated that the market weakness would continue into the foreseeable future. As a result, the Company completed an analysis of the estimated fair value of the various models of commuter aircraft and reduced the book value of commuter aircraft inventory and equipment leased to others accordingly. In addition, the Company adjusted the book value of notes receivable and established a reserve for off balance sheet receivables based on the Company's estimate of exposures on customer financed assets due to defaults, refinancing, and remarketing of these aircraft. As a result of these analyses, the Company recorded a charge of \$693 million in the third quarter of 2001 which consisted of a reduction in inventory of \$158 million, a reduction in equipment leased to others of \$174 million, a reserve for long-term receivables of \$16 million, and a reserve for off balance sheet receivables of \$345 million. The balance of the reserve for off balance sheet receivables was \$361 million at December 31, 2001. In 2002, the Company utilized \$121 million of this reserve, leaving a balance of \$240 million at the time the Company bought back the remaining off balance sheet receivables, as described in Note H, Other Assets.

The Company also recorded a \$52 million charge in the third quarter of 2001 related to a fleet of Starship aircraft. During the first three quarters of 2001, the Company had not sold any of these aircraft and recorded a charge to reduce the value of the aircraft to their estimated fair value. The charge consisted of a reduction in inventory of \$31 million, a reduction in equipment leased to others of \$14 million, and a reserve of \$7 million related to the Company's estimate of exposures on customer financed assets due to defaults, refinancing, and remarketing of these aircraft.

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

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

In 2002, the Company recorded a goodwill impairment charge of \$360 million related to its former Aircraft Integration Systems business (AIS) as a cumulative effect of change in accounting principle. The fair value of AIS was determined based upon the proceeds received by the Company in connection with the sale, as described in Note B, Discontinued Operations. Due to the non-deductibility of this goodwill, the Company did not record a tax benefit in connection with this impairment. Also in 2002, the Company completed the transitional review for potential goodwill impairment in accordance with SFAS No. 142, whereby the Company utilized a market multiple approach to determine the fair value of the 13 reporting units within the defense businesses and allocated goodwill to the defense businesses based upon an estimate of the fair value of the portion of a previously acquired company contribution to the new segment. The Company utilized a discounted cash flow approach to determine the fair value of the commercial business reporting units. As a result, the Company recorded a goodwill impairment charge of \$185 million pretax or \$149 million after-tax, which represented all of the goodwill at Raytheon Aircraft, as a cumulative effect of change in accounting principle. The Company also determined that there is no impairment of goodwill related to any of its defense businesses beyond the \$360 million related to AIS. The total goodwill impairment charge in 2002 was \$545 million pretax, \$509 million after-tax, or \$1.25 per diluted share. The Company will perform the annual impairment test in the fourth quarter of each year. There was no goodwill impairment associated with the annual impairment test performed in the fourth quarter of 2002.

The amount of remaining goodwill by segment, as determined in accordance with SFAS No. 142, was \$7,640 million, \$2,651 million, \$855 million, and \$24 million for Electronic Systems; Command, Control, Communication and Information Systems (C3I); Technical Services; and Commercial Electronics, respectively, at December 31, 2002.

Intangible assets subject to amortization consisted primarily of drawings and intellectual property totaling \$27 million (net of \$30 million of accumulated amortization) at December 31, 2002 and \$24 million (net of \$34 million of accumulated amortization) at December 31, 2001. Amortization expense is expected to approximate \$5 million for each of the next five years.

In accordance with SFAS No. 142, goodwill amortization was discontinued as of January 1, 2002. The following adjusts reported income from continuing operations and basic and diluted earnings per share (EPS) from continuing operations to exclude goodwill amortization:

(In millions, except per share amounts)	2001		2000
Reported income from continuing operations	\$	18	\$ 477
Goodwill amortization, net of tax		305	310

Adjusted income from continuing operations	\$	323	\$	787
Reported basic EPS from continuing operations	\$	0.05	\$	1.41
Goodwill amortization, net of tax		0.86		0.92
Adjusted basic EPS from continuing operations	\$	0.91	\$	2.33
Reported diluted EPS from continuing operations	\$	0.05	\$	1.40
Goodwill amortization, net of tax		0.84		0.91
Adjusted diluted EPS from continuing operations	\$	0.89	\$	2.31

Reported income (loss) before extraordinary items and accounting change was (\$739) million and \$138 million in 2001 and 2000, respectively. Goodwill amortization, net of tax was \$333 million and \$343 million in 2001 and 2000, respectively. Adjusted income (loss) before extraordinary items and accounting change was \$(406) million and \$481 million in 2001 and 2000, respectively.

The following adjusts reported net income (loss) and basic and diluted earnings (loss) per share to exclude goodwill amortization:

(In millions, except per share amounts)		2001		2000
Reported net income (loss)	\$	(755)	\$	138
Goodwill amortization, net of tax		333		343
Adjusted net income (loss)	\$	(422)	\$	481
Reported basic earnings (loss) per share	\$	(2.12)	\$	0.41
Goodwill amortization, net of tax		0.94		1.01
Adjusted basic earnings (loss) per share	\$	(1.18)	\$	1.42
Reported diluted earnings (loss) per share	\$	(2.09)	\$	0.40
Goodwill amortization, net of tax		0.92		1.01
Adjusted diluted earnings (loss) per share	\$	(1.17)	\$	1.41



**Notes to Consolidated Financial Statements** continued**Computer Software**

Internal use computer software is stated at cost less accumulated amortization and is amortized using the straight-line method over its estimated useful life ranging from 4 to 10 years.

**Investments**

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

**Comprehensive Income**

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

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

(In millions)	2002	2001
Minimum pension liability	\$ (2,122)	\$ (120)
Foreign exchange translation	(58)	(89)
Unrealized losses on interest-only strips	(2)	(2)
Interest rate lock	(2)	—
Unrealized losses on investments	(1)	(1)
Cash flow hedges	5	—
Total	\$ (2,180)	\$ (212)

The minimum pension liability adjustment is shown net of tax benefits of \$1,131 million and \$54 million at December 31, 2002 and 2001, respectively. The unrealized losses on interest-only strips are shown net of tax benefits of \$1 million at December 31, 2002 and 2001. The interest rate lock is shown net of tax benefits of \$1 million at December 31, 2002. The cash flow hedges are shown net of tax liabilities of \$3 million at December 31, 2002.

**Translation of Foreign Currencies**

Assets and liabilities of foreign subsidiaries are translated at current exchange rates and the effects of these translation adjustments are reported as a component of accumulated other comprehensive income in stockholders' equity. Deferred taxes are not recognized for translation-related temporary differences of foreign subsidiaries whose undistributed earnings are considered to be permanently invested. Foreign exchange transaction gains and losses in 2002, 2001, and 2000 were not material.

**Pension Costs**

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

**Interest Rate and Foreign Currency Contracts**

The Company meets its working capital requirements with a combination of variable rate short-term and fixed rate long-term financing. The Company enters into interest rate swap agreements or interest rate locks with commercial and investment banks primarily to manage interest rates associated with the Company's financing arrangements. The Company also enters into foreign currency forward contracts with commercial banks only to fix the dollar value of specific commitments and payments to international vendors and the value of foreign currency denominated receipts. The hedges used by the Company are transaction driven and are directly related to a particular asset, liability, or transaction for which a commitment is in place. These instruments are executed with credit-worthy institutions and the majority of the foreign currencies are denominated in currencies of major industrial countries. The Company does not hold or issue financial instruments for trading or speculative purposes.

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), as amended. This accounting standard requires that all derivative instruments be reported on the balance sheet at estimated fair value and that changes in a derivative's estimated fair value be recognized currently in earnings unless specific hedge criteria are met. If the derivative is designated as a fair value hedge, the changes in the estimated fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in earnings when the hedged item affects earnings. Ineffective portions of changes in the estimated fair value of cash flow hedges are recognized in earnings. At January 1, 2001, the previously designated cash flow hedging instruments were recorded at their estimated fair value as a cumulative effect of adjustment in other comprehensive income of \$3 million.

**Fair Value of Financial Instruments**

The estimated fair value of certain financial instruments, including cash and cash equivalents and short-term debt, approximates the carrying value due to their short maturities and varying interest rates. The estimated fair value of notes receivable approximates the carrying value based principally on the underlying interest rates and terms, maturities, collateral, and credit status of the receivables. The estimated fair value of investments, other than those accounted for under the cost or equity method, are based on quoted market prices. The estimated fair value of long-term debt, which approximates the carrying value, is based on quoted market prices.

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

**Stock Plans**

Proceeds from the exercise of stock options under the Company's stock plans are credited to common stock at par value and the excess is credited to additional paid-in capital. There are no charges or credits to income for stock options. The fair value at the date of award of restricted stock is credited to common stock at par value and the excess is credited to additional paid-in capital. The fair value is charged to income as compensation expense over the vesting period. Income tax benefits arising from employees' premature disposition of stock option shares and exercise of nonqualified stock options are credited to additional paid-in capital.

The Company applies Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, in accounting for its stock-based compensation plans. Accordingly, no compensation expense has been recognized for its stock-based compensation plans other than for restricted stock. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123 (SFAS No. 148), therefore, no compensation expense was recognized for the Company's stock option plans.

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**Notes to Consolidated Financial Statements** continued

Had compensation expense for the Company's stock option plans been determined based on the fair value at the grant date for awards under these plans, consistent with the methodology prescribed under SFAS No. 148, the Company's net income and earnings per share would have approximated the pro forma amounts indicated below:

(In millions except per share amounts)	<b>2002</b>		2001		2000
Reported net income (loss)	\$	(640)	\$	(755)	\$ 138
Reported basic earnings (loss) per share		(1.59)		(2.12)	0.41
Reported diluted earnings (loss) per share		(1.57)		(2.09)	0.40
Adjustment to compensation expense for stock-based awards, net of tax	\$	59	\$	49	\$ 84
Pro forma net income (loss)	\$	(699)	\$	(804)	\$ 54
Pro forma basic earnings (loss) per share		(1.74)		(2.25)	0.16
Pro forma diluted earnings (loss) per share		(1.71)		(2.23)	0.16

The weighted-average fair value of each stock option granted in 2002, 2001, and 2000 was estimated as \$13.46, \$9.25, and \$5.91, respectively, on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	<b>2002</b>	2001	2000
Expected life	<b>4 years</b>	4 years	4 years
Assumed annual dividend growth rate	—	1%	1%
Expected volatility	<b>40%</b>	40%	40%
Assumed annual forfeiture rate	<b>12%</b>	12%	12%

The risk free interest rate (month-end yields on 4-year treasury strips equivalent zero coupon) ranged from 2.5% to 4.7% in 2002, 3.7% to 5.0% in 2001, and 5.3% to 6.7% in 2000.

**Accounting Standards**

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46). This interpretation addresses the consolidation of certain variable interest entities (VIEs) for which a controlling financial interest exists. FIN 46 applies immediately to financial interests obtained in VIEs after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which a financial interest was obtained before February 1, 2003. FIN 46 may be applied prospectively with a cumulative-effect adjustment or by restating previously issued financial statements with a cumulative-effect adjustment as of the beginning of the first year restated. In addition to the investments specifically described in Note H, Other Assets, the Company has a financial interest in certain entities that may be considered VIEs under FIN 46. If the Company determines that it has a controlling financial interest in any of these entities, consolidation may be required. The effect of adopting FIN 46 on the Company's financial position and results of operations has not yet been determined.

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34 (FIN 45). This interpretation clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. It also elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. The recognition and measurement provisions of FIN 45 are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements of periods ending after December 15, 2002. The effect of adopting the recognition and initial measurement provisions of FIN 45 on the Company's financial position and results of operations has not yet been determined.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146) which nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This accounting standard, which is effective for exit or disposal activities that are initiated after December 31, 2002, addresses financial accounting and reporting for costs associated with exit or disposal activities. The adoption of SFAS No. 146 is not expected to have a material effect on the Company's financial position or results of operations.

**Risks and Uncertainties**

The Company is engaged in supplying defense-related equipment to the U.S. and foreign governments, and is subject to certain business risks peculiar to that industry. Sales to these governments may be affected by changes in procurement policies, budget considerations, changing concepts of national defense, political developments abroad, and other factors. The Company also leverages its defense technologies in commercial markets. Risks inherent in the

commercial marketplace include development of competing products, technological feasibility, market acceptance, and product obsolescence.

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

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

**Note B: Discontinued Operations**

In 2002, the Company sold its Aircraft Integration Systems business (AIS) for \$1,123 million, net, subject to purchase price adjustments. The Company is currently involved in a purchase price dispute related to the sale of AIS. There was no pretax gain or loss on the sale of AIS, however, due to the non-deductible goodwill associated with AIS, the Company recorded a tax provision of \$212 million, resulting in a \$212 million after-tax loss on the sale of AIS. There was \$580 million of goodwill included in the determination of the gain or loss on the sale of AIS. As part of the transaction, the Company retained the responsibility for performance of the Boeing Business Jet (BBJ) program. The Company also retained \$106 million of BBJ-related assets, \$18 million of receivables and other assets, and rights to a \$25 million jury award related to a 1999 claim against Learjet. At December 31, 2002, the balance of these retained assets was \$64 million. Schedule delays, cost growth, and other variables could continue to have a negative effect on these retained assets. The timing and amount of net realizable value of these retained assets are uncertain and subject to a number of unpredictable market forces.

In 2002, the Company recorded charges related to AIS of \$66 million, which included a \$23 million write-down of a BBJ-related aircraft owned by the Company, a \$28 million charge for cost growth on one of the two BBJ aircraft not yet delivered, and a \$10 million charge to write down other BBJ-related assets to net realizable value, offset by a \$13 million gain resulting from the finalization of the 1999 claim, described above. The write-down of the BBJ-related aircraft resulted from the Company's decision to market this aircraft unfinished due to the current environment of declining prices for BBJ-related aircraft. The Company was previously marketing this aircraft as a customized executive BBJ. The write-down of other BBJ-related assets reflects the difficulty the Company has been experiencing in liquidating these assets.

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

(In millions)	2002		2001		2000
Net sales	\$	202	\$	850	\$ 1,078
Operating expenses		196		845	1,038
Income before taxes		6		5	40
Federal and foreign income taxes		2		10	22
Income (loss) from discontinued operations		4		(5)	18
Loss on disposal of discontinued operations, net of tax		(212)		—	—
Adjustments, net of tax		(34)		—	—
Total	\$	(242)	\$	(5)	\$ 18

The components of assets and liabilities related to AIS were as follows at December 31:

(In millions)	2002		2001	
Current assets	\$	75	\$	495
Noncurrent assets		—		1,148
Total assets	\$	75	\$	1,643
Current liabilities	\$	14	\$	52
Noncurrent liabilities		—		16
Total liabilities	\$	14	\$	68

In 2000, the Company sold its Raytheon Engineers & Constructors businesses (RE&C) to Washington Group International, Inc. (WGI) for \$73 million in cash plus assumption of debt and other obligations. At the time of the sale, the Company had, either directly or through a subsidiary that it still owns, outstanding letters of credit, performance bonds, and parent guarantees of performance and payment (the "Support Agreements") on many long-term construction contracts and certain leases. The Support Agreements were provided to customers at the time of contract award as security to the customers for the underlying contract obligations. Often, the total security was capped at the value of the contract price to secure full performance, including, in some cases, the payment of liquidated damages available under the contract. At December 31, 2002, the maximum exposure on outstanding Support Agreements for which there were stated values was \$367 million for letters of credit, \$344 million for performance bonds, and \$25 million for parent guarantees. Of these amounts, \$49 million of letters of credit and \$258 million of performance bonds relate to projects assumed by WGI in its bankruptcy, as described below. There are additional guarantees of project performance for which there is no stated maximum value that also remain outstanding. Of the guarantees that have no stated value, many relate to contract obligations that, by their terms, include caps on liability for certain types of obligations, and all of the underlying projects have substantially completed construction and are in the punchlist, warranty, commercial closeout, and claims resolution phase, except the two Massachusetts construction projects, described below. Some of these contingent obligations and guarantees include warranty provisions and extend for a number of years.

In connection with the sale of RE&C, the Company was entitled to the financial rewards of certain claims, equity investments, and receivables totaling \$159 million that were sold to WGI. In addition, the Company was obligated to indemnify WGI against certain obligations and liabilities totaling \$88 million. As a result of WGI's bankruptcy filing, described below, the realization of these various assets through WGI was no longer probable, however, the obligations and liabilities could be set off against the assets pursuant to the terms of the purchase and sale agreement. In 2001, the Company recorded a charge of \$71 million to write off these assets and liabilities.

In March 2001, WGI abandoned two Massachusetts construction projects, triggering the Company's guarantees to the customer. The Company honored the guarantees and commenced work on these projects. Construction and start-up activities continue on the two projects—the Mystic Station plant and the Fore River plant. Pursuant to the construction contract, since the Mystic Station plant had not achieved performance test completion by January 14, 2003, the Company made payments totaling \$68 million, which pre-funded the delay and performance liquidated damages to the maximum amount specified by the construction contract. Also pursuant to the construction contract, the customer has taken the position that a similar missed deadline occurred on February 24, 2003 for the Fore River plant and that a payment of \$67 million was required from the Company on that date to pre-fund the delay and performance liquidated damages to the maximum amount specified by the construction contract. The Company believes that this February 24, 2003 deadline was incorrect and should have been extended as a result of changes for which the Company is entitled to change orders, an issue that is now being arbitrated between the Company and the customer. Accordingly, the Company did not make the requested payment to the customer on that date and has informed the customer that the deadline and requested payment are in dispute. As a result, the customer drew down on certain letters of credit totaling approximately \$27 million that had been posted by the Company as contract performance security. A resolution of the current dispute between the Company and the customer over the contract deadline and the applicable liquidated damages is dependent upon the outcome of the pending arbitration, which should be concluded later this year. In addition, risks remain

in completing the two projects, including costs associated with the possibility of further delays, labor productivity, and the successful completion of required performance tests on the two projects. In 2002, the Company recorded a charge of \$796 million resulting from an increase in the estimated cost to complete (ETC) for the two projects. The Company had previously recorded a charge of \$814 million in 2001. The cost increases have resulted from declining productivity, schedule delays, misestimates of field engineered materials, and unbudgeted hours worked on the two projects. The Company expects to complete construction and performance testing on the two projects and turn them over to the customer during the second quarter of 2003.

In May 2001, WGI filed for bankruptcy protection. In the course of the bankruptcy proceeding, WGI rejected some ongoing construction contracts and assumed others. In January 2002, WGI emerged from bankruptcy and as part of that process, the stock purchase agreement between WGI and the Company was terminated and WGI and the Company entered into a settlement agreement that provided, among other things, that WGI take reasonable actions to protect the Company against future exposure under Support Agreements related to contracts assumed by WGI and that WGI reimburse the Company for any associated costs incurred. For those contracts rejected by WGI, the Company's obligations depend on the extent to which the Company has any outstanding Support Agreements. The contracts rejected by WGI included four large fixed price international turnkey projects that were close to completion. Construction has been completed on these projects and they are now in the commercial closeout and claims resolution phase. The Company recorded a charge of \$18 million in 2002 related to warranty and start-up costs associated with the last project to be completed. In 2001, the Company recorded a charge of \$54 million related to these projects.

The contracts rejected by WGI also included two large construction projects that have been provisionally accepted by the customer (Red Oak and Ilijan) on which the Company had Support Agreements. In 2002, the Company recorded a charge of \$14 million related to final reliability testing and punch list items. The Company also recorded a charge of \$21 million resulting from a contract adjustment on one of these projects due to turbine-related delays. In 2001, the Company recorded a charge of \$156 million related to these and the other WGI construction projects on which the Company has Support Agreements. Risks and exposures on the contracts rejected by WGI include equipment and subcontractor performance, punch list and warranty closeout and performance, schedule and performance liquidated damages, final resolution of contract closeout issues, collection of amounts due under the contracts, potential adverse claims resolution including possible subcontractor claims, lease exposures, availability guarantees, surety bonds, and warranties. For the contracts assumed by WGI, the Company's obligations under existing Support Agreements would arise if WGI does not meet the obligations that it has assumed. Risks on the contracts assumed by WGI that are subject to Support Agreements relate to non-performance or defaults by WGI.

The Company's cost estimates for construction projects are heavily dependent upon third parties, including WGI, and their ability to perform construction management and other tasks that require industry expertise the Company no longer possesses. In addition, there are risks that the ultimate costs to complete and close out the projects will increase beyond the

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Company's current estimates due to factors such as labor productivity and availability of labor, the nature and complexity of the work to be performed, the impact of change orders, the recoverability of claims included in the ETC, and the outcome of defending claims asserted against the Company. There also are claims asserted against the Company by vendors, subcontractors, and other project participants that are not beneficiaries of the Support Agreements. A significant change in an estimate on one or more of the projects could have a material adverse effect on the Company's financial position and results of operations.

In 2002, the Company allocated \$79 million of interest expense to RE&C versus \$18 million in 2001. Interest expense was allocated to RE&C based upon actual cash outflows since the date of disposition. The Company will not allocate interest expense to RE&C in 2003. In 2002, the Company recorded charges of \$38 million for legal, management, and other costs versus \$30 million in 2001.

The loss from discontinued operations related to RE&C was as follows:

(In millions)	2002		2001		2000
Net sales	\$	—	\$	—	\$ 1,426
Operating expenses		—		—	1,515
Operating loss		—		—	(89)
Other expense, net		—		—	9
Loss before taxes		—		—	(98)
Federal and foreign income taxes		—		—	28
Loss from discontinued operations		—		—	(70)
Loss on disposal of discontinued operations, net of tax		(645)		(752)	(287)
Total	\$	(645)	\$	(752)	\$ (357)

Liabilities related to RE&C consisted of the following at December 31:

(In millions)	2002		2001	
Current liabilities	\$	319	\$	482
Total liabilities	\$	319	\$	482

The total loss from discontinued operations was \$2.17, \$2.10, and \$0.99 per diluted share in 2002, 2001, and 2000, respectively.

**Note C: Acquisitions and Divestitures**

In December 2002, the Company acquired JPS Communications, Inc. for \$10 million in cash. Assets acquired included \$2 million of accounts receivable and \$2 million of inventories. The Company also recorded \$4 million of intangible assets and \$2 million of goodwill in connection with this acquisition. Also in December 2002, the Company announced an agreement to acquire Solipsys Corporation, subject to regulatory approval. There can be no assurance that this transaction will be consummated.

In 2001, the Company sold a majority interest in its aviation support business for \$154 million in cash and retained \$47 million in trade receivables and \$66 million in preferred and common equity in the business. The Company also sold its recreational marine business for \$100 million. The net gain resulting from these dispositions was \$74 million.

In 2000, the Company sold its flight simulation business for \$160 million, its optical systems business for \$153 million, and other non-core business operations for \$17 million. The net gain resulting from these dispositions was \$35 million.

The Company merged with the defense business of Hughes Electronics Corporation (Hughes Defense) in December 1997. In October 2001, the Company and Hughes Electronics agreed to a settlement regarding the purchase price adjustment related to the Company's merger with Hughes Defense. Under the terms of the merger agreement, Hughes Electronics agreed to reimburse the Company approximately \$635 million of its purchase price, with \$500 million received in 2001 and the balance received in 2002. The settlement resulted in a \$555 million reduction in goodwill. The \$135 million receivable was included in prepaid expenses and other current assets at December 31, 2001.

**Note D: Restructuring**

In 2002, the Company recorded a charge of \$2 million to eliminate approximately 50 administrative positions at Electronic Systems and Command, Control, Communication and Information Systems. These actions are expected to be completed in 2003.

In 2001, Raytheon Aircraft recorded a charge of \$15 million to eliminate approximately 1,800 positions across various administrative, managerial, and

production functions. Also in 2001, Commercial Electronics recorded a charge of \$2 million to eliminate approximately 100 positions primarily across various administrative and engineering functions at its RF Components and ELCAN units. These actions were completed in 2001.

In 2000, the Company recorded a charge of \$8 million to eliminate approximately 100 positions primarily at a foreign location. These actions were completed in 2001.

#### **Prior Period Restructuring Charges and Exit Costs**

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

The Company acquired the Texas Instruments® Incorporated defense business (TI Defense) on July 11, 1997, merged with Hughes Defense on December 17, 1997, and created Raytheon Systems Company™ (RSC™) in December 1997. In conjunction with the formation of RSC, the Company announced plans to reduce the then newly formed RSC workforce by approximately 12,800 employees and reduce space by approximately 11 million square feet at 34 facilities through sales, subleases, and lease terminations. The principal actions involved the consolidation of missile and other electronics systems' manufacturing and engineering, as well as the consolidation of certain component manufacturing into Centers of Excellence. In 1998, the estimated number of employee terminations increased by approximately 1,200 employees, primarily comprised of manufacturing employees. Also in 1998, the Company committed to close two additional facilities and further reduce employment by approximately 1,400 positions.

Prior to 1999, the Company recorded restructuring charges of \$220 million, which were included in cost of sales. The Company also accrued \$584 million as liabilities assumed in connection with the acquisition of TI Defense and the merger with Hughes Defense and recorded this amount as an increase to goodwill.

In the third quarter of 1999, the Company recorded a \$35 million restructuring charge, which was included in cost of sales, for higher than originally estimated exit costs related to the TI Defense and Hughes Defense actions. The estimate for employee-related exit costs increased by \$27 million for higher than planned severance and other termination benefit costs. The estimate for facility-related exit costs increased by \$8 million for additional lease termination costs expected to be incurred. The Company also accrued \$12 million of exit costs as liabilities assumed in connection with a minor acquisition in 1999 and recorded this amount as an increase to goodwill.

In the fourth quarter of 1999, the Company determined that the cost of certain restructuring initiatives would be \$76 million lower than originally planned and recorded a favorable adjustment to cost of sales. The reduction in the estimated costs related to lower than anticipated costs for severance and facilities. The primary reasons for the reduction in severance costs included a shift in the composition of severed employees, higher attrition resulting in the need for fewer severed employees, and more employees transferring to other locations within the Company. The estimated costs related to facilities were lower than anticipated due to the identification of alternative uses for assets originally identified for disposition, lower de-installation costs, and more rapid exit from facilities.

Also in the third quarter of 1999, the Company recorded a \$101 million restructuring charge, of which \$92 million was included in cost of sales and \$9 million was included in administrative and selling expenses, to further reduce the workforce by approximately 2,200 employees and vacate and dispose of an additional 2.7 million square feet of facility space, primarily at the Company's defense electronics businesses. Employee-related exit



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costs of \$54 million included severance and other termination benefit costs for manufacturing, engineering, and administrative employees. Facility-related exit costs of \$47 million included the costs for lease termination, building closure and disposal, and equipment disposition.

In 2000, the Company determined that the cost of certain restructuring initiatives would be lower than originally planned and recorded a \$74 million favorable adjustment to cost of sales. In addition, the Company recorded an \$11 million reduction in goodwill related to the restructuring initiatives. The estimate for employee-related exit costs decreased by \$45 million due to lower than anticipated costs for severance as a result of higher employee attrition and transfers with the Company during the year. The estimate for facility-related exit costs decreased by \$41 million due to more rapid exit from facilities, including two facilities sold during 2000 in connection with the divestiture of non-core business operations, and the identification of alternative uses for facilities originally identified for disposition.

In 2001, the Company determined that the cost of certain restructuring initiatives would be lower than originally planned and recorded an \$8 million favorable adjustment to cost of sales.

In 2002, the Company determined that the cost of certain restructuring initiatives would be lower than originally planned and recorded a \$4 million favorable adjustment to cost of sales, a \$3 million favorable adjustment to general and administrative expenses, and a \$1 million reduction in goodwill.

The restructuring and exit costs discussed above originally provided for severance and related benefits for approximately 17,600 employees and costs to vacate and dispose of approximately 14 million square feet of facility space. The Company was exiting facility space and terminating employees made redundant as a result of the acquisition of TI Defense and the merger with Hughes Defense and the subsequent reorganization of RSC. A significant portion of these costs are eligible for future recovery through the pricing of products and services to the U.S. government. There were no major activities that were not continued as a result of these actions.

Employee-related exit costs included severance and other termination benefit costs for employees in various functional areas including manufacturing, engineering, and administration. Facility-related exit costs included the costs for lease termination, building closure and disposal, and equipment disposition. Exit costs accrued in connection with the acquisition of TI Defense and the merger with Hughes Defense also included employee relocation and program moves. Owned facilities that were vacated in connection with the restructuring activities were sold. The Company terminated leases or subleased space for non-owned facilities vacated in connection with restructuring. The Company essentially completed all restructuring actions during 2000 except for ongoing idle facility costs.

**Exit Costs**

(In millions except employee data)	2002		2001		2000
Accrued liability at beginning of year	\$	17	\$	47	\$ 143
Changes in estimate					
Severance and other employee-related costs		—		—	(6)
Facility closure and related costs		(1)		—	(5)
		(1)		—	(11)
Costs incurred					
Severance and other employee-related costs		2		3	56
Facility closure and related costs		10		27	29
		12		30	85
Accrued liability at end of year	\$	4	\$	17	\$ 47
Cash expenditures	\$	4	\$	18	\$ 85
Number of employee terminations due to restructuring actions		—		—	900
Number of square feet exited due to restructuring actions		—		—	1.6

**Restructuring**

(In millions except employee data)	2002		2001		2000
Accrued liability at beginning of year	\$	7	\$	28	\$ 128
Changes in estimate					
Severance and other employee-related costs		(3)		(4)	(38)
Facility closure and related costs		(4)		(4)	(36)

	(7)	(8)	(74)
Costs incurred			
Severance and other employee-related costs	—	6	15
Facility closure and related costs	—	7	11
	—	13	26
Accrued liability at end of year	\$ —	\$ 7	\$ 28
Cash expenditures	\$ —	\$ 8	\$ 28
Number of employee terminations due to restructuring actions	—	—	600
Number of square feet exited due to restructuring actions	—	—	1.2

The cumulative number of employee terminations due to restructuring actions for exit costs and restructuring was approximately 7,600 and 4,400, respectively. The cumulative number of square feet exited due to restructuring actions for exit costs and restructuring was 8.2 million and 4.1 million, respectively.

**Note E: Contracts in Process**

Contracts in process consisted of the following at December 31, 2002:

(In millions)	Cost Type		Fixed Price		Total
U.S. government end-use contracts					
Billed	\$	428	\$	112	\$ 540
Unbilled		670		3,793	4,463
Less progress payments		—		(2,740)	(2,740)
		1,098		1,165	2,263
Other customers					
Billed		15		391	406
Unbilled		—		861	861
Less progress payments		—		(514)	(514)
		15		738	753
Total	\$	1,113	\$	1,903	\$ 3,016

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Contracts in process consisted of the following at December 31, 2001:

(In millions)	Cost Type		Fixed Price		Total
U.S. government end-use contracts					
Billed	\$	230	\$	225	\$ 455
Unbilled		986		3,393	4,379
Less progress payments		—		(2,105)	(2,105)
		1,216		1,513	2,729
Other customers					
Billed		12		274	286
Unbilled		6		1,243	1,249
Less progress payments		—		(1,060)	(1,060)
		18		457	475
Total	\$	1,234	\$	1,970	\$ 3,204

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

Included in contracts in process at December 31, 2002 and 2001 was \$75 million and \$170 million, respectively, related to claims on contracts, which were recorded at their estimated realizable value. The Company believes that it has a contractual or legal basis for pursuing recovery of these claims, and that collection is probable. The settlement of these amounts depends on individual circumstances and negotiations with the counterparty, therefore, the timing of the collection will vary and approximately \$44 million of collections are expected to extend beyond one year.

Billed and unbilled contracts in process include retentions arising from contractual provisions. At December 31, 2002, retentions amounted to \$39 million and are anticipated to be collected as follows: 2003—\$17 million, 2004—\$12 million, and the balance thereafter.

**Note F: Inventories**

Inventories consisted of the following at December 31:

(In millions)	2002		2001	
Finished goods	\$	597	\$	642
Work in process		1,042		1,111
Materials and purchased parts		393		424
<b>Total</b>	<b>\$</b>	<b>2,032</b>	<b>\$</b>	<b>2,177</b>

Inventories at Raytheon Aircraft totaled \$1,612 million and \$1,719 million at December 31, 2002 and 2001, respectively. In 2002, the Company changed its method of inventory costing at Raytheon Aircraft from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. Prior periods have been restated to reflect this change. The method was changed, in part, to achieve a better matching of revenues and expenses. The change decreased the net loss in 2002 by \$7 million or \$0.02 per basic and diluted share, and increased retained earnings for years prior to 2000 by \$86 million.

The following adjusts reported income from continuing operations and basic and diluted earnings per share (EPS) to reflect the change in inventory costing method:

(In millions, except per share amounts)	2001		2000	
Reported income from continuing operations	\$	10	\$	480
Change in inventory costing method, net of tax		8		(3)
<b>Adjusted income from continuing operations</b>	<b>\$</b>	<b>18</b>		<b>477</b>
Reported basic EPS from continuing operations	\$	0.03	\$	1.42
Change in inventory costing method, net of tax		0.02		(0.01)

Adjusted basic EPS from continuing operations	\$	0.05	\$	1.41
Reported diluted EPS from continuing operations	\$	0.03	\$	1.41
Change in inventory costing method, net of tax		0.02		(0.01)
Adjusted diluted EPS from continuing operations	\$	0.05	\$	1.40

The effect of the change in inventory costing method on the reported loss before extraordinary items and accounting change and the reported net loss in 2001 was a decrease of \$8 million or \$0.02 per basic and diluted share. The effect of the change in inventory costing method on reported income before extraordinary items and accounting change and reported net income in 2000 was a decrease of \$3 million or \$0.01 per basic and diluted share.

#### Note G: Property, Plant, and Equipment

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

(In millions)	2002	2001
Land	\$ 91	\$ 82
Buildings and leasehold improvements	1,606	1,655
Machinery and equipment	3,083	2,802
Equipment leased to others	189	101
	4,969	4,640
Less accumulated depreciation and amortization	(2,573)	(2,444)
Total	\$ 2,396	\$ 2,196

Depreciation expense was \$305 million, \$289 million, and \$257 million in 2002, 2001, and 2000, respectively. Accumulated depreciation of equipment leased to others was \$39 million and \$50 million at December 31, 2002 and 2001, respectively.

Future minimum lease payments from non-cancelable aircraft operating leases, which extend to 2014, amounted to \$39 million at December 31, 2002 and were due as follows:

(In millions)	2003	\$	11
	2004		7
	2005		4
	2006		3
	2007		3
	Thereafter		11

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**Note H: Other Assets**

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

(In millions)	2002		2001	
Long-term receivables				
Due from customers in installments to 2015	\$	969	\$	419
Other, principally due through 2005		17		46
Sales-type leases, due in installments to 2015		135		29
Computer software, net		397		302
Pension-related intangible asset		217		150
Investments		154		181
Other noncurrent assets		344		134
Total	\$	2,233	\$	1,261

The Company provides long-term financing to its aircraft customers and maintained a program under which an indirect subsidiary of the Company sold general aviation and commuter aircraft long-term receivables to Raytheon Aircraft Receivables Corporation (RARC), a special purpose entity. RARC sold undivided interests in the receivables to a bank syndicate and other financial institutions that purchased these interests for cash under a receivables purchase facility (the "Aircraft Receivables Facility"). The purchasers had a first priority claim on all proceeds, including the underlying aircraft and any insurance proceeds, and had recourse against the Company, at varying percentages, depending on the character of the receivables sold. Since the Aircraft Receivables Facility no longer provided any real economic benefit, the Company bought out the receivables that remained in this facility in 2002 for \$1,029 million, eliminating the cost of maintaining it, and brought the related assets onto the Company's books. In connection with the buyback, the Company recorded the long-term receivables at estimated fair value using the reserves established in 2001, as described in Note A, Accounting Policies, Impairment of Long-Lived Assets. The \$1 million balance in this facility at December 31, 2002 represented a remaining security interest in certain aircraft whose title had not yet been transferred back to the Company.

The (loss) gain resulting from the sale of receivables was \$(6) million, \$(2) million, and \$3 million in 2002, 2001, and 2000, respectively. The outstanding balance of receivables sold under the Aircraft Receivables Facility was \$1,448 million at December 31, 2001, of which \$327 million represented past due amounts (including \$301 million of commuter receivables), on which the Company's recourse obligation was \$1,097 million.

When the Company sold receivables, it retained interest-only strips and servicing rights and received a servicing fee. Any gain or loss on the sale of receivables depended in part, on the carrying amount of the receivables sold allocated between the receivables and the retained interests, based on their relative fair value at the date of sale and was recognized in the period in which the sale occurred. The retained interests, which were not material, included interest-only strips, servicing rights, and subordinated certificates, and were recorded at estimated fair value. The Company estimated fair value based on the present value of expected future cash flows using the Company's best estimate of the key assumptions commensurate with the risks involved including credit losses, prepayment timing, forward yield curves, and discount rates. The Company's retained interests were subject to credit, prepayment, and interest rate risks on the receivables sold.

Long-term receivables included commuter airline receivables of \$680 million and \$193 million at December 31, 2002 and 2001, respectively. The underlying aircraft serve as collateral for the general aviation and commuter aircraft receivables. The Company maintains reserves for estimated uncollectible aircraft-related long-term receivables. The balance of these reserves was \$69 million and \$136 million at December 31, 2002 and 2001, respectively. The reserves for estimated uncollectible aircraft-related long-term receivables represent the Company's current estimate of future losses. The Company established these reserves based on an overall evaluation of identified risks. As a part of that evaluation, the Company considered certain specific receivables and considered factors including extended delinquency and requests for restructuring, among other things.

The increase in computer software in 2002 was due to the Company's conversion of significant portions of its existing financial systems to a new integrated financial package. Accumulated amortization of computer software was \$219 million and \$174 million at December 31, 2002 and 2001, respectively.

Investments consisted of the following at December 31:

(In millions)	Ownership%	2002		2001	
Equity method investments					
TRS	50.0	\$	59	\$	18
HRL	33.3		29		28
HAL	49.0		13		7
Indra	49.0		12		12
Raytheon Aerospace	25.9		5		—
TelASIC	22.8		2		—
Flight Options	49.9		—		—
Space Imaging	30.9		—		48

Raytheon España	—	—	38
		<b>120</b>	<b>151</b>
Other investments			
Alliance Laundry Systems		<b>19</b>	<b>19</b>
Other		<b>15</b>	<b>11</b>
		<b>34</b>	<b>30</b>
Total	\$	<b>154</b>	\$ <b>181</b>

In 1995, through the acquisition of E-Systems, Inc., the Company invested in Space Imaging and currently has a 31 percent equity investment in Space Imaging LLC. Since 1996, the Company has guaranteed a portion of Space Imaging's debt and currently guarantees 50 percent of a \$300 million Space Imaging credit facility that matures in March 2003. There were \$277 million of Space Imaging borrowings outstanding under this facility at December 31, 2002. In 2002, the Company recorded a \$175 million charge to write-off the Company's investment in Space Imaging and accrue for the credit facility guarantee on which the Company expects to make payment in 2003. The charge was a result of the Company's and Space Imaging's other major investor's decision not to provide additional funding at this time, whereby the Company does not believe that Space Imaging will be able to repay amounts outstanding under the credit facility.

To date, Space Imaging has purchased a significant amount of equipment from its major investors, including the Company. The Company's outstanding receivables due from Space Imaging totaled \$28 million at December 31, 2002. Space Imaging is pursuing its business plan, including assessments relative to future investment in a replacement satellite system and related funding requirements. Space Imaging was recently successful in obtaining certain long-term commitments from the U.S. government for purchases of commercial satellite imagery. In order to fund future replacement satellites, Space Imaging will likely need, but has not yet been able to obtain, commitments for additional funding. In light of current market conditions and those uncertainties, there can be no assurance that Space Imaging will be successful in attracting additional funding.

In 2002, the Company formed a joint venture with Flight Options, Inc. whereby the Company contributed its Raytheon Travel Air fractional ownership business and loaned the new entity \$20 million. The Company's investment in and other assets related to the joint venture totaled \$107 million at December 31, 2002, which includes equity losses the Company has recorded since the formation of the joint venture. There was approximately \$59 million of collateral value underlying amounts due from Flight Options at

**Notes to Consolidated Financial Statements** continued

December 31, 2002. In addition, there was approximately \$88 million of additional transaction-related receivables that the Company recorded at zero due to the uncertainty of the ultimate realization of those amounts, due to the fact that the new entity, Flight Options LLC (FO), has been unprofitable to date and has not been generating adequate cash flow to finance current operations. Given these operating results, the Company has loaned FO an additional \$10 million since December 31, 2002.

FO, had been pursuing additional equity financing, but was not successful in that regard. As a result, the Company offered to exchange the FO debt it currently holds for additional equity in the joint venture, restructure other debt, and invest additional funds for additional equity. If this restructuring is completed, the Company will be responsible for FO's operations, own a majority of FO's stock, and consolidate FO's results in the Company's financial statements. Negotiations related to the restructuring are ongoing. If the Company consolidates Flight Options, it is not expected to have a material effect on the Company's financial position or results of operations. Flight Options' customers, in certain instances, have the contractual ability to require Flight Options to buy back their fractional share based on its current fair market value. The estimated value of this potential obligation was approximately \$530 million at December 31, 2002.

In 2002, the Company sold its investment in Raytheon España for \$43 million and recorded a gain of \$4 million. Also in 2002, the Company agreed to provide \$30 million of financing to JT3, L.L.C., a joint venture formed by the Company to provide range support to the U.S. Air Force and U.S. Navy, under which \$21 million was outstanding at December 31, 2002. This financing is collateralized by JT3's customer receivables.

In 2001, the Company formed a joint venture, Thales Raytheon Systems (TRS), that has two major operating subsidiaries, one of which the Company controls and consolidates. In addition, the Company has entered into joint ventures formed specifically to facilitate a teaming arrangement between two contractors for the benefit of the customer, generally the U.S. government, whereby the Company receives a subcontract from the joint venture in its capacity as prime contractor. Accordingly, the Company records the work it performs for the joint venture as operating activity. Certain joint ventures are not included in the table above as the Company's investment in these entities is less than \$1 million.

In 2001, the Company sold a majority interest in its aviation support business (Raytheon Aerospace) and retained \$66 million in preferred and common equity in the business. The \$66 million represents a 26 percent stake and was recorded at zero because the new entity is highly-leveraged. This initial investment will remain at zero until the new entity generates enough cash flow to show that the new entity will be able to liquidate the Company's investment after satisfying its third party debt service payments. The \$5 million investment balance noted above represents equity income the Company has recorded since the date of disposition.

The Company also has a 20 percent equity investment in Exostar LLC. Due to equity method losses recorded since formation, substantially all of the Company's investment in Exostar has been written off.

In 1998, the Company sold its commercial laundry business unit to Alliance Laundry Systems for \$315 million in cash and \$19 million in securities.

**Note I: Notes Payable and Long-term Debt**

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

(In millions)	2002	2001
Notes payable at a weighted-average interest rate of 4.48% for 2002 and 2.54% for 2001	\$ 1	\$ 166
Current portion of long-term debt	1,152	1,197
<b>Notes payable and current portion of long-term debt</b>	<b>1,153</b>	<b>1,363</b>
Notes due 2002, 6.45%, not redeemable prior to maturity	—	997
Notes due 2002, floating rate, 7.37%, not redeemable prior to maturity	—	200
Notes due 2003, 5.70%, not redeemable prior to maturity	377	377
Notes due 2003, 7.90%, not redeemable prior to maturity	775	773
Notes due 2005, 6.30%, not redeemable prior to maturity	438	437
Notes due 2005, 6.50%, not redeemable prior to maturity	687	685
Notes due 2006, 8.20%, redeemable at any time	797	797
Notes due 2007, 4.50%, redeemable at any time	224	—
Notes due 2007, 6.75%, redeemable at any time	920	916
Notes due 2008, 6.15%, redeemable at any time	542	550
Notes due 2010, 6.00%, redeemable at any time	222	231
Notes due 2010, 6.55%, redeemable at any time	244	256
Notes due 2010, 8.30%, redeemable at any time	398	397
Notes due 2012, 5.50%, redeemable at any time	345	—
Debentures due 2018, 6.40%, redeemable at any time	371	413
Debentures due 2018, 6.75%, redeemable at any time	249	272
Debentures due 2025, 7.375%, redeemable after 2005	205	205
Debentures due 2027, 7.20%, redeemable at any time	359	357
Debentures due 2028, 7.00%, redeemable at any time	184	184

Interest rate swaps	89	20
Other notes with varying interest rates	6	4
Less installments due within one year	(1,152)	(1,197)
Long-term debt	6,280	6,874
Total	\$ 7,433	\$ 8,237

The debentures due in 2025 are redeemable at the option of the Company after July 15, 2005 at redemption prices no greater than 103 percent of par. The notes and debentures redeemable at any time are at redemption prices equal to the present value of remaining principal and interest payments.

In 2002, the Company issued \$575 million of long-term debt to reduce the amounts outstanding under the Company's lines of credit. The Company has on file a shelf registration with the Securities and Exchange Commission registering the issuance of up to \$2.4 billion in debt securities, common or preferred stock, warrants to purchase any of the aforementioned securities, and/or stock purchase contracts.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This accounting standard requires, among other things, that debt extinguishments used as part of an entity's risk management strategy no longer meet the criteria for classification as extraordinary items. Because the Company does not use debt extinguishments as part of its risk management strategy, classification of gains or losses from long-term debt repurchases as extraordinary remains appropriate. In 2002, the Company repurchased debt with a par value of \$96 million and recorded an extraordinary gain of \$2 million pretax or \$1 million after-tax. In 2001, the Company repurchased long-term debt with a par value of \$1,375 million and recorded an extraordinary loss of \$24 million pretax, \$16 million after-tax, or \$0.04 per diluted share.

In 2001, the Company entered into various interest rate swaps that corresponded to a portion of the Company's fixed rate debt in order to effectively hedge interest rate risk. The \$1.2 billion notional value of the interest rate swaps effectively converted approximately



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**Notes to Consolidated Financial Statements** continued

15 percent of the Company's total debt to variable rate debt. These interest rate swaps were designated as fair value hedges. In 2002, the Company closed out these interest rate swaps in order to reduce market rate risk. The Company received proceeds of \$95 million in 2002 for the fair value of the swaps. The \$95 million of value will be amortized over the remaining life of the corresponding debt as a reduction to interest expense.

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

(In millions)	2003	\$	1,152
	2004		4
	2005		1,125
	2006		797
	2007		1,146

Lines of credit with certain commercial banks exist to provide short-term liquidity. The lines of credit bear interest based upon LIBOR and were \$2.85 billion at December 31, 2002, consisting of \$1.55 billion which matures in November 2003, and \$1.3 billion which matures in 2006. The lines of credit were \$2.4 billion at December 31, 2001. There were no borrowings under the lines of credit at December 31, 2002. There was \$140 million outstanding under the lines of credit at December 31, 2001. Credit lines with banks are also maintained by certain foreign subsidiaries to provide them with a limited amount of short-term liquidity. These lines of credit were \$79 million and \$129 million at December 31, 2002 and 2001, respectively. There was \$1 million and \$26 million outstanding under these lines of credit at December 31, 2002 and 2001, respectively. Compensating balance arrangements are not material.

The principal amounts of long-term debt were reduced by debt issue discounts and interest rate hedging costs of \$90 million and \$105 million, respectively, on the date of issuance, and are reflected as follows at December 31:

(In millions)		2002		2001
Principal	\$	7,511	\$	8,161
Unamortized issue discounts		(39)		(41)
Unamortized interest rate hedging costs		(40)		(49)
Installments due within one year		(1,152)		(1,197)
Total	\$	6,280	\$	6,874

The Company's most restrictive bank agreement covenant is an interest coverage ratio that currently requires earnings before interest, taxes, depreciation, and amortization (EBITDA), excluding certain charges, to be at least 2.5 times net interest expense for the prior four quarters. In July 2002, the covenant was amended to exclude charges of \$450 million related to discontinued operations. The Company was in compliance with the interest coverage ratio covenant, as amended, during 2002.

Total cash paid for interest was \$437 million, \$687 million, and \$703 million in 2002, 2001, and 2000, respectively, including amounts classified as discontinued operations.

**Note J: Equity Security Units**

In May 2001, the Company issued 17,250,000, 8.25% equity security units for \$50 per unit totaling \$837 million, net of offering costs of \$26 million. Approximately \$20 million of the offering costs were allocated to equity and \$6 million were allocated to the mandatorily redeemable equity securities. The net proceeds of the offering were used to reduce debt and for general corporate purposes. Each equity security unit consists of a contract to purchase shares of the Company's common stock on May 15, 2004 which will result in cash proceeds to the Company of \$863 million, and a mandatorily redeemable equity security, with a stated liquidation amount of \$50, due on May 15, 2006 which will require a cash payment by the Company of \$863 million. The contract obligates the holder to purchase, for \$50, shares of common stock equal to the settlement rate. The settlement rate is equal to \$50 divided by the average market value of the Company's common stock at that time. The settlement rate cannot be greater than 1.8182 or less than 1.4903 shares of common stock per purchase contract. Using the treasury stock method, there is no effect on the computation of shares for diluted earnings per share if the average market value of the Company's common stock is between \$27.50 and \$33.55 per share. The mandatorily redeemable equity security represents an undivided interest in the assets of RC Trust I, a Delaware business trust formed for the purpose of issuing these securities and whose assets consist solely of subordinated notes issued by the Company. During 2002, the average market value of the Company's common stock was \$35.41 per share, therefore, the Company included 1.4 million shares in its computation of shares for diluted earnings per share. The contract requires a quarterly distribution, which is recorded as a reduction in additional paid-in capital, of 1.25% per year of the stated amount of \$50 per purchase contract. Cash paid for the quarterly distribution on the contract was \$11 million and \$6 million in 2002 and 2001, respectively. The mandatorily redeemable equity security pays a quarterly distribution, which is included in interest expense, of 7% per year of the stated liquidation amount of \$50 per mandatorily redeemable equity security until May 15, 2004. Cash paid for the quarterly distribution on the mandatorily redeemable equity security was \$60 million and \$31 million in 2002 and 2001, respectively. On May 15, 2004, following a remarketing of the mandatorily redeemable equity securities, the distribution rate will be reset at a rate equal to or greater than 7% per year.

**Note K: Stockholders' Equity**

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

(In thousands)

Balance at December 31, 1999	338,760
Common stock plan activity	1,337
Treasury stock activity	523
<hr/>	
Balance at December 31, 2000	340,620
Issuance of common stock	46,809
Common stock plan activity	1,230
Treasury stock activity	6,773
<hr/>	
Balance at December 31, 2001	395,432
<b>Issuance of common stock</b>	<b>9,218</b>
<b>Common stock plan activity</b>	<b>3,638</b>
<b>Treasury stock activity</b>	<b>(79)</b>
<hr/>	
<b>Balance at December 31, 2002</b>	<b>408,209</b>
<hr/>	

The Company issued 5,100,000 shares of common stock in 2002 to fund the Company Match and Company Contributions, as described in Note O, Pension and Other Employee Benefits. The Company also issued 4,118,000 shares of common stock in 2002 in connection with other activity in the Company's employee stock ownership plan. The Company issued 855,000 shares of common stock and 6,809,000 shares out of treasury in 2001 to fund the Company Match and Company Contributions, as described in Note O, Pension and Other Employee Benefits.

In May 2001, the Company issued 14,375,000 shares of common stock for \$27.50 per share. In October 2001, the Company issued 31,578,900 shares of common stock for \$33.25 per share. The proceeds of the offerings were \$1,388 million, net of \$56 million of offering costs, and were used to reduce debt and for general corporate purposes.

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

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**Notes to Consolidated Financial Statements** continued

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

(In thousands)	2002	2001	2000
Average common shares outstanding for basic EPS	401,444	356,717	338,407
Dilutive effect of stock options, restricted stock, and equity security units	6,587	4,606	2,711
Shares for diluted EPS	408,031	361,323	341,118

Stock options to purchase 23.7 million, 20.5 million, and 22.3 million shares of common stock outstanding at December 31, 2002, 2001, and 2000, respectively, did not affect the computation of diluted EPS. The exercise prices for these options were greater than the average market price of the Company's common stock during the respective years.

Stock options to purchase 17.9 million, 15.5 million, and 10.1 million shares of common stock outstanding at December 31, 2002, 2001, and 2000, respectively, had exercise prices that were less than the average market price of the Company's common stock during the respective periods and are included in the dilutive effect of stock options, restricted stock, and equity security units in the table above.

In 2001, the Company eliminated its dual class capital structure and reclassified its Class A and Class B common stock into a single new class of common stock. The Company also effected a 20-for-1 reverse-forward stock split that resulted in holders of fewer than 20 shares of common stock being cashed out of their holdings.

In 1995, the Board of Directors authorized the repurchase of up to 12 million shares of the Company's common stock to allow the Company to repurchase shares from time to time when warranted by market conditions. In 1998, the Board of Directors ratified and reauthorized the repurchase of 2.5 million shares that remained under the original authorization. There have been 11.8 million shares purchased under these authorizations through December 31, 2002. There were no shares repurchased under this program during 2002, 2001, and 2000.

In 1999, the Board of Directors authorized the repurchase of up to an additional 6 million shares of the Company's common stock over the next three years. There have been no shares repurchased under this program.

In 1998, the Board of Directors authorized the purchase of up to 5 million shares of the Company's common stock per year to counter the dilution due to the exercise of stock options. There were no shares repurchased under this program during 2002, 2001, and 2000.

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

In 1997, in connection with the merger with Hughes Defense, the Company adopted a shareholder rights plan. The plan protects the Company and its stockholders against hostile takeover tactics. The rights entitle the holder, other than a potential acquirer, to purchase shares of the Company's common stock at a 50 percent discount to the market price if certain triggering events occur, such as the acquisition of 15 percent or more of the Company's common stock by a person or group.

**Note L: Federal and Foreign Income Taxes**

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

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

(In millions)	2002	2001	2000
Current income tax expense			
Federal	\$ 50	\$ 95	\$ 38
Foreign	5	4	9
Deferred income tax expense (benefit)			
Federal	243	(30)	286
Foreign	21	37	22
Total	\$ 319	\$ 106	\$ 355

The provision for state income taxes was included in general and administrative expenses which are primarily allocable to government contracts.

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

	2002	2001	2000
Tax at statutory rate	35.0%	35.0%	35.0%
Foreign sales corporation tax benefit	(3.5)	(29.0)	(3.0)
ESOP dividend deduction benefit	(1.1)	(9.0)	—
Research and development tax credit	(1.0)	(4.0)	(1.0)
Goodwill amortization	—	87.8	10.9
Other, net	0.3	4.7	0.8
<b>Total</b>	<b>29.7%</b>	<b>85.5%</b>	<b>42.7%</b>

Effective January 1, 2002, the Company discontinued the amortization of goodwill as required by SFAS No. 142, as described in Note A, Accounting Policies, Impairment of Long-Lived Assets. The higher effective tax rate in 2001 resulted from the increased effect of non-deductible amortization of goodwill on lower income before taxes resulting primarily from the charges at Raytheon Aircraft, as described in Note A, Accounting Policies, Impairment of Long-Lived Assets.

In 2002, 2001, and 2000, domestic income before taxes amounted to \$999 million, \$6 million, and \$743 million, respectively, and foreign income before taxes amounted to \$75 million, \$118 million, and \$89 million, respectively. Net cash refunds were \$145 million, \$27 million, and \$22 million in 2002, 2001, and 2000, respectively.

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

(In millions)	2002	2001
<b>Current deferred tax assets</b>		
Other accrued expenses	\$ 378	\$ 404
Contracts in process and inventories	119	117
Accrued salaries and wages	104	99
<b>Deferred federal and foreign income taxes—current</b>	<b>\$ 601</b>	<b>\$ 620</b>
<b>Noncurrent deferred tax assets (liabilities)</b>		
Net operating loss and foreign tax credit carryforwards	\$ 533	\$ 478
Pension benefits	348	(805)
Retiree benefits	235	360
Depreciation and amortization	(711)	(465)
Revenue on leases and other	(124)	(131)
<b>Deferred federal and foreign income taxes—noncurrent</b>	<b>\$ 281</b>	<b>\$ (563)</b>

There were \$1 million and \$17 million of taxes refundable included in prepaid expenses and other current assets at December 31, 2002 and 2001, respectively. Federal tax benefits related to discontinued operations were \$126 million and \$381 million in 2002 and 2001, respectively, and were included in deferred federal and foreign income taxes in the table above.

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**Notes to Consolidated Financial Statements** continued

At December 31, 2002, the Company had net operating loss carryforwards of \$1.2 billion that expire in 2020 through 2022 and foreign tax credit carryforwards of \$87 million that expire in 2005 through 2007. The Company believes it will be able to utilize all of these carryforwards over the next 3 to 4 years.

**Note M: Commitments and Contingencies**

At December 31, 2002, the Company had commitments under long-term leases requiring annual rentals on a net lease basis as follows:

(In millions)	2003	\$	421
	2004		223
	2005		199
	2006		168
	2007		138
	Thereafter		349

In 2002, the Company sold its corporate headquarters and is leasing it back while the Company's new corporate headquarters is being constructed. The Company's new corporate headquarters are expected to be completed in 2003. Remaining lease payments under this lease at December 31, 2002, which are included in the table above, total approximately \$4 million.

In 1998, the Company entered into a \$490 million property sale and five-year operating lease (synthetic lease) facility. Under this lease facility property, plant, and equipment was sold and leased back in order to diversify the Company's sources of funding and extend the term of a portion of the Company's financing obligations. In 2003, the Company is required to buy back the assets remaining in the lease facility for approximately \$138 million. Remaining lease payments under the lease facility at December 31, 2002, which are included in the table above, total \$28 million in 2003. Rent expense was \$276 million in 2002 and 2001 and \$285 million in 2000.

At December 31, 2002, the Company had commitments under an agreement to outsource a significant portion of its information technology function requiring minimum annual payments as follows:

(In millions)	2003	\$	66
	2004		68
	2005		67
	2006		64
	2007		64
	Thereafter		129

The Company, in limited instances, has provided indemnifications for certain liabilities that could arise from the Company's use of leased properties, outsourcing agreements, or sales of businesses. The Company is unable to estimate future payments, if any, that may be required under the aforementioned indemnities.

In connection with certain aircraft sales, the Company had offered trade-in incentives whereby the customer will receive a pre-determined trade-in value if they purchase another aircraft from the Company. The difference between the value of these trade-in incentives, the majority of which expire by the end of 2005, and the current estimated fair value of the underlying aircraft was approximately \$28 million at December 31, 2002. There is a high degree of uncertainty inherent in the assessment of the likelihood and value of trade-in commitments.

The Company self-insures for losses and expenses for aircraft product liability up to a maximum of \$10 million per occurrence and \$50 million annually. Insurance is purchased from third parties to cover excess aggregate liability exposure from \$50 million to \$1.2 billion. This coverage also includes the excess of liability over \$10 million per occurrence. The aircraft product liability reserve was \$13 million and \$17 million at December 31, 2002 and 2001, respectively.

The Company is involved in various stages of investigation and cleanup related to remediation of various environmental sites. The Company's estimate of total environmental remediation costs expected to be incurred is \$143 million. On a discounted basis, the Company estimates the liability to be \$92 million before U.S. government recovery and has accrued this amount at December 31, 2002. A portion of these costs are eligible for future recovery through the pricing of products and services to the U.S. government. The recovery of environmental cleanup costs from the U.S. government is considered probable based on the Company's long history of receiving reimbursement for such costs. Accordingly, the Company has recorded \$49 million at December 31, 2002 for the estimated future recovery of these costs from the U.S. government, which is included in contracts in process. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative cleanup methods and technologies, the uncertainty of insurance coverage, and the unresolved extent of the Company's responsibility, it is difficult to determine the ultimate outcome of these matters, however, any additional liability is not expected to have a material adverse effect on the Company's financial position or results of operations.

Environmental remediation costs expected to be incurred are:

(In millions)	2003	\$	24
	2004		18

2005	12
2006	9
2007	8
Thereafter	72

The Company issues guarantees and has banks and insurance companies issue, on its behalf, letters of credit to meet various bid, performance, warranty, retention, and advance payment obligations. Approximately \$1,227 million and \$1,350 million of these contingent obligations were outstanding at December 31, 2002 and 2001, respectively. These instruments expire on various dates primarily through 2006. In the normal course of operations, the Company guarantees the performance of its subsidiaries on certain contracts and projects directly or through surety companies. At December 31, 2002, the amount of letters of credit, performance bonds, and parent guarantees, for which there were stated values, that remained outstanding was \$367 million, \$344 million, and \$25 million, respectively, related to discontinued operations and are included in the numbers above, however, additional guarantees of project performance for which there is no stated value also remain outstanding.

In 1997, the Company provided a first loss guarantee of \$133 million on \$1.3 billion of U.S. Export-Import Bank debt through 2015 related to the Brazilian government's System for the Vigilance of the Amazon (SIVAM) program. The Company has also guaranteed 50 percent of Space Imaging's debt, as described in Note H, Other Assets.

Defense contractors are subject to many levels of audit and investigation. Agencies that oversee contract performance include: the Defense Contract Audit Agency, the Department of Defense Inspector General, the General Accounting Office, the Department of Justice, and Congressional Committees. The Department of Justice, from time to time, has convened grand juries to investigate possible irregularities by the Company. Individually and in the aggregate, these investigations are not expected to have a material adverse effect on the Company's financial position or results of operations.

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

The Company continues to cooperate with the staff of the Securities and Exchange Commission (SEC) on an investigation related to the Company's accounting practices primarily related to the commuter aircraft business and the timing of revenue recognition at Raytheon Aircraft from 1997 to 2001. The Company has been providing documents and information to the SEC staff. The Company is unable to predict the outcome of the investigation or any action that the SEC might take.

## **Notes to Consolidated Financial Statements** continued

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

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

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

In July 2001, the Company was named as a nominal defendant and all of its directors at the time have been named as defendants in two identical purported derivative lawsuits. The derivative complaints contain allegations similar to those included in the WGI Complaint and further allege that the individual defendants breached fiduciary duties to the Company and failed to maintain systems necessary for prudent management and control of the Company's operations. In December 2001, the Company and the individual defendants filed a motion to dismiss one of the derivative lawsuits.

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

Although the Company believes that it and the other defendants have meritorious defenses to each and all of the aforementioned class action and derivative complaints and intends to contest each lawsuit vigorously, an adverse resolution of any of the lawsuits could have a material adverse effect on the Company's financial position or results of operations in the period in which the lawsuits are resolved. The Company is not presently able to reasonably estimate potential losses, if any, related to any of the lawsuits.

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

### **Note N: Stock Plans**

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

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

The 2001 Stock Plan and 1991 Stock Plan also provide for the award of restricted stock and restricted units. The 2001 Stock Plan also provides for the award of stock appreciation rights. The 1997 Nonemployee Directors Restricted Stock Plan provides for the award of restricted stock to nonemployee directors. Restricted stock, restricted unit, and stock appreciation rights awards are determined by the MDCC and are compensatory in nature. Restricted stock, restricted units, and stock appreciation rights vest over a specified period of time as determined by the MDCC. Restricted stock awards entitle the participant to full dividend and voting rights. Unvested shares are restricted as to disposition and subject to forfeiture under certain circumstances. Compensation expense is recognized over the vesting period. A wholly-owned subsidiary of the Company also maintains a stock option plan which may result in the issuance of additional stock options under the 1995 Stock Option Plan.

No further grants are allowed under the 2001 Stock Plan, 1997 Nonemployee Directors Restricted Stock Plan, and 1995 Stock Option Plan after January 31,

2011, November 25, 2006, and March 21, 2005, respectively.

Awards of 201,800; 207,100; and 1,152,800 shares of restricted stock and restricted units were made to employees and directors at a weighted average fair value at the grant date of \$32.62, \$28.13, and \$21.21 in 2002, 2001, and 2000, respectively. The required conditions for 428,600; 304,600; and 140,900 shares of restricted stock and restricted units were satisfied in 2002, 2001, and 2000, respectively. There were 183,500; 715,800; and 285,900 shares of restricted stock and restricted units forfeited in 2002, 2001, and 2000, respectively. There were 837,600; 1,249,300; and 2,062,600 shares of restricted stock and restricted units outstanding at December 31, 2002, 2001, and 2000, respectively. The amount of compensation expense recorded was \$7 million, \$12 million, and \$19 million in 2002, 2001, and 2000, respectively. The balance of unearned compensation was \$12 million and \$17 million at December 31, 2002 and 2001, respectively.

There were 59.2 million, 70.6 million, and 49.2 million additional shares of common stock (including shares held in treasury) authorized for stock options and restricted stock awards at December 31, 2002, 2001, and 2000, respectively.



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**Notes to Consolidated Financial Statements** continued

Stock option information for 2002, 2001, and 2000 follows:

(Share amounts in thousands)	Shares		Weighted-Average Option Price
Outstanding at December 31, 1999	25,057	\$	52.40
Granted	12,565		19.81
Exercised	(253)		18.81
Expired	(3,276)		41.68
Outstanding at December 31, 2000	34,093	\$	41.66
Granted	9,321		29.85
Exercised	(1,275)		20.68
Expired	(2,942)		43.79
Outstanding at December 31, 2001	39,197	\$	39.38
<b>Granted</b>	<b>10,049</b>		<b>42.04</b>
<b>Exercised</b>	<b>(3,575)</b>		<b>22.89</b>
<b>Expired</b>	<b>(3,527)</b>		<b>44.35</b>
<b>Outstanding at December 31, 2002</b>	<b>42,144</b>	<b>\$</b>	<b>40.99</b>

The following tables summarize information about stock options outstanding and exercisable at December 31, 2002:

(Share amounts in thousands)		Options Outstanding		
Exercise Price Range	Shares Outstanding at December 31, 2002	Average Remaining Contractual Life	Weighted-Average Exercise Price	
\$18.19 to \$29.78	14,952	7.8 years	\$	24.98
\$31.24 to \$49.19	14,116	7.7 years	\$	40.96
\$51.06 to \$59.44	8,423	4.9 years	\$	54.29
\$66.91 to \$73.78	4,653	6.5 years	\$	68.49
<b>Total</b>	<b>42,144</b>			

(Share amounts in thousands)		Options Exercisable		
Exercise Price Range	Shares Exercisable at December 31, 2002		Weighted-Average Exercise Price	
\$18.19 to \$ 29.78	7,037	\$	23.35	
\$31.24 to \$ 49.19	4,652	\$	37.76	
\$51.06 to \$ 59.44	8,423	\$	54.29	
\$66.91 to \$ 73.78	4,653	\$	68.49	
<b>Total</b>	<b>24,765</b>			

Shares exercisable at the corresponding weighted-average exercise price at December 31, 2002, 2001, and 2000, were 24.8 million at \$45.06, 24.2 million at \$47.78, and 21.1 million at \$48.51, respectively.

**Note O: Pension and Other Employee Benefits**

The Company has pension and retirement plans covering the majority of its employees, including certain employees in foreign countries. Total pension income includes foreign pension expense of \$9 million in 2002, \$3 million in 2001, and \$7 million in 2000. In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's U.S. employees may become eligible for these benefits. The measurement date is October 31.

Plan assets consist primarily of publicly-traded equity securities (including 2,279,000 shares of the Company's common stock with a fair value of \$70 million at December 31, 2002 and 87,000 of the Company's equity security units, with a fair value of \$5 million at December 31, 2002) and publicly-traded fixed income securities.

The information presented below includes the effect of divestitures. In 2002, the Company recorded a \$41 million other benefits curtailment gain, which is included in discontinued operations, as a result of the sale of AIS. In 2001, the Company recorded a \$17 million pension benefits curtailment gain and a \$1 million other benefits curtailment gain as a result of workforce reductions at RAC and the sale of a majority interest in the Company's aviation support business. The Company recorded a \$4 million other benefits curtailment gain in 2001 and a \$6 million pension benefits curtailment gain in 2000 as a result of the closure of the Company's Lewisville, TX operation. In 2000, the Company recorded a \$35 million pension benefits curtailment gain, which is included in discontinued operations, as a result of the sale of RE&C.

#### Change in Benefit Obligation

(In millions)	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Benefit obligation at beginning of year	\$ 11,422	\$ 10,707	\$ 1,547	\$ 1,288
Service cost	278	256	21	19
Interest cost	790	795	105	95
Plan participants' contributions	27	26	—	—
Amendments	3	72	(348)	—
Actuarial loss	317	483	430	291
Curtailments	—	(17)	(41)	(5)
Foreign exchange	27	—	—	—
Benefits paid	(885)	(900)	(135)	(141)
Benefit obligation at end of year	\$ 11,979	\$ 11,422	\$ 1,579	\$ 1,547

#### Change in Plan Assets

(In millions)	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Fair value of plan assets at beginning of year	\$ 10,409	\$ 14,108	\$ 410	\$ 425
Actual return on plan assets	(488)	(2,876)	(22)	(40)
Company contributions	49	51	100	166
Plan participants' contributions	27	26	—	—
Foreign exchange	23	—	—	—
Benefits paid	(885)	(900)	(135)	(141)
Fair value of plan assets at end of year	\$ 9,135	\$ 10,409	\$ 353	\$ 410

#### Funded Status—unrecognized components

(In millions) December 31:	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Funded status	\$ (2,844)	\$ (1,013)	\$ (1,226)	\$ (1,137)
Unrecognized actuarial loss	4,853	2,868	723	251
Unrecognized transition (asset) obligation	—	(4)	185	210
Contributions	2	1	—	—
Unrecognized prior service cost	184	210	(347)	(6)
Prepaid (accrued) benefit cost	\$ 2,195	\$ 2,062	\$ (665)	\$ (682)

The table above reconciles the difference between the benefit obligation and the fair value of plan assets to the amounts recorded on the balance sheet due to

certain items that are amortized in accordance with SFAS No. 87 rather than recognized in the current period.

**Notes to Consolidated Financial Statements** continued

**Funded Status—amounts recorded on the balance sheet**

	Pension Benefits		Other Benefits	
(In millions) December 31:	2002	2001	2002	2001
Prepaid benefit cost	\$ 661	\$ 2,280	\$ 15	\$ 31
Accrued benefit liability	(1,942)	(542)	(680)	(713)
Intangible asset	217	150	—	—
Employer contributions	6	—	—	—
Accumulated other comprehensive income	3,253	174	—	—
Prepaid (accrued) benefit cost	\$ 2,195	\$ 2,062	\$ (665)	\$ (682)

**Components of Net Periodic Benefit Income**

	Pension Benefits		
(In millions)	2002	2001	2000
Service cost	\$ 278	\$ 256	\$ 320
Interest cost	790	795	763
Expected return on plan assets	(1,193)	(1,247)	(1,164)
Amortization of transition asset	(3)	(4)	(6)
Amortization of prior service cost	20	19	18
Recognized net actuarial loss (gain)	19	(114)	(81)
Loss (gain) due to curtailments/settlements	9	9	(36)
Net periodic benefit (income)	\$ (80)	\$ (286)	\$ (186)

The net periodic benefit income includes expense from discontinued operations, including curtailments, of \$9 million in 2002 and \$11 million in 2001 and income from discontinued operations, including curtailments, of \$43 million in 2000.

**Components of Net Periodic Benefit Cost**

	Other Benefits		
(In millions)	2002	2001	2000
Service cost	\$ 21	\$ 19	\$ 20
Interest cost	105	95	92
Expected return on plan assets	(30)	(34)	(31)
Amortization of transition obligation	25	25	25
Amortization of prior service cost	—	(1)	(1)
Recognized net actuarial loss (gain)	9	(10)	(7)
Gain due to curtailments/settlements	(47)	(5)	—
Net periodic benefit cost	\$ 83	\$ 89	\$ 98

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

**Weighted-Average Assumptions**

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Discount rate	7.00%	7.25%	7.00%	7.25%

Expected return on plan assets	<b>9.50%</b>	9.50%	<b>8.50%</b>	8.50%
Rate of compensation increase	<b>4.50%</b>	4.50%	<b>4.50%</b>	4.50%
Healthcare trend rate in the next year			<b>12.00%</b>	11.00%
Gradually declining to a trend rate of			<b>5.5%</b>	5.0%
In the years beyond			<b>2013</b>	2010

The actual rate of return on pension plan assets was (9.6) percent, 1.7 percent, and 8.9 percent for the three, five, and 10-year periods ended December 31, 2002, respectively.

The effect of a one percent increase and decrease in the assumed healthcare trend rate for each future year for the aggregate of service and interest cost is \$8 million and \$(7) million, respectively, and for the accumulated postretirement benefit obligation is \$114 million and \$(100) million, respectively.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$10,998 million, \$9,942 million, and \$8,022 million, respectively, at December 31, 2002, and \$1,880 million, \$1,817 million, and \$1,275 million, respectively, at December 31, 2001.

The Company maintains an employee stock ownership plan (ESOP) which includes the Company's 401(k) plan (defined contribution plan), under which covered employees are allowed to contribute up to a specific percentage of their pay. The Company matches the employee's contribution, up to a maximum of generally between three and four percent of the employee's pay, by making a contribution to the Company stock fund (Company Match). Total expense for the defined contribution plan was \$166 million, \$183 million, and \$176 million in 2002, 2001, and 2000, respectively. The defined contribution plan expense includes expense from discontinued operations of \$2 million in 2002 and \$9 million in 2001 and 2000.

The Company also makes an annual contribution to the Company stock fund of approximately one-half of one percent of salaries and wages, limited to \$200,000 in 2002 and \$170,000 in 2001 and 2000, of most U.S. salaried and hourly employees (Company Contributions). The expense was \$26 million, \$28 million, and \$26 million and the number of shares allocated to participant accounts was 640,000; 941,000; and 1,455,000 in 2002, 2001, and 2000, respectively.

The Company funded a portion of the Company Match and Company Contributions in 2002, 2001, and 2000 through the issuance of common stock.

At December 31, 2002, there was a total of \$6.4 billion invested in the Company's defined contribution plan. At December 31, 2002, there was a total of \$1.3 billion invested in the Company stock fund consisting of \$488 million of Company Match which must remain invested in the Company stock fund for five years from the year in which the contribution was made or the year in which the employee reaches age 55, whichever is earlier; \$189 million of Company Contributions which must remain invested in the Company stock fund until the employee reaches age 55 and completes 10 years of service; and \$661 million over which there are no restrictions.

#### **Note P: Business Segment Reporting**

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

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

Electronic Systems (ES) is the largest segment and represents the majority of the Company's defense electronics businesses. ES focuses on missile systems including anti-ballistic missile systems; air defense; air-to-air, surface-to-air, and air-to-surface missiles; naval and maritime systems; ship self-defense systems; strike, interdiction, and cruise missiles; and advanced munitions. ES also specializes in radar, electronic warfare, infrared, laser, and GPS technologies with programs focusing on land, naval, airborne, and spaceborne systems used for surveillance, reconnaissance, targeting, navigation, commercial, and scientific applications. Some of the leading programs in ES include: the Patriot Air Defense System; the Ground-Based Radar for the THAAD system; technologies for the U.S. Missile Defense Agency; the Tomahawk Cruise Missile program; airborne radar systems for

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**Notes to Consolidated Financial Statements** continued

the B-2, F-14, F-15, F/A-18, AV-8B, and the next generation F-22 programs; sensors for applications such as the Global Hawk and Predator Unmanned Aerial Vehicle Reconnaissance Systems; and advanced night vision technologies.

Command, Control, Communication and Information Systems (C3I) is involved in battle management systems; communication systems; network security software; fire control systems; high resolution space-based imaging systems; air traffic control systems; tactical radios; satellite communication ground control terminals; wide area surveillance systems; ground-based information processing systems; image processing; large scale information retrieval, processing, and distribution systems; and global broadcast systems. Some of the leading programs in C3I include: the U.S. Navy's Cooperative Engagement Capability (CEC) program that integrates sensor information from multiple sources to provide ships, aircraft, and land-based installations an integrated air picture; the Brazilian System for the Vigilance of the Amazon (SIVAM), which provides an integrated information network linking numerous sensors to regional and national coordination centers; and air traffic control and weather systems at airports worldwide, including the Federal Aviation Administration/Department of Defense Standard Terminal Automation Replacement System (STARS) program. Through C3I, the Company operates a trans-atlantic joint venture, Thales Raytheon Systems (TRS), encompassing air defense/command and control centers, and ground-based air surveillance and weapon-locating radars.

Technical Services (TS) provides information technology services, training programs, and logistics and base operations support throughout the U.S. and other countries. TS performs complete engineering and depot-level cradle-to-grave support for the Company's manufactured equipment and to various commercial and military customers. TS is a world leader in providing and supporting range instrumentation systems and bases worldwide for the Department of Defense. TS also provides missile range calibration services for the U.S. Air Force, trains U.S. Army personnel in battlefield tactics, and supports undersea testing and evaluation for the U.S. Navy. TS provides operations and engineering support to the Atlantic Underwater Test and Evaluation Center and range technical support and facilities maintenance at several Department of Defense facilities.

The Company's commercial electronics businesses produce, among other things, precision optical products for defense, commercial, and telecommunications customers; gallium arsenide integrated circuits and power amplifiers for defense and wireless communications customers; thermal imaging products for the public safety, industrial, and transportation markets; navigation and communication systems for the commercial and military marine markets; and other electronic components for a wide range of applications.

Raytheon Aircraft Company (RAC) offers a broad product line of aircraft and aviation services in the general aviation market. RAC manufactures, markets, and supports business jets, turboprops, and piston-powered aircraft for the world's commercial, regional airline, fractional ownership, and military aircraft markets. RAC's piston-powered aircraft line includes the single-engine Beech Bonanza and the twin-engine Beech Baron aircraft for business and personal flying. The King Air turboprop series includes the Beech King Air C90B, B200, and 350. The jet line includes the Beechjet 400A light jet, the Hawker 800XP midsize business jet, and the Beechcraft Premier I entry-level business jet. A new super midsize business jet, the Hawker Horizon, is currently in development. RAC also supplies aircraft training systems, including the T-6A trainer selected as the next-generation trainer for the U.S. Air Force and Navy under the Joint Primary Aircraft Training System. Additionally, RAC produces special mission aircraft, including military versions of the King Air and the U-125 search-and-rescue variant of the Hawker 800. RAC also sells a 19-passenger regional airliner.

Segment financial results were as follows:

**Net Sales**

(In millions)	2002	2001	2000
Electronic Systems	\$ 9,018	\$ 8,167	\$ 7,657
Command, Control, Communication and Information Systems	4,140	3,770	3,419
Technical Services	2,133	2,050	1,822
Commercial Electronics	423	453	666
Aircraft	2,158	2,572	3,220
Corporate and Eliminations	(1,112)	(995)	(967)
Total	\$ 16,760	\$ 16,017	\$ 15,817

**Operating Income**

(In millions)	2002	2001	2000
Electronic Systems	\$ 1,260	\$ 1,111	\$ 1,044
Command, Control, Communication and Information Systems	420	396	358
Technical Services	128	158	123
Commercial Electronics	(4)	(57)	(4)
Aircraft	(4)	(760) <sup>(1)</sup>	159
Corporate and Eliminations	(46)	(82)	(100)

Total	1,754	766	1,580
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(1) Includes charges of \$745 million, as described in Note A, Accounting Policies, Impairment of Long-Lived Assets.

### Operating Cash Flow

(In millions)	2002	2001	2000
Electronic Systems	\$ 586	\$ 717	\$ 699
Command, Control, Communication and Information Systems	133	61	204
Technical Services	174	(57)	22
Commercial Electronics	32	(45)	63
Aircraft	(50)	(457)	(372)
Corporate	764	(40)	(138)
Total	\$ 1,639	\$ 179	\$ 478

Operating cash flow, as defined by the Company to evaluate cash flow performance by the segments, includes capital expenditures and expenditures for internal use software. Corporate operating cash flow includes the difference between amounts charged to the segments for interest and taxes on an intercompany basis and the amounts actually paid by the Company.

### Capital Expenditures

(In millions)	2002	2001	2000
Electronic Systems	\$ 269	\$ 241	\$ 197
Command, Control, Communication and Information Systems	66	86	70
Technical Services	21	4	5
Commercial Electronics	18	30	33
Aircraft	84	100	116
Total	\$ 458	\$ 461	\$ 421

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**Notes to Consolidated Financial Statements** continued

**Depreciation and Amortization**

(In millions)	2002	2001	2000
Electronic Systems	\$ 164	\$ 344	\$ 328
Command, Control, Communication and Information Systems	62	158	160
Technical Services	13	37	35
Commercial Electronics	21	28	29
Aircraft	104	110	90
Total	\$ 364	\$ 677	\$ 642

**Identifiable Assets at December 31:**

(In millions)	2002	2001
Electronic Systems	\$ 10,402	\$ 10,497
Command, Control, Communication and Information Systems	5,164	5,113
Technical Services	1,526	1,656
Commercial Electronics	655	683
Aircraft	4,076	3,273
Corporate	2,048	3,908
Total	\$ 23,871	\$ 25,130

Intersegment sales in 2002, 2001, and 2000, respectively, were \$275 million, \$223 million, and \$180 million for Electronic Systems, \$123 million, \$117 million, and \$122 million for Command, Control, Communication and Information Systems, \$593 million, \$545 million, and \$496 million for Technical Services, \$117 million, \$106 million, and \$110 million for Commercial Electronics, and \$4 million, \$4 million, and \$59 million for Aircraft.

**Segment Reorganization**

Effective January 1, 2003, the Company will begin reporting its government and defense businesses in six segments. In addition, the Company's Commercial Electronics businesses have been reassigned to the new government and defense businesses. The Company's Aircraft segment will continue to be reported separately. Accordingly, beginning in the first quarter of 2003, the Company will report its financial results in the following segments: IDS, IIS, MS, NCS, SAS, TS, and RAC.

Integrated Defense Systems (IDS) provides integrated air and missile defense and naval and maritime war-fighting systems and modeling and simulation capabilities.

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

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

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

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

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

Raytheon Aircraft Company (RAC) manufactures, markets, and supports business jets, turbo-props, and piston-powered aircraft for the world's commercial, regional airline, fractional ownership, and military aircraft markets.

Also beginning in the first quarter of 2003, the Company will change the way pension expense or income is reported in the Company's segment results. Statement of Financial Accounting Standards (SFAS) No. 87, Employers' Accounting for Pensions, outlines the methodology used to determine pension expense or income for financial reporting purposes, which is not necessarily indicative of the funding requirements of pension plans, which are determined by other factors. A major factor for determining pension funding requirements are Cost Accounting Standards (CAS) that proscribe the allocation to and recovery of pension costs on U.S. government contracts. The Company will report the difference between SFAS No. 87 (FAS) pension expense or income and CAS pension expense as a separate line item in the Company's segment results called FAS/CAS Income Adjustment. The Company's individual segment results



will now only include pension expense as determined under CAS, which can generally be recovered through the pricing of products and services to the U.S. government. Previously, the Company's individual segment results included FAS pension expense or income, which consisted of CAS pension expense and an adjustment to reconcile CAS pension expense to FAS pension expense or income.

### Operations by Geographic Areas

(In millions)	United States		Outside United States (Principally Europe)		Consolidated
Sales					
2002	\$	14,155	\$	2,605	\$ 16,760
2001		13,293		2,724	16,017
2000		12,915		2,902	15,817
Long-lived assets at					
December 31, 2002	\$	5,391	\$	195	\$ 5,586
December 31, 2001		5,567		201	5,768

The country of destination was used to attribute sales to either United States or Outside United States. Sales to major customers in 2002, 2001, and 2000 were: U.S. government, including foreign military sales, \$12,255 million, \$11,161 million, and \$10,220 million, respectively, and U.S. Department of Defense, \$10,406 million, \$9,512 million, and \$9,278 million, respectively.

### Note Q: Quarterly Operating Results (unaudited)

(In millions except per share amounts and stock prices)

2002	First		Second		Third		Fourth
<b>Net sales</b>	<b>\$</b>	<b>3,911</b>	<b>\$</b>	<b>4,095</b>	<b>\$</b>	<b>4,092</b>	<b>\$ 4,662</b>
<b>Gross margin</b>		<b>751</b>		<b>888</b>		<b>852</b>	<b>911</b>
<b>Income from continuing operations</b>		<b>149</b>		<b>223</b>		<b>228</b>	<b>155</b>
<b>Net income (loss)</b>		<b>(583)</b>		<b>(136)</b>		<b>147</b>	<b>(68)</b>
<b>Earnings per share from continuing operations</b>							
Basic		0.38		0.56		0.56	0.38
Diluted		0.37		0.54		0.56	0.38
<b>Net income (loss) per share</b>							
Basic		(1.47)		(0.34)		0.36	(0.17)
Diluted		(1.44)		(0.33)		0.36	(0.17)
<b>Cash dividends per share</b>							
Declared		0.20		0.20		0.20	0.20
Paid		0.20		0.20		0.20	0.20
<b>Common stock prices</b>							
High		40.95		44.52		38.63	30.75
Low		30.88		37.54		28.61	26.86

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**Notes to Consolidated Financial Statements** continued

2001		First		Second		Third		Fourth
Net sales	\$	3,772	\$	4,097	\$	3,755	\$	4,393
Gross margin		706		814		28		805
Income (loss) from continuing operations		98		136		(280)		64
Net loss		(120)		(188)		(285)		(162)
Earnings (loss) per share from continuing operations								
Basic		0.29		0.39		(0.78)		0.17
Diluted		0.28		0.38		(0.78)		0.17
Net loss per share								
Basic		(0.35)		(0.54)		(0.79)		(0.43)
Diluted		(0.35)		(0.53)		(0.79)		(0.42)
Cash dividends per share								
Declared		0.20		0.20		0.20		0.20
Paid		0.20		0.20		0.20		0.20
Common stock prices								
Common Stock—High		—		32.03		34.80		36.30
Common Stock—Low		—		26.30		24.85		29.82
Class A—High		35.60		32.80		—		—
Class A—Low		26.00		27.45		—		—
Class B—High		36.59		32.85		—		—
Class B—Low		26.00		27.75		—		—

Note: Earnings per share are computed independently for each of the quarters presented, therefore, the sum of the quarterly earnings per share may not equal the total computed for the year. In the fourth quarter of 2002, the Company changed its method of inventory costing at Raytheon Aircraft from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. The change decreased the net loss in the fourth quarter of 2002 by \$7 million or \$0.02 per basic and diluted share. The effect of the change on the reported net loss was a decrease of \$4 million or \$0.01 per basic and diluted share in the first and fourth quarter of 2001. In the second quarter of 2001, the Company recorded an extraordinary gain on debt repurchases of \$6 million pretax, \$4 million after-tax, or \$0.01 per basic and diluted share. In the fourth quarter of 2001, the Company recorded an extraordinary loss on debt repurchases of \$30 million pre-tax, \$20 million after-tax, or \$0.05 per basic and diluted share.

**Note R: Financial Instruments**

At December 31, 2002, the Company had recorded forward exchange contracts designated as cash flow hedges at their fair value. Unrealized gains of \$28 million were included in other assets and unrealized losses of \$16 million were included in current liabilities. The offset was included in other comprehensive income, net of tax, of which approximately \$4 million of net unrealized gains are expected to be reclassified to earnings over the next twelve months as the underlying transactions mature. Gains and losses resulting from these cash flow hedges offset the foreign exchange gains and losses on the underlying assets or liabilities being hedged. The maturity dates of the forward exchange contracts outstanding at December 31, 2002 extend through 2010. Certain immaterial contracts were not designated as effective hedges and therefore were included in other income and expense. The amount charged to other income and expense related to these contracts was less than \$1 million in 2002 and 2001.

The Company has one outstanding interest rate swap agreement related to long-term receivables at Raytheon Aircraft with a notional amount of \$77 million that matures in 2004. Under this agreement, the Company pays interest at a fixed rate of 6.2%, and receives a variable rate equal to one-month LIBOR. The variable rate applicable to this agreement was 1.4% at December 31, 2002. This interest rate swap is considered a cash flow hedge. At December 31, 2002, the Company had recorded the interest rate swap at fair value consisting of an unrealized loss of \$4 million included in current liabilities with the offset included in other comprehensive income, net of tax, of which approximately \$3 million is expected to be reclassified to earnings over the next twelve months. The ineffective portion was not material in 2002 and 2001.

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

	2002			2001		
(In millions)	Buy		Sell	Buy		Sell
British Pounds	\$	438	\$	149	\$	3
European Euros		22		31		31
Australian Dollars		8		6		—
Swiss Francs		—		31		29
All other		12		1		2

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

Foreign currency forward contracts, used only to fix the dollar value of specific commitments and payments to international vendors and the value of foreign currency denominated receipts, have maturities at various dates through 2010 as follows: \$344 million in 2003, \$108 million in 2004, \$82 million in 2005, \$61 million in 2006, and \$103 million thereafter.

#### Note S: Other Income and Expense

The components of other expense (income), net were as follows:

(In millions)	2002	2001	2000
Space Imaging charge	\$ 175	—	—
Equity losses in unconsolidated affiliates	26	\$ 27	\$ 28
Gain on sale of corporate headquarters	(29)	—	—
Gain on sale of investments	(4)	—	—
Gain on sale of the recreational marine business	—	(39)	—
Gain on sale of the aviation support business	—	(35)	—
Gain on sale of the optical systems business	—	—	(30)
Gain on sale of the flight simulation business	—	—	(6)
Other	42	29	20
Total	\$ 210	\$ (18)	\$ 12

Equity losses in unconsolidated affiliates include the Company's share of the operating losses at Space Imaging, Flight Options, and Exostar.

#### Note T: Subsequent Events

In February 2003, the Company entered into a settlement agreement with the U.S. Attorney for the District of Massachusetts, the U.S. Customs Service, and the office of Defense Trade Controls of the U.S. Department of State to resolve the U.S. government's investigation of the contemplated sale by the Company of troposcatter radio equipment to a customer in Pakistan. According to the terms of the settlement, the Company paid a \$23 million civil penalty, which had been accrued prior to 2002, and will spend \$2 million to improve the Company's export compliance program. The Company has agreed to appoint a special compliance officer from outside the Company to oversee the Company's export activities, principally at the communications business of NCS.

## Company Responsibility for Financial Statements

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

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

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



Senior Vice President and  
Chief Financial Officer



Chairman and  
Chief Executive Officer

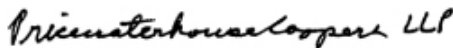
## Report of Independent Accountants

To the Board of Directors and Stockholders of Raytheon Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Raytheon Company and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note F to the consolidated financial statements, the Company changed its method of determining the cost of aircraft inventories from the last-in, first-out (LIFO) basis to the first-in, first-out (FIFO) basis. The change has been applied retroactively by restating the consolidated financial statements for prior years.

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



Boston, Massachusetts

January 21, 2003, except as to the eighth paragraph in Note H as to which the date is February 14, 2003, except as to the information in Note T as to which the date is February 24, 2003, and except as to the second, fifth and tenth paragraphs and all of the tables in Note B as to which the date is March 20, 2003

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

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant**

Information regarding the directors of the Company is contained in the Company's definitive proxy statement for the 2003 Annual Meeting of Stockholders under the captions "The Board of Directors and Board Committees" and "Election of Directors" and is incorporated herein by reference. Information regarding the executive officers of the Company is contained in Part I, Item 4(A) of this Form 10-K. Information required by Item 405 of Regulation S-K is contained in the Company's definitive proxy statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

**Item 11. Executive Compensation**

This information is contained in the Company's definitive proxy statement for the 2003 Annual Meeting of Stockholders under the captions "Executive Compensation," "Pension Plans" and "Executive Employment Agreements" and that information, except for the information required by Item 402(k) and 402(l) of Regulation S-K, is incorporated herein by reference.

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

Information regarding security ownership of certain beneficial owners and for directors and executive officers is contained in the Company's definitive proxy statement for the 2003 Annual Meeting of Stockholders under the caption "Stock Ownership" and is incorporated herein by reference.

The following table provides information as of December 31, 2002 with respect to shares of the Company's common stock that may be issued under the Company's existing equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted - average exercise price of outstanding options, warrants and rights (1)	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans previously approved by security holders	39,754,700	\$40.98	22,048,300 (2)
Equity compensation plans not previously approved by security holders (3)	-0-	—	-0-
<b>Total</b>	<b>39,754,700</b>	<b>\$40.98</b>	<b>22,048,300</b>

(1) The table does not include information regarding options the Company assumed in connection with the acquisitions, in 1997, of the defense business of Texas Instruments Incorporated and the defense business of Hughes Electronics Corporation. The Company only assumed individual options and did not assume any equity compensation plans of either Texas Instruments or Hughes Electronics in connection with the foregoing acquisitions. No further options will be granted beyond those previously assumed in connection with the acquisitions. Assumed options that terminate prior to expiration are not available for re-grant. As of December 31, 2002, there were 2,389,700 shares to be issued upon exercise of the assumed options with a weighted average exercise price of \$41.28.

(2) The number of shares remaining available for future issuance under plans approved by shareholders includes 2,254,700 shares available for stock option grants under the 1995 Stock Option Plan; and 19,793,600 shares available for grant in the form of stock options, stock appreciation rights, stock units and restricted stock under the 2001 Stock Plan, provided that no more than 5,246,300 shares may be issued as stock units or restricted stock under the 2001 Plan.

(3) The 1997 Nonemployee Directors Restricted Stock Plan (the "Directors Plan") is the only Company equity compensation plan that has not been approved by shareholders. The number of shares remaining available for future issuance under plans not approved by shareholders does not include 49,800 shares of restricted stock that may be issued pursuant to the Directors Plan. The Directors Plan provides for the grant of restricted stock to directors of the Company who are not employees of the Company at the time of the grant and who are otherwise eligible to receive awards under the Directors Plan. A maximum of 100,000 shares of common stock were reserved and authorized for issuance pursuant to the Directors Plan. To date, 50,200 shares have been issued pursuant to the Directors Plan. In the event that (i) the Company is acquired by merger, consolidation, or asset sale, or (ii) any person becomes, together with its affiliates and associates, the beneficial owner of more than 25% of the outstanding common stock, without the prior approval of the Board of Directors of the Company, or (iii) the Company is liquidated or dissolved, the shares of the common stock held by a director as stock awards under the Directors Plan will immediately vest in full.

The Directors Plan was originally filed as an exhibit to the Company's Registration Statement on Form S-8 filed on May 30, 1997 and is included as an exhibit to this report.

**Item 13. Certain Relationships and Related Transactions**

This information is contained in the Company's definitive proxy statement for the 2003 Annual Meeting of Stockholders under the caption "Certain Relationships and Related Transactions" and is incorporated herein by reference.



**Item 14. Controls and Procedures**

Within 90 days prior to the filing date of this report, the Company's management conducted an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in alerting them in a timely manner to material information required to be included in the Company's SEC reports. In addition, the Company's management, including the Chief Executive Officer and Chief Financial Officer, reviewed the Company's internal controls, and concluded that there have been no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of the Company's last evaluation.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K**

(a) Financial Statements and Schedules

- (1) The following financial statements of Raytheon Company are included in Item 8 of this Form 10-K:

Consolidated Balance Sheets at December 31, 2002 and 2001

Consolidated Statements of Operations for the Years Ended December 31, 2002, 2001 and 2000

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2002, 2001 and 2000

Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000

Notes to Consolidated Financial Statements for the Year Ended December 31, 2002

- (2) List of financial statement schedules:

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

- (3) The report of Raytheon's independent accountants with respect to the above referenced financial statements may be found in Item 8 on page 59 of this Form 10-K. The auditor's consent with respect to the above-referenced financial statement schedule appears in Exhibit 23.1 to this report on Form 10-K.

(b) Reports on Form 8-K

Raytheon Company Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2003.

(c) Exhibits

- 3.1 Raytheon Company Restated Certificate of Incorporation, restated as of April 2, 2002 filed as an exhibit to Raytheon's Registration Statement on Form S-3, File No. 333-85648, is hereby incorporated by reference.
- 3.2 Raytheon Company Amended and Restated By-Laws, as amended through December 19, 2001 filed as an exhibit to Raytheon's Registration Statement on Form S-3, File No. 333-85648, is hereby incorporated by reference.

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- 3.3 Raytheon Company Certificate of Designation of Preferences and Rights of Series B Junior Participating Preferred Stock filed as an exhibit to Raytheon's Registration Statement on Form S-3, File No. 333-85648, is hereby incorporated by reference.
- 4.1 Indenture relating to Senior Debt Securities dated as of July 3, 1995 between Raytheon Company and The Bank of New York, Trustee, filed as an exhibit to Former Raytheon's Registration Statement on Form S-3, File No. 33-59241, is hereby incorporated by reference.
- 4.2 Indenture relating to Subordinated Debt Securities dated as of July 3, 1995 between Raytheon Company and The Bank of New York, Trustee, filed as an exhibit to Former Raytheon's Registration Statement on Form S-3, File No. 33-59241, is hereby incorporated by reference.
- 4.3 Supplemental Indenture dated as of December 17, 1997 between Raytheon Company and The Bank of New York, Trustee filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 1997, is hereby incorporated by reference.
- 4.4 Second Supplemental Indenture, dated as of May 9, 2001, between Raytheon Company and the Bank of New York, filed as an exhibit to Raytheon's Form 8-K, dated May 10, 2001, is hereby incorporated by reference.
- 4.5 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. 333-85648, is hereby incorporated by reference.
- 4.6 Amendment to Rights Agreement dated as of May 15, 2001 between the Company and State Street Bank and Trust Company, as Rights Agent, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated by reference.
- 4.7 Agreement of Substitution and Amendment of Rights Agreement dated as of March 5, 2002 between the Company and American Stock Transfer and Trust Company, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated by reference.
- 4.8 Form of Senior Debt Securities filed as an exhibit to Raytheon's Registration Statement on Form S-3, File No. 333-58474, is hereby incorporated by reference.
- 4.9 Form of Subordinated Debt Securities filed as an exhibit to Raytheon's Registration Statement on Form S-3, File No. 333-58474, is hereby incorporated by reference.
- 4.10 Certificate of Trust of RC Trust I filed as an exhibit to Raytheon's Registration Statement on Form S-3, File No. 333-58474, is hereby incorporated by reference.
- 4.11 Amended and Restated Declaration of Trust of RC Trust I, dated as of May 9, 2001, among Raytheon Company, The Bank of New York as initial Property Trustee, The Bank of New York (Delaware) as initial Delaware Trustee, and the Regular Trustee, filed as an exhibit to Raytheon's Form 8-K, dated May 10, 2001, is hereby incorporated by reference.
- 4.12 Certificate of Trust of RC Trust II filed as an exhibit to Raytheon's Registration Statement on Form S-3, File No. 333-58474, is hereby incorporated by reference.
- 4.13 Declaration of Trust of RC Trust II filed as an exhibit to Raytheon's Registration Statement on Form S-3, File No. 333-58474, is hereby incorporated by reference.
- 4.14 Purchase Contract Agreement dated May 9, 2001, filed as an exhibit to Raytheon's filing on Form 8-K, dated May 10, 2001, is hereby incorporated by reference.
- 4.15 Form of Preferred Security filed as an exhibit to Raytheon's Form 8-K, dated May 10, 2001, is hereby incorporated by reference.



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- 4.16 Pledge Agreement dated May 9, 2001, among Raytheon Company, Bank One Trust Company, N.A., as Collateral Agent, Custodial Agent and Securities Intermediary and the Bank of New York, as Purchase Contract Agent, filed as an exhibit to Raytheon's Form 8-K/A, dated May 10, 2001, is hereby incorporated by reference.
- 4.17 Form of Remarketing Agreement among Raytheon Company and The Bank of New York as Purchase Contract Agent, filed as an exhibit to Raytheon's Form 8-K, dated May 10, 2001, 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 Quarterly Report on Form 10-Q for the quarter ended July 4, 1999, is hereby incorporated by reference.
- 10.3 Raytheon Company 1995 Stock Option Plan, as amended, filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the Quarter ended July 4, 1999, is hereby incorporated by reference.
- 10.4 Raytheon Company 2001 Stock Plan, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-52535, is hereby incorporated by reference.
- 10.5 Plan for Granting Stock Options in Substitution for Stock Options Granted by Texas Instruments Incorporated, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.
- 10.6 Plan for Granting Stock Options in Substitution for Stock Options Granted by Hughes Electronics Corporation, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.
- 10.7 Raytheon Company 1997 Nonemployee Directors Restricted Stock Plan, filed as an exhibit to the Company's Registration Statement on Form S-8, File No. 333-45629, is hereby incorporated by reference.
- 10.8 Raytheon Company Deferral Plan for Directors, filed as an exhibit to Former Raytheon's Registration Statement on Form S-8, File No. 333-22969, is hereby incorporated by reference.
- 10.9 Form of Executive Change in Control Severance Agreement between the Company and each of the following executives: Franklyn A. Caine, Francis S. Marchilena, Neal E. Minahan, Keith J. Peden, James E. Schuster and William H. Swanson, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated by reference.
- 10.10 Form of Executive Change in Control Severance Agreement between the Company and each of the following executives: Richard A. Goglia, Edward S. Pliner, Rebecca R. Rhoads, and Gregory S. Shelton, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated by reference.
- 10.11 Employment Agreement between Raytheon Company and Daniel P. Burnham, filed as an exhibit to Raytheon's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, is hereby incorporated by reference.
- 10.12 Severance Agreement between Raytheon Company and Daniel P. Burnham, filed as an exhibit to Raytheon's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, is hereby incorporated by reference.
- 10.13 Employment Agreement between Raytheon Company and Franklyn A. Caine, filed as an exhibit to Raytheon's Quarterly Report on Form 10-Q for the quarter ended April 4, 1999, is hereby incorporated by reference.

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- 10.14 Amendment to William H. Swanson's Change in Control Severance Agreement, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 1999, is hereby incorporated by reference.
- 10.15 Employment Agreement between Raytheon Company and Edward S. Pliner, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated by reference.
- 10.16 Retention Agreement between Raytheon Company and Hansel E. Tookes, II, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2000, is hereby incorporated by reference.
- 10.17 Letter Agreement between Raytheon Company and Hansel E. Tookes, II amending the Retention Agreement referenced in Exhibit 10.16 between the parties dated as of April 7, 2000, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated by reference.
- 10.18 Employment Agreement between Raytheon Company and Keith J. Peden, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated by reference.
- 10.19 Transition Agreement between Raytheon Company and Francis M. Marchilena dated September 3, 2002, filed as an exhibit to Raytheon's Quarterly Report on Form 10-Q for the quarter ended September 29, 2002, is hereby incorporated by reference.
- 10.20 Form of Executive Change in Control Severance Agreement between the Company and each of the following executives: Bryan J. Even, Louise L. Francesconi, Charles E. Franklin, Michael D. Keebaugh, Jack R. Kelble, and Colin Schottlaender.\*
- 10.21 Executive Change in Control Severance Agreement between the Company and Thomas M. Culligan.\*
- 10.22 Employment Agreement between Raytheon Company and Thomas M. Culligan.\*
- 10.23 Employment Agreement between Raytheon Company and Jay B. Stephens.\*
- 10.24 Transition Agreement between Raytheon Company and Franklyn A. Caine dated, January 3, 2003.\*
- 10.25 Transition Agreement between Raytheon Company and Neal E. Minahan dated, December 20, 2002.\*
- 10.26 Transition Agreement between Raytheon Company and Hansel E. Tookes, II, dated November 13, 2002.\*
- 10.27 Raytheon Company Executive Severance Policy. \*
- 10.28 Payoff Letter, Consent and Amendment Agreement dated as of November 6, 2002 among Raytheon Aircraft Credit Corporation, Raytheon Aircraft Receivables Corporation, Raytheon Aircraft Company, Raytheon Company and the Purchasers named therein.\*
- 10.29 364 Day Competitive Advance and Revolving Credit Facility dated as of November 25, 2002, among Raytheon Company, as Borrower, Raytheon Technical Services Company and Raytheon Aircraft Company, as Guarantors, the lenders named therein, and J.P. Morgan Chase Bank as Administrative Agent for the lenders.\*

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- 10.30 Five-Year Competitive Advance and Revolving Credit Facility dated as of November 28, 2001, among Raytheon Company, as Borrower, Raytheon Technical Services Company and Raytheon Aircraft Company, as Guarantors, the lenders named therein, and J.P. Morgan Chase Bank as Administrative Agent for the lenders, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated by reference.
- 10.31 First Amendment to the Five-Year Competitive Advance and Revolving Credit Facility dated as of November 28, 2001, among Raytheon Company, as Borrower, Raytheon Technical Services Company and Raytheon Aircraft Company, as Guarantors, the lenders named therein, and J.P. Morgan Chase Bank as Administrative Agent for the lenders, filed as an exhibit to Raytheon's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, is hereby incorporated by reference.
- 10.32 Second Amendment to the Five-Year Competitive Advance and Revolving Credit Facility dated as of November 25, 2002, among Raytheon Company, as Borrower, Raytheon Technical Services Company and Raytheon Aircraft Company, as Guarantors, the lenders named therein, and J.P. Morgan Chase Bank as Administrative Agent for the lenders.\*
- 10.33 Raytheon Savings and Investment Plan, as amended and restated effective January 1, 1999, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated by reference.
- 10.34 Raytheon Savings and Investment Plan, as amended and restated effective January 1, 2000, filed as an exhibit to Raytheon's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, is hereby incorporated by reference.
- 10.35 Raytheon Employee Savings and Investment Plan, as amended and restated effective January 1, 1999, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated by reference.
- 10.36 Raytheon Excess Savings Plan, filed as an exhibit to Post-Effective Amendment No. 1 to the Company's Registration Statement on Form S-8, File No. 333-56117, is hereby incorporated by reference.
- 10.37 Raytheon Deferred Compensation Plan, filed as an exhibit to Post-Effective Amendment No. 1 to the Company's Registration Statement on Form S-8, File No. 333-56117, is hereby incorporated by reference.
- 10.38 Guarantee Agreement, dated as of May 9, 2001, between Raytheon Company and The Bank of New York as initial Guarantee Trustee, filed as an exhibit to Raytheon's Form 8-K, dated May 10, 2001, is hereby incorporated by reference.
- 10.39 Raytheon Supplemental Executive Retirement Plan, filed as an exhibit to Raytheon's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated by reference.
- 10.40 Settlement Agreement between Raytheon Company, Raytheon Engineers and Constructors International, Inc. and Washington Group International, Inc. dated January 23, 2002.\*
- 12 Statement regarding Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends for the year ended December 31, 2002. \*
- 21 Subsidiaries of Raytheon Company. \*

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- 23.1 Consent of Independent Accountants.\*
- 23.2 Preferability Letter of Independent Accountants.\*
- 24 Power of Attorney.\*
- 99.1 Certificate of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 99.2 Certificate of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

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

**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/ EDWARD S. PLINER

**Edward S. Pliner**  
Senior Vice President and Chief  
Financial  
Officer for the Registrant

Dated: March 24, 2003

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.

<u>SIGNATURES</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ DANIEL P. BURNHAM</u> Daniel P. Burnham	Chairman and Chief Executive Officer (Principal Executive Officer)	March 24, 2003
<u>/s/ BARBARA M. BARRETT</u> Barbara M. Barrett	Director	March 24, 2003
<u>/s/ FERDINAND COLLOREDO-MANSFELD</u> Ferdinand Colloredo-Mansfeld	Director	March 24, 2003
<u>/s/ JOHN M. DEUTCH</u> John M. Deutch	Director	March 24, 2003
<u>/s/ THOMAS E. EVERHART</u> Thomas E. Everhart	Director	March 24, 2003
<u>/s/ FREDERIC M. POSES</u> Frederic M. Poses	Director	March 24, 2003
<u>/s/ WARREN B. RUDMAN</u> Warren B. Rudman	Director	March 24, 2003

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/s/ MICHAEL C. RUETTGENS	Director	March 24, 2003
Michael C. Ruettgers		
/s/ RONALD L. SKATES	Director	March 24, 2003
Ronald L. Skates		
/s/ WILLIAM R. SPIVEY	Director	March 24, 2003
William R. Spivey		
/s/ JOHN H. TILELLI, JR.	Director	March 24, 2003
John H. Tilelli, Jr.		
/s/ EDWARD S. PLINER	Senior Vice President and Chief Financial Officer (Principal Accounting Officer)	March 24, 2003
Edward S. Pliner		

CERTIFICATION

I, Daniel P. Burnham, certify that:

- 1) I have reviewed this annual report on Form 10-K of Raytheon Company;
- 2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- 6) The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ DANIEL P. BURNHAM

**Daniel P. Burnham**  
Chairman and Chief Executive Officer

March 24, 2003

CERTIFICATION

I, Edward S. Pliner, certify that:

- 1) I have reviewed this annual report on Form 10-K of Raytheon Company;
- 2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- 6) The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ EDWARD S. PLINER

Edward S. Pliner  
Senior Vice President and Chief Financial Officer

March 24, 2003



RAYTHEON COMPANY  
CHANGE IN CONTROL SEVERANCE AGREEMENT

Agreement by and between Raytheon Company, a Delaware corporation (the "Company"), and \_\_\_\_\_ ("Executive") dated as of \_\_\_\_\_, 2002.

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

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

1 DEFINITIONS

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

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

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

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

1.4 "Cause" means Executive's:

- (i) willful and continued failure to perform substantially Executive's duties with the Company or one of its affiliates as such duties are constituted as of a Change in Control after the Company delivers to Executive written demand for substantial performance specifically identifying the manner in which Executive has not substantially performed Executive's duties;
- (ii) conviction for a felony; or
- (iii) willfully engaging in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

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

and specifying the particulars thereof in detail.

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

- (i) Any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person"), other than those Persons in control of the Company as of the date hereof or a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, become the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities; or
- (ii) A change in the Board such that individuals who as of the date hereof constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board; or

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

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

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

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

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

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

- (iii) reducing Executive's Base Salary;
- (iv) materially reducing in the aggregate Executive's incentive opportunities under the Company's or an affiliated company's short- and long-term

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incentive programs as such opportunities exist immediately prior to a Change in Control;

- (v) materially reducing Executive's targeted annualized award opportunities and/or the degree of probability of attainment of such annualized award opportunities as such opportunities exist immediately prior to a Change in Control;
- (vi) failing to maintain Executive's amount of benefits under or relative level of participation in the Company's or an affiliated Company's employee benefit or retirement plans, policies, practices or arrangements in which the Executive participates immediately prior to a Change in Control;
- (vii) purportedly terminating Executive's employment otherwise than as expressly permitted by this Agreement; or
- (viii) failing to comply with and satisfy Section 8.3 hereof by requiring any successor to the Company to assume and agree to perform the Company's obligations hereunder.

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

- (i) the Company terminates the employment of Executive for any reason other than for Cause including, without limitation, forcing Executive to retire on any date not of Executive's choosing;
- (ii) Executive terminates employment with the Company for Good Reason;
- (iii) the Company fails to require a successor to assume, or a successor refuses to assume, the Company's obligations as required by Section 8 hereof; or
- (iv) the Company or any successor breaches any of the provisions hereof.

1.9 "Severance Benefits" means:

- (i) an amount equal to the product of Executive's Base Salary multiplied by two (2);
- (ii) an amount equal to Executive's unpaid Base Salary through a Qualifying Termination;

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- (iii) an amount equal to the product of the greater of (a) Executive's annual bonus earned for the fiscal year immediately prior to a

Change in Control and (b) Executive's target annual bonus established for the plan year in which a Qualifying Termination occurs multiplied by two (2);

- (iv) an amount equal to the product of Executive's unpaid targeted annual bonus established for the plan year in which a Change in Control occurs multiplied by a fraction the numerator of which is the number of days elapsed in the current fiscal year to the Qualifying Termination and the denominator of which is 365;
- (v) an amount equal to the dollar value of Executive's accrued vacation through a Qualifying Termination;
- (vi) an amount equal to all compensation deferred by Executive together with all interest thereon;
- (vii) an amount equal to the actuarial present value of the aggregate benefits accrued by Executive as of a Qualifying Termination under the Company's supplemental retirement plan calculated assuming that Executive's employment continued for two years following a Qualifying Termination; provided, however, that for purposes of determining Executive's final average pay under the supplemental retirement plan, Executive's actual pay history as of the Qualifying Termination shall be used; and
- (viii) fringe benefits pursuant to all welfare, benefit and retirement plans under which Executive and Executive's family are eligible to receive benefits or coverage as of a Change in Control, including but not limited to life insurance, hospitalization, disability, medical, dental, pension and thrift plans.

## 2 QUALIFYING TERMINATION

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

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

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

## 3 NON-QUALIFYING TERMINATIONS

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

## 4 NOTICE OF TERMINATION

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

- (i) indicates the specific termination provision in this Agreement relied upon;
- (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision indicated to the extent possible; and
- (iii) specifies the termination date (which date shall not be more than 30 days after the giving of such notice).

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

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## 5 TAX PAYMENTS

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

(ii) Subject to the provisions of Subsection 5(iii), all determinations required to be made under this Section 5, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by PricewaterhouseCoopers or such other certified public accounting firm as may be designated by Executive (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the Company. If the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 5, shall be paid by the

Company to Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the

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application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. If the Company exhausts its remedies pursuant to Subsection 5(iii) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

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

- (a) give the Company any information reasonable requested by the Company relating to such claim,
- (b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
- (c) cooperate with the Company in good faith in order effectively to contest such claim, and
- (d) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Subsection 5(iii), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing

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authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or to contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis, and shall indemnify and hold Executive

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

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

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

## 6 EXTENT OF COMPANY'S OBLIGATIONS

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

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

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

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

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

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

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

## 8 SUCCESSORS

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

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

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

## 9 MISCELLANEOUS

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

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

if to the Company: Raytheon Company  
141 Spring Street  
Lexington, Massachusetts 02421  
Attention: General Counsel

if to Executive:

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

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

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



9.5 Employment Status. Executive and Company acknowledge that except as may otherwise be provided under any other written agreement between Executive and the Company, the employment of Executive by the Company is "at will" and prior to a Change in Control may be terminated at any time by Executive or the Company. Following a Change in Control, the provisions of this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

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

RAYTHEON COMPANY

By:

-----  
Keith J. Peden  
Senior Vice President,  
Human Resources

-----  
Executive

RAYTHEON COMPANY  
CHANGE IN CONTROL SEVERANCE AGREEMENT

Agreement by and between Raytheon Company, a Delaware corporation (the "Company"), and Thomas M. Culligan ("Executive") dated as of \_\_\_\_\_, 2001.

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

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

1 DEFINITIONS

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

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

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

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

1.4 "Cause" means Executive's:

- (i) willful and continued failure to perform substantially Executive's duties with the Company or one of its affiliates as such duties are constituted as of a Change in Control after the Company delivers to Executive written demand for substantial performance specifically identifying the manner in which Executive has not substantially performed Executive's duties;
- (ii) conviction for a felony; or
- (iii) willfully engaging in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

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

heard before the Board) finding that in the good faith opinion of the Board Executive is guilty of the conduct described in subsection (i) or (iii) above and specifying the particulars thereof in detail.

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

- (i) Any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person"), other than those Persons in control of the Company as of the date hereof or a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, become the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities; or
- (ii) A change in the Board such that individuals who as of the date hereof constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent

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Board shall be considered as though such individual were a member of the Incumbent Board; or

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

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

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

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

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

Executive's position, authority, duties or responsibilities as constituted immediately prior to a Change in Control;

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

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- (iv) materially reducing in the aggregate Executive's incentive opportunities under the Company's or an affiliated company's short- and long-term incentive programs as such opportunities exist immediately prior to a Change in Control;
- (v) materially reducing Executive's targeted annualized award opportunities and/or the degree of probability of attainment of such annualized award opportunities as such opportunities exist immediately prior to a Change in Control;
- (vi) failing to maintain Executive's amount of benefits under or relative level of participation in the Company's or an affiliated Company's employee benefit or retirement plans, policies, practices or arrangements in which the Executive participates immediately prior to a Change in Control;
- (vii) purportedly terminating Executive's employment otherwise than as expressly permitted by this Agreement; or
- (viii) failing to comply with and satisfy Section 8.3 hereof by requiring any successor to the Company to assume and agree to perform the Company's obligations hereunder.

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

- (i) the Company terminates the employment of Executive for any reason other than for Cause including, without limitation, forcing Executive to retire on any date not of Executive's choosing;
- (ii) Executive terminates employment with the Company for Good Reason;
- (iii) the Company fails to require a successor to assume, or a successor refuses to assume, the Company's obligations as required by Section 8 hereof; or
- (iv) the Company or any successor breaches any of the provisions hereof.

1.9 "Severance Benefits" means:

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

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

- (iii) an amount equal to the product of the greater of (a) Executive's annual bonus earned for the fiscal year immediately prior to a Change in Control and (b) Executive's target annual bonus established for the plan year in which a Qualifying Termination occurs multiplied by three (3);
- (iv) an amount equal to the product of Executive's unpaid targeted annual bonus established for the plan year in which a Change in Control occurs multiplied by a fraction the numerator of which is the number of days elapsed in the current fiscal year to the Qualifying Termination and the denominator of which is 365;
- (v) an amount equal to the dollar value of Executive's accrued vacation through a Qualifying Termination;
- (vi) an amount equal to all compensation deferred by Executive together with all interest thereon;
- (vii) an amount equal to the actuarial present value of the aggregate benefits accrued by Executive as of a Qualifying Termination under the Company's supplemental retirement plan calculated assuming that Executive's employment continued for three years following a Qualifying Termination; provided, however, that for purposes of determining Executive's final average pay under the supplemental retirement plan, Executive's actual pay history as of the Qualifying Termination shall be used; and
- (viii) fringe benefits pursuant to all welfare, benefit and retirement plans under which Executive and Executive's family are eligible to receive benefits or coverage as of a Change in Control, including but not limited to life insurance, hospitalization, disability, medical, dental, pension and thrift plans.

## 2 QUALIFYING TERMINATION

2.1 Severance Benefits. Following a Qualifying Termination Executive shall be entitled to all Severance Benefits, conditioned upon receipt of a written release by the Executive of any claims against the Company or its subsidiaries, except those claims arising under this Agreement or any other written plan or agreement, which shall be specifically noted in such release. Executive agrees that, in the event of a Qualifying Termination, there shall be no pyramiding of severance benefits. Specifically, Executive

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agrees that his sole entitlement in the event of a Qualifying Termination is to the severance benefits as set forth in paragraph 1.9, and he shall not be entitled to severance benefits as provided in his Offer of Employment letter of December 4, 1998, nor under any other Company policy, procedure, or plan, including General Policies and Procedures, Subject: Severance Pay Plan, File Code 33-0003-110.

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

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

## 3 NON-QUALIFYING TERMINATIONS

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

#### 4 NOTICE OF TERMINATION

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

- (i) indicates the specific termination provision in this Agreement relied upon;
- (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision indicated to the extent possible; and
- (iii) specifies the termination date (which date shall not be more than 30 days after the giving of such notice).

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

#### 5 TAX PAYMENTS

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

(ii) Subject to the provisions of Subsection 5(iii), all determinations required to be made under this Section 5, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by

PricewaterhouseCoopers or such other certified public accounting firm as may be designated by Executive (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the Company. If the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in

Control, Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 5, shall be paid by the Company to Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. If the Company exhausts its remedies pursuant to Subsection 5(iii) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

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

- (a) give the Company any information reasonable requested by the Company relating to such claim,
- (b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
- (c) cooperate with the Company in good faith in order effectively to contest such claim, and
- (d) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Subsection 5(iii), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any

and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or to contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis, and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

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

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

## 6 EXTENT OF COMPANY'S OBLIGATIONS

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

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

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

6.4 Arbitration. Executive shall have the right to have settled by



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

7 TERM

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

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

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

8 SUCCESSORS

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

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

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

9 MISCELLANEOUS

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

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

if to the Company: Raytheon Company  
141 Spring Street  
Lexington, Massachusetts 02421  
Attention: General Counsel

if to Executive: Thomas M. Culligan

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

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

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

9.5 Employment Status. Executive and Company acknowledge that except as may otherwise be provided under any other written agreement between Executive and the Company, the employment of Executive by the Company is "at will" and prior to a Change in Control may be terminated at any time by Executive or the Company. Following a Change in Control, the provisions of this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

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

RAYTHEON COMPANY

By: /s/ Keith J. Peden

/s/ Thomas M. Culligan

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Keith J. Peden  
Senior Vice President,  
Human Resources

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Thomas M. Culligan

July 25, 2001

Mr. Thomas M. Culligan

Dear Tom,

I am pleased to confirm your total compensation package as an elected Senior Vice President of the Company. The total compensation package that comes with your new role is as follows:

Your Total Executive Compensation Package is as Follows:

- . Cash Compensation
  - . Base Salary -\$375,000
  - . Results Based Incentive Target 75% of base salary or \$281,250
- . Raytheon Equity
  - . Stock options - 50,000 vested in one-thirds annually for three years
  - . Long Term Achievement Plan - 19,500 vested in thirds after 15% growth incrementally in stock price
  - . Restricted Shares - 10,000 - with restrictions lapsing in thirds over three years
- . Financial Planning Benefit
  - . First year allowance of \$15,000
  - . Ongoing allowance of \$12,000
- . Enhanced Life Insurance
  - . Senior Executive Life Insurance provided for by the Company equal to four times your base annual salary
  - . Basic Life Insurance provided for by the Company equal to one times your base annual salary
  - . Availability of Optional Life Insurance up to five times your annual base salary
- . Enhanced Pension Benefit
  - . 35% of final average earnings after 10 years of service
  - . 50% of final average earnings after 15 years of service
  - . Final average earnings = highest five years of earnings out of last ten
  - . All pension benefits offset by social security and any pension benefit received from a prior employer
- . Excess Liability Coverage
  - . Of \$5,000,000
- . Executive Physical Allowance
  - . \$2,000 annual allowance
- . Inclusion in the Executive Registry for Physician Referral While Traveling
- . Executive Automobile Lease
  - . \$18,000 annual lease value including fuel, maintenance and insurance.
- . Change-In-Control
  - . A Change-In-Control (C-I-C) Agreement equivalent to three times your base salary and targeted Results Based Incentive Plan at the date of a C-I-C
  - . Legal document for signature and return enclosed

Should you have any questions about your executive total compensation package, please do not hesitate to call me for clarification.

Sincerely,

/s/ Keith J. Peden

Keith J. Peden

Attachments

August 21, 2002

Mr. Jay B. Stephens

Dear Jay:

It is my sincere pleasure to extend to you an offer for the position of Senior Vice-President, General Counsel for Raytheon Company reporting to me. You will be a great addition to my Leadership Team. Your position will be an officer of the corporation and, along with the compensation outlined below, is subject to election by the Raytheon Board of Directors.

The offer is a base salary of \$500,000 annually, residing in Raytheon's Corporate Offices in Lexington, Massachusetts.

Additional elements of this offer will consist of the following:

- . You will be eligible for the Results Based Incentive Program (RBI) with a targeted incentive of 100% of base salary. This incentive will be pro rated and guaranteed in the first year.
- . Pending approval of the Management Development Compensation Committee of the Raytheon Board of Directors, you will be awarded 140,000 Raytheon stock options subject to the provisions of the Raytheon Stock Option Plan. These options will vest at one-third each year, over 3 years.
- . Pending approval of the Management Development Compensation Committee of the Raytheon Board of Directors, you will be awarded 75,000 shares of restricted stock subject to the provisions of the Raytheon Stock Plan. These shares will have restrictions lapse at a rate of one-third each year, over 3 years.
- . You will be eligible to participate in Raytheon's Long Term Achievement Program (LTAP). Beginning in January 2003, we will authorize 80% of your base salary in stock options which are performance based and vested on stock price appreciation at a value that is pre-determined in each annual plan.
- . Eligibility to participate in Raytheon's Deferred Bonus Program.
- . If the Company without cause involuntarily separates you from employment, you will be entitled to a Separation Payment, to be paid in the lump sum, of two (2) years' compensation (base/bonus).
- . A Change of Control agreement of three times base and bonus with addition of three years added to age and service for pension - detailed agreement attached for your review.
- . Your Executive Pension Benefit will be calculated using the following:
  - . 35% of final average earnings after 10 years of service

Page 2 of 4

- . 50% of final average earnings after 15 years of service
  - . Final average earnings = highest five years of earnings out of last ten

- . All pension benefits offset by social security and any pension benefit received from a prior employer.
- . Should you not obtain ten years of service with the Company, your pension benefit will be provided under the terms of the Raytheon Salaried Pension Plan.
- . Participation in the Raytheon Health and Welfare Benefit Programs, as well as Raytheon's 401(k) plan with 4% Company match.

#### Executive Perk Benefits

- . 20 days per year of Paid Time Off.
- . You will be provided with a choice of a Company automobile or an allowance of \$18,000 per year.
- . Senior Executive Life insurance of four (4) times your annual base salary, including basic life insurance provided for by the Company. Availability of Optional Life Insurance up to five (5) times your annual base salary.
- . Financial planning assistance of \$15,000 during the first year, \$12,000 per year thereafter.
- . Excess liability coverage of \$5 million.

#### Executive Relocation

- . Company paid relocation to the Boston, MA area under the Domestic Key Employees Policy including the following benefits.
  - . Purchase of your current residence
  - . Home search assistance
  - . Temporary living expenses
  - . New home purchase assistance
  - . Shipment of household goods
  - . Travel to new location
  - . Tax assistance
  - . Two months pay for miscellaneous expenses associated with the move

Page 3 of 4

This offer is contingent upon your meeting the requirements on the enclosed Minimum Conditions for Hire document. If you believe any of the terms or conditions in this letter are not consistent with your understanding, or if you have any questions, please don't hesitate to contact Keith Peden, or me for clarification.

Acceptance of the offer will be considered an acceptance to all the terms and conditions listed in the offer and attachments. Please sign below to indicate your acceptance and return this offer letter to me in the enclosed envelope. The duplicate letter is a copy for your records.

Jay, I am excited about the potential of you joining the team. I look forward to

a swift and favorable response.

Yours truly,

Daniel P. Burnham

Chairman and Chief Executive Officer

cc: Keith Peden, Senior Vice-President Human Resources Warren Rudman, Raytheon  
Board of Director

Enclosures:

Duplicate Offer Letter  
Return Envelope  
Minimum Conditions of Hire  
Change in Control Agreement  
Relocation Policy

Jay B. Stephens

I have read and accept this offer and acknowledge receipt of all attachments  
referred to herein.

Page 4 of 4

/s/ Jay B. Stephens

9/20/02

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Signature

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Date

December 20, 2002

Mr. Franklyn A. Caine

Re: Transition Agreement

Dear Frank:

Please accept this letter confirming the understandings we have reached with respect to your separation from Raytheon Company, your resignation as an officer of the companies listed in Attachment A hereto and your transition to retirement.

1. Notice Period: The effective date of your separation from active employment with Raytheon will be January 2, 2003. In lieu of payment of any accrued but unused Personal Time Off benefits you may have as of January 2, 2003, you will be placed in a notice period from January 3, 2003 through March 8, 2003. During this notice period you will be treated for pay and benefit purposes as being an active employee.

2. Transition Period: Effective March 9, 2003, you will begin a transition-to-retirement period which shall continue for 104 weeks through March 8, 2005 (hereinafter the "Transition Period"). If you die prior to the end of the Transition Period, your estate will receive the remainder of the bi-weekly salary payments provided for in this paragraph. During the Transition Period, you will be treated as an active employee and will be paid your normal salary on a bi-weekly basis, and will participate in company-sponsored employee welfare and benefit plans and executive perquisites, except that 1) you will be paid a lump sum amount in lieu of a continuing automobile allowance, and 2) the base life insurance under the executive benefit program will end as of January 2, 2003/1/. At the end of each fifty-two (52) week period during the Transition Period, you, or your estate, will receive a Results Based Incentive (RBI) Bonus at 100% of your 2002 RBI target. Your base salary shall be fixed as of the date of this Agreement, and you will not be eligible to receive any merit increase or stock option awards subsequent to that date.

3. Results Based Incentive: 2002: You will be eligible to receive a Results Based Incentive Bonus for 2002 based on established corporate performance metrics.

4. Stock Options: Except as provided in paragraph 5 below, for vesting purposes, your last day worked shall be January 2, 2003. During the Transition Period,

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/1/ Attached at B is a list of those welfare and benefit plans in which you may participate on an active employee basis during the Transition Period.

-2-

you or your estate may exercise any option which had vested by January 2, 2003, as provided by the Stock Option Plan under which the options were awarded. Following the Transition Period (March 8, 2005), any vested but unexercised options may be exercised for the period provided for retired employees or their estates under the Stock Option Plan.

5. Stock Option Acceleration: The Management Development and Compensation Committee of the Board of Directors has approved amending the stock option award granted you on February 25, 2000, to provide that those options which were scheduled to vest on February 25, 2003, (25,000 Incentive Stock Options and non-qualified options at the option price of \$19.375) shall now vest on January 1, 2003. The exercise of these options shall be governed by the terms



of the Stock Option Plan under which they were awarded, except as modified by paragraph 4 above.

6. Supplemental Retirement Payment: Pursuant to the terms of your offer letter of February 22, 1999, you will be entitled to a retirement benefit using the calculation formula and other applicable terms and conditions contained in the Raytheon Company Pension Plan for Salaried Employees and the Raytheon Excess Pension Plan, calculated using your service with Raytheon, the 104 weeks of the Transition Period, and your twenty-six (26) years of combined service with New Jersey Bell, Exxon Corp., Penn Central, RCA, United Technologies and Wang. The Final Average Earnings will include those sums received during the Transition Period. This retirement benefit shall be offset by any cash benefits you are immediately entitled to receive under any defined-benefit pension plan of any of the companies listed above, as well as any amounts you are entitled to receive from Social Security at the earliest eligibility date. Before commencement of your retirement benefit from Raytheon, you will be required to provide the Company with sufficient information regarding your retirement benefits from the companies listed above to enable Raytheon to calculate your final pension benefit.

If you die prior to the end of the Transition Period, a pension will be paid to your wife as provided under the Raytheon Excess Pension Plan and will be based on the assumption that you have a vested benefit under the Raytheon Company Pension Plan for Salaried Employees based on the service credit described in the preceding paragraph. Your spouse will be entitled to the retirement benefit she would have been entitled to if you had remained employed through the end of the Transition Period, then retired and elected a joint and 50% survivor annuity and then died.

7. Transition Services: A lump sum payment of Twenty Thousand Dollars (\$20,000) will be made available to assist with transition services expenses. This lump sum payment will be subject to required statutory withholdings.

8. Mutual Release: You and Raytheon agree to execute the Mutual Release attached hereto in exchange for the consideration contained in this Transition Agreement. The Mutual Release shall be executed on or about your last day of active employment.

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9. Litigation Cooperation: You agree that, in the event that Raytheon Company becomes a party in any legal or administrative proceeding or asserted claim relating to events which occurred during your employment, you will cooperate to the fullest extent reasonably possible in the preparation and presentation by Raytheon Company in the prosecution or defense, including without limitation the execution of affidavits or other documents providing information requested by Raytheon Company. In the event that such litigation cooperation would be expected to require an appreciable period of time, which would result in any out-of-pocket cost or lost economic opportunity on your part, the Company agrees to provide an appropriate fee to offset such items.

10. Indemnification: You will be entitled to the indemnifications provided pursuant to Article X, Section 2 of Raytheon's Certificate of Incorporation. In addition, you shall be entitled to the benefit of any directors and officers liability insurance policy or fiduciary liability insurance policy maintained by Raytheon for the benefit of its officers, directors or fiduciaries, as in effect from time to time, in each case concerning matters related to your performance as an officer, director or fiduciary of Raytheon or any Raytheon pension plan.

11. Security Clearance: In the course of your employment at Raytheon Company, you may have come into possession of or exposure to matters due to your security clearance. Raytheon Company reminds you that disclosure of any information which came to you as a result of your security clearance, including work product, company plans and other matters, shall not be discussed or

revealed in any way, except if required to do so pursuant to a proceeding instituted by an appropriate government agency or at the request of an authorized company agent.

12. Confidential and Proprietary Information: You agree to keep all confidential and proprietary information of the Company, its subsidiaries and affiliated companies, including joint venture partners, strictly confidential except to the extent disclosure is required by law or court order, except to the extent that such confidential and proprietary information has become public through no fault of your own.

13. Confidentiality of This Agreement: You and Raytheon Company mutually agree to keep the terms and conditions of this Agreement confidential and will not disclose the terms hereof to anyone, except to immediate family members, tax accountants, lawyers, financial advisors, the Internal Revenue Service or any other taxing authority, and the Division of Employment and Training in connection with any application you may make for unemployment compensation benefits, and/or others who have a reasonable need to know the terms hereof.

14. Insider Information: In your capacity as a senior executive, you were a Restricted Employee for purposes of Raytheon's General Policies and Procedures 90-0021-110; Subject: Insider Trading/Personal Securities Transactions. As such, pursuant to Section 4.3 of this policy, you must comply with the Trading Window limitation for the three-month period ending on April 2, 2003.

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15. Arbitration: Any dispute arising under this Agreement shall be settled exclusively through arbitration. Such arbitration shall be conducted in accordance with the rules of the American Arbitration Association before a panel of three arbitrators sitting in a city to be determined by mutual agreement. The decision of the arbitration panel shall be final and binding on both parties. Judgment may be entered on the award of the arbitrators in any court having proper jurisdiction.

16. Entirety of Agreement: This Agreement supersedes all previous agreements, written or oral, between Raytheon Company and you relating to the subject matter of this Agreement. This Agreement may not be modified, changed or discharged, in whole or in part, except by an agreement in writing signed by the Company and you.

You understand that, if you elect to revoke the Release attached hereto within seven (7) days after its execution, this letter Agreement shall be null and void and each party will have all rights and obligations afforded them under the law as if this Letter Agreement had not been signed by the parties and as if the Release had never been signed by you. You agree, in the event of revocation of the Release, to immediately return any consideration received in support of said Release.

If you have any questions about this Agreement, please contact me.

Sincerely,

/s/ Keith J. Peden

Keith J. Peden  
Senior Vice President, Human Resources

ACCEPTED:

/s/ Franklyn A. Caine

Date: 1/02/03

-----  
Franklyn A. Caine

# MUTUAL RELEASE

I agree to accept the benefits and payments set forth in the immediately preceding Transition Agreement as full satisfaction in all respects of any and all obligations of any kind which might otherwise be due me from Raytheon Company. I hereby specifically waive, remise, release and forever discharge Raytheon Company, its affiliates, subsidiaries, directors, officers, employees, agents and successors (hereinafter referred to as "Raytheon") from all manner of claims, liabilities, demands and causes of action, known or unknown, fixed or contingent (hereinafter "claims"), which I may have or claim to have against Raytheon as a result of my employment and the termination thereof, and do hereby covenant not to file or commence a lawsuit or administrative proceeding against Raytheon to assert any such claims. I understand that this Mutual Release encompasses all claims, except those arising under the terms of the Transition Agreement by and between Raytheon and me, arising under federal, state or local law, including but not limited to claims under the Age Discrimination in Employment Act ("ADEA") or claims arising under any theory of wrongful discharge. This Mutual Release is binding upon my successors, heirs, executors and administrators but does not waive any rights or claims which relate to events occurring after the date this Mutual Release is executed.

Raytheon Company and all benefit plans thereof hereby specifically waive, remise, release and forever discharge Franklyn A. Caine from all claims, as that term is defined above.

I understand and agree that, under the Older Workers Benefit Protection Act of 1990 ("Act"), this waiver of rights under ADEA must be knowing and voluntary and that, by execution of this Mutual Release, I acknowledge that the following requirements of the Act to insure that such a waiver is knowing and voluntary have been met:

- (a) The waiver is part of an agreement between me and Raytheon, and I understand the impact of this waiver;
- (b) The waiver specifically refers to rights or claims arising under ADEA;
- (c) I am not waiving rights or claims that may arise after the date the waiver is executed;
- (d) My waiver of rights or claims is in exchange for consideration in addition to anything of value to which I am already entitled;
- (e) I have been advised to consult with an attorney prior to executing this Mutual Release;

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- (f) I understand that I am to be given a period of twenty-one days within which to consider the Mutual Release; and
- (g) If this Mutual Release is executed, I understand that I may revoke the Mutual Release during the seven-day period following its execution and that the Mutual Release shall not become effective or enforceable until the revocation period has expired.

I have read carefully and fully understand all the provisions of this Mutual Release, including my rights under the Act. I acknowledge that this Mutual Release sets forth the entire agreement between me and Raytheon with respect to additional consideration being provided to me and that I have not relied upon any representation or statement, written or oral, not set forth in this document.

RAYTHEON COMPANY

By: /s/ Keith J. Peden

/s/ Franklyn A. Caine

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Keith J. Peden  
Senior Vice President,  
Human Resources

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Franklyn A. Caine

Date: \_\_\_\_\_

Date: \_\_\_\_\_

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ATTACHMENT A to  
FRANKLYN A. CAINE TRANSITION AGREEMENT

OFFICERSHIPS AND DIRECTORSHIPS

COMPANY	TITLE
Raytheon Company	Senior Vice President and Chief Financial Officer
Raytheon Credit Company	Director and President
Raytheon Exchange Holdings, Inc.	Vice President - Finance
Raytheon Exchange Holdings II, Inc.	Vice President - Finance
Raytheon Exchange Holdings III, Inc.	Vice President - Finance
Raytheon Exchange Holdings IV, Inc.	Vice President - Finance
Raytheon Exchange Holdings V, Inc.	Vice President - Finance
Raytheon Investment Company	Director and President
Space Imaging, Inc.	Director

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ATTACHMENT B TO  
FRANKLYN A. CAINE TRANSITION AGREEMENT

HEALTH AND WELFARE BENEFITS  
CONTINUED DURING TRANSITION PERIOD

- . Medical
- . Vision
- . Dental
- . Executive split dollar life insurance
- . Financial planning
- . Executive registry program
- . Executive annual physical benefit

December 20, 2002

Mr. Neal E. Minahan

Re: Transition Agreement

Dear Neal:

Please accept this letter confirming the understandings we have reached with respect to your continued employment with Raytheon Company, your resignation as an officer and/or director of the companies listed in Attachment A hereto, and your transition to retirement.

1. Separation Date: Your separation from Raytheon will be effective March 31, 2003 unless otherwise accelerated by mutual agreement.

2. Separation Compensation: You will receive salary continuance payments at your current base salary for a maximum of twenty-four (24) months. You will also be entitled to receive a maximum of two (2) year's targeted Results Based Incentive Bonus ("RBI") to be paid at 100% of the 2002 target in March 2004 and 2005.

3. Personal Time Off ("PTO"): You will be paid your unused accrued PTO within 20 days of your last day worked.

4. Retirement: You are eligible for pension benefits pursuant to the Raytheon Company Pension Plan for Salaried Employees (the "Plan"). You will be eligible for unreduced retirement benefit under the Plan when you reach age 60.

5. Fringe Benefits: You may continue, on an active employee basis, in Company-sponsored medical, dental, vision care, HCRA, Executive Life Insurance, excess liability, executive physical and Executive Registry programs for two (2) years from the separation date.

6. Executive Perquisites: The financial and estate planning services provided in accordance with the Raytheon Executive Perquisite Program shall continue through the end of the salary continuance period. In addition, you will continue to receive the Company-provided automobile through the term of the salary continuance period.

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7. Stock Options: For those stock options which are vested as of your last day worked, you may exercise such options pursuant to the terms of the 1995 Stock Option Plan as a retired employee. Options that would have vested in May of 2003 will have their vesting accelerated to your last day worked and may be exercisable in accordance with the plan as if you retired more than one year from the date of grant.

8. Restricted Stock: Restricted Stock that would have had restrictions lapse on June 27, 2003 will have their lapsing accelerated to your last day worked.

9. General Release: You will execute the General Release attached hereto.

10. Litigation Cooperation: You agree that, in the event that Raytheon Company becomes a party in any legal or administrative proceeding or asserted claim relating to events which occurred during your employment, you will cooperate to the fullest extent reasonably possible in the preparation and

presentation by Raytheon Company in the prosecution or defense, including without limitation the execution of affidavits or other documents providing information requested by Raytheon Company. In the event that such litigation cooperation would be expected to require an appreciable period of time, which would result in any out-of-pocket cost or lost economic opportunity on your part, the Company agrees to discuss at that time an appropriate fee to offset such costs.

11. Ethics Compliance: You hereby represent and warrant that, to the best of your knowledge, you have complied in full with all Raytheon Company policies related to ethics, and have disclosed to Raytheon Company all matters which were required to be disclosed by said policies. In particular, you represent and warrant that, to the best of your knowledge except as so disclosed by you, you have no information which you believe could be the basis for any charge of a violation of law by Raytheon Company or persons associated with Raytheon Company, including but not limited to violations of the False Claims Act or any federal or state environmental statute.

12. Security Clearance: In the course of your employment at Raytheon Company, you may have come into possession of or exposure to matters due to your security clearance. Raytheon Company reminds you that disclosure of any information which came to you as a result of your security clearance, including work product, company plans and other matters, shall not be discussed or revealed in any way, except if required to do so pursuant to a proceeding instituted by an appropriate government agency or at the request of an authorized company agent.

13. Confidential and Proprietary Information: You agree to keep all confidential and proprietary information of the Company, its subsidiaries and affiliated

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companies, including joint venture partners, strictly confidential except to the extent disclosure is required by law or court order, except to the extent that such confidential and proprietary information has become public through no fault of your own.

14. Confidentiality of This Agreement: You and Raytheon Company mutually agree to keep the terms and conditions of this Agreement confidential and will not disclose the terms hereof to anyone, except to immediate family members, tax accountants, lawyers, financial advisors, the Internal Revenue Service or any other taxing authority, and the Division of Employment and Training in connection with any application you may make for unemployment compensation benefits, and/or others who have a reasonable need to know the terms hereof.

15. Insider Information: In the course of your responsibilities you may constitute an "insider" for securities law purposes. We would like to remind you that any financial plan, program, estimate or matter not readily available to the general public shall be kept in strictest confidence and may not be disclosed or discussed.

16. Non-Disparagement Agreement: You and Raytheon Company mutually agree not to disparage one another. Raytheon Company, its officers, directors and employees, and you shall have the right to make truthful responses to any charges, accusations or allegations, and no such response shall be considered a breach of this non-disparagement agreement.

17. Arbitration: Any dispute arising under this Agreement shall be settled exclusively through arbitration. Such arbitration shall be conducted in accordance with the rules of the American Arbitration Association before a panel of three arbitrators sitting in a city to be determined by mutual agreement. The decision of the arbitration panel shall be final and binding on both parties. Judgment may be entered on the award of the arbitrators in any court having proper jurisdiction.

You understand that, if you elect to revoke the Release attached hereto within seven (7) days after its execution, this letter Agreement shall be null and void and each party will have all rights and obligations afforded them under the law as if this Letter Agreement had not been signed by the parties and as if the Release had never been signed by you. You agree, in the event of revocation of the Release, to immediately return any consideration received in support of said Release.

This Agreement sets forth the entire agreement and understandings of the parties and supersedes all previous discussions, commitments or agreements.

If you have any questions about this Agreement, please contact me.

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Sincerely,

/s/ Keith J. Peden

Keith J. Peden  
Senior Vice President, Human Resources

ACCEPTED:

/s/ Neal E. Minahan

Date:

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Neal E. Minahan

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GENERAL RELEASE

I agree to accept the benefits and payments set forth in the immediately preceding Letter Agreement as full satisfaction in all respects of any and all obligations of any kind which might otherwise be due me from Raytheon Company. I hereby specifically waive, remise, release and forever discharge Raytheon Company, its affiliates, subsidiaries, directors, officers, employees, agents and successors (hereinafter referred to as "Raytheon") from all manner of claims, liabilities, demands and causes of action, known or unknown, fixed or contingent, which I may have or claim to have against Raytheon as a result of my employment and the termination thereof, and do hereby covenant not to file or commence a lawsuit or administrative proceeding against Raytheon to assert any such claims. I understand that this General Release encompasses all claims arising under federal, state or local law, including but not limited to claims under the Age Discrimination in Employment Act ("ADEA") or claims arising under any theory of wrongful discharge. This General Release is binding upon my successors, heirs, executors and administrators but does not waive any rights or claims which relate to events occurring after the date this General Release is executed.

I understand and agree that, under the Older Workers Benefit Protection Act of 1990 ("Act"), this waiver of rights under ADEA must be knowing and voluntary and that, by execution of this General Release, I acknowledge that the following requirements of the Act to insure that such a waiver is knowing and voluntary have been met:

- (a) The waiver is part of an agreement between me and Raytheon, and I understand the impact of this waiver;
- (b) The waiver specifically refers to rights or claims arising under ADEA;
- (c) I am not waiving rights or claims that may arise after the date

the waiver is executed;

- (d) My waiver of rights or claims is in exchange for consideration in addition to anything of value to which I am already entitled;
- (e) I have been advised to consult with an attorney prior to executing this General Release;
- (f) I understand that I am to be given a period of twenty-one days within which to consider the General Release; and

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- (g) If this General Release is executed, I understand that I may revoke the General Release during the seven-day period following its execution and that the General Release shall not become effective or enforceable until the revocation period has expired.

I have read carefully and fully understand all the provisions of this General Release, including my rights under the Act. I acknowledge that this General Release sets forth the entire agreement between me and Raytheon with respect to additional consideration being provided to me and that I have not relied upon any representation or statement, written or oral, not set forth in this document.

/s/ Neal E. Minahan

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Neal E. Minahan

Date:

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November 13, 2002

Mr. Hansel E. Tookes, II

Re: Transition Agreement

Dear Hansel:

Please accept this letter confirming the understandings we have reached with respect to your employment with Raytheon Company, your resignation as an officer of the companies listed in Attachment A hereto, and your transition to retirement.

1. Transition Period: Your transition from active employment with Raytheon to retirement status shall be effective November 1, 2002, with the concurrence of Tom Culligan, and your last date of active employment being December 31, 2002. Upon your request, your retirement payments may commence as early as January 1, 2003, as discussed more fully in paragraph 5 below.

2. Severance/Retirement Transition Payment and Benefits. You will receive a Severance/Retirement Transition Payment of two and one-half (2 1/2) times your current annual base salary (total \$1,175,625 based on your current annual salary of \$470,250) payable within twenty (20) days of December 31, 2002. This payment is subject to required statutory withholding.

You will also be eligible to participate on an active employee basis in company-sponsored medical and dental benefit programs for the period January 2003 through June 2005. Upon the completion of this period, you will not be eligible for any company-subsidized retiree medical benefits, but you and your spouse will have access to this medical coverage at your own expense.

Your participation in other company-sponsored welfare benefit plans, including the severance pay plan, optional life insurance, accidental death and dismemberment, short-term disability and long-term disability, shall cease as of December 31, 2002.

3. Results Based Incentive: 2002. You will be eligible to receive a Results Based Incentive Bonus for 2002 at the discretion of Raytheon based on established performance metrics.

4. Personal Time Off ("PTO"): You will be paid your unused accrued PTO within twenty (20) days of your last day worked.

-2-

5. Stock Options: For vesting and exercise purposes, your last day worked shall be December 31, 2002, and you will be eligible to exercise any vested options pursuant to the Stock Option Plan rules for retired employees.

6. Supplemental Retirement Payment: Pursuant to the terms of your offer letter of July 6, 1999, you will be entitled to a retirement benefit using the calculation formula and other applicable terms and conditions contained in the Raytheon Company Pension Plan for Salaried Employees, calculated using your service with Raytheon and your twenty-two (22) years of service with United Airlines and United Technologies. This retirement payment shall be offset by the amount of the retirement benefit which you are eligible to receive from the United Technologies and United Airlines plans, as well as the amount you are entitled to receive from Social Security at the earliest eligibility date. Attached at A and incorporated into this Agreement is a detailed summary of the monthly pension and pay-out options for which you will be eligible based on a pension commencement date of January 1, 2003.

7. Executive Life Insurance. Upon the first anniversary of the Executive Life Insurance policy acquired on your behalf which occurs after your retirement, the Company will fund this policy, at its current interest rate based on a death benefit of two (2) times your annual salary as of your last day worked. This payment is expected to be approximately \$53,000. The payment on your behalf will be imputed income to you for tax purposes. This insurance policy has a conversion feature which you may exercise at your own expense.

8. General Release: You agree to execute the General Release attached hereto in exchange for the consideration contained in this Transition Agreement. The General Release shall be executed on or about your last day of employment.

9. Litigation Cooperation: You agree that, in the event that Raytheon Company becomes a party in any legal or administrative proceeding or asserted claim relating to events which occurred during your employment, you will cooperate to the fullest extent reasonably possible in the preparation and presentation by Raytheon Company in the prosecution or defense, including without limitation the execution of affidavits or other documents providing information requested by Raytheon Company. In the event that such litigation cooperation would be expected to require an appreciable period of time, which would result in any out-of-pocket cost or lost economic opportunity on your part, the Company agrees to provide an appropriate fee to offset such costs.

10. Ethics Compliance: You hereby represent and warrant that, to the best of your knowledge, you have complied in full with all Raytheon Company policies related to ethics, and have disclosed to Raytheon Company all matters which were required to be disclosed by said policies. In particular, you represent and warrant that, to the best of your knowledge except as so disclosed by you, you have no information which you believe could be the basis for any charge of a violation of law by Raytheon Company or

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persons associated with Raytheon Company, including but not limited to violations of the False Claims Act or any federal or state environmental statute.

11. Security Clearance: In the course of your employment at Raytheon Company, you may have come into possession of or exposure to matters due to your security clearance. Raytheon Company reminds you that disclosure of any information which came to you as a result of your security clearance, including work product, company plans and other matters, shall not be discussed or revealed in any way, except if required to do so pursuant to a proceeding instituted by an appropriate government agency or at the request of an authorized company agent.

12. Confidential and Proprietary Information: You agree to keep all confidential and proprietary information of the Company, its subsidiaries and affiliated companies, including joint venture partners, strictly confidential except to the extent disclosure is required by law or court order, except to the extent that such confidential and proprietary information has become public through no fault of your own.

13. Confidentiality of This Agreement: You and Raytheon Company mutually agree to keep the terms and conditions of this Agreement confidential and will not disclose the terms hereof to anyone, except to immediate family members, tax accountants, lawyers, financial advisors, the Internal Revenue Service or any other taxing authority, and the Division of Employment and Training in connection with any application you may make for unemployment compensation benefits, and/or others who have a reasonable need to know the terms hereof.

14. Insider Information: In the course of your responsibilities you may constitute an "insider" for securities law purposes. We would like to remind you that any financial plan, program, estimate or matter not readily available to the general public shall be kept in strictest confidence and may not be disclosed or discussed.

15. Non-Disparagement Agreement: You and Raytheon Company mutually agree not to disparage one another. Raytheon Company, its officers, directors and employees, and you shall have the right to make truthful responses to any charges, accusations or allegations, and no such response shall be considered a breach of this non-disparagement agreement.

16. Arbitration: Any dispute arising under this Agreement shall be settled exclusively through arbitration. Such arbitration shall be conducted in accordance with the rules of the American Arbitration Association before a panel of three arbitrators sitting in a city to be determined by mutual agreement. The decision of the arbitration panel shall be final and binding on both parties. Judgment may be entered on the award of the arbitrators in any court having proper jurisdiction.

17. Entirety of Agreement: This Agreement supersedes all previous agreements, written or oral, between Raytheon Company and you relating to the subject

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matter of this Agreement. This Agreement may not be modified, changed or discharged, in whole or in part, except by an agreement in writing signed by the Company and you.

You understand that, if you elect to revoke the Release attached hereto within seven (7) days after its execution, this letter Agreement shall be null and void and each party will have all rights and obligations afforded them under the law as if this Letter Agreement had not been signed by the parties and as if the Release had never been signed by you. You agree, in the event of revocation of the Release, to immediately return any consideration received in support of said Release.

If you have any questions about this Agreement, please contact me.

Sincerely,

/s/ Keith J. Peden

Keith J. Peden  
Senior Vice President, Human Resources

ACCEPTED:

/s/ Hansel E. Tookes, II

Date: \_\_\_\_\_

-----  
Hansel E. Tookes, II

#### GENERAL RELEASE

I agree to accept the benefits and payments set forth in the immediately preceding Letter Agreement as full satisfaction in all respects of any and all obligations of any kind which might otherwise be due me from Raytheon Company. I hereby specifically waive, remise, release and forever discharge Raytheon Company, its affiliates, subsidiaries, directors, officers, employees, agents and successors (hereinafter referred to as "Raytheon") from all manner of claims, liabilities, demands and causes of action, known or unknown, fixed or contingent, which I may have or claim to have against Raytheon as a result of my employment and the termination thereof, and do hereby covenant not to file or commence a lawsuit or administrative proceeding against Raytheon to assert any such claims. I understand that this General Release encompasses all claims, except those arising under the terms of the Transition Agreement by and between Raytheon and me, arising under federal, state or local law, including but not

limited to claims under the Age Discrimination in Employment Act ("ADEA") or claims arising under any theory of wrongful discharge. This General Release is binding upon my successors, heirs, executors and administrators but does not waive any rights or claims which relate to events occurring after the date this General Release is executed.

I understand and agree that, under the Older Workers Benefit Protection Act of 1990 ("Act"), this waiver of rights under ADEA must be knowing and voluntary and that, by execution of this General Release, I acknowledge that the following requirements of the Act to insure that such a waiver is knowing and voluntary have been met:

- (a) The waiver is part of an agreement between me and Raytheon, and I understand the impact of this waiver;
- (b) The waiver specifically refers to rights or claims arising under ADEA;
- (c) I am not waiving rights or claims that may arise after the date the waiver is executed;
- (d) My waiver of rights or claims is in exchange for consideration in addition to anything of value to which I am already entitled;
- (e) I have been advised to consult with an attorney prior to executing this General Release;
- (f) I understand that I am to be given a period of twenty-one days within which to consider the General Release; and

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- (g) If this General Release is executed, I understand that I may revoke the General Release during the seven-day period following its execution and that the General Release shall not become effective or enforceable until the revocation period has expired.

I have read carefully and fully understand all the provisions of this General Release, including my rights under the Act. I acknowledge that this General Release sets forth the entire agreement between me and Raytheon with respect to additional consideration being provided to me and that I have not relied upon any representation or statement, written or oral, not set forth in this document.

/s/ Hansel E. Tookes, II  
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Hansel E. Tookes, II

Date: \_\_\_\_\_

## SUMMARY OF RAYTHEON COMPANY EXECUTIVE SEVERANCE POLICY

Upon the approval of the Management Development and Compensation Committee of the Board of Directors, the Company instituted an Executive Severance Policy (the "Severance Policy") for the purpose of continuing the payments of compensation of executive officers for designated periods upon their separation from the Company.

Specifically, the Severance Policy provides for various levels of continued compensation for the Chief Executive Officer (a "Level 1 Executive"), Chief Operating Officer and President ("Level 2 Executives"), Company Executive Vice President, Company Senior Vice President ("Level 3 Executives"), Company Elected Vice President on the Executive Leadership Team ("Level 4 Executives"), Company Elected Vice President ("Level 5 Executives"). The Severance Policy shall apply to such executive officers, unless the continuation of compensation pursuant to the Severance Policy is otherwise addressed in a superceding written Severance Agreement, Employment Agreement, Change in Control Severance Agreement, Transition Agreement or similar agreement.

Unless otherwise provided in a superceding agreement with the Company, each of the executive employees referenced above, will receive continued financial services, life insurance, excess liability insurance, participation in the Executive Health Program, participation in the Executive Registry and use of a leased automobile in accordance with the Company's Executive Benefits Program. These executive employees will also receive the following additional compensation upon a change in control or their separation from the Company:

Level 1 Executive: cash payment of three (3) times the executive's base salary and annual incentive bonus target upon a change in control of the Company; or if separated from the Company for any reason other than "cause," or "disability" or "death," a cash payment of three (3) times the executive's base salary and annual incentive bonus target and the continuation of three (3) years of existing benefits and perquisites awarded in accordance with the Company's Executive Benefits Program.

Level 2 Executive: cash payment of three (3) times the executive's base salary and annual incentive bonus target upon a change in control of the Company; or if separated from the Company for any reason other than "cause," or "disability" or "death," a cash payment of two (2) times the executive's base salary and annual incentive bonus target and the continuation of two (2) years of existing benefits and perquisites awarded in accordance with the Company's Executive Benefits Program.

Level 3 Executive: cash payment of three (3) times the executive's base salary and annual incentive bonus target upon a change in control of the Company; or if separated from the Company for any reason other than "cause," or "disability" or "death," a cash payment of two (2) times the executive's base salary and annual incentive

bonus target and the continuation of two (2) years of existing benefits and perquisites awarded in accordance with the Company's Executive Benefits Program.

Level 4 Executive: cash payment of two (2) times the executive's base salary and annual incentive bonus target upon a change in control of the Company; or if separated from the Company for any reason other than "cause," or "disability" or "death," a cash payment of one (1) times the executive's base salary and annual incentive bonus and the continuation of one (1) year of existing benefits and perquisites awarded in accordance with the Company's Executive Benefits Program.

Level 5 Executive: cash payment of one (1) times the executive's base

salary and annual incentive bonus and the continuation of one (1) year of existing benefits and perquisites awarded in accordance with the Company's Executive Benefits Program, if separated from the Company for any reason other than "cause," or "disability" or "death".

## EXECUTION VERSION

## PAYOFF LETTER, CONSENT AND AMENDMENT AGREEMENT

This PAYOFF LETTER, CONSENT AND AMENDMENT AGREEMENT, dated as of November 6, 2002 (this "Agreement"), is among RAYTHEON AIRCRAFT RECEIVABLES CORPORATION, a Kansas corporation (the "Seller"), RAYTHEON AIRCRAFT CREDIT CORPORATION, a Kansas corporation, as Servicer (in such capacity, the "Servicer"), RAYTHEON AIRCRAFT COMPANY, a Kansas corporation ("RAC"), RAYTHEON COMPANY, a Delaware corporation ("Raytheon"), the financial institutions and special purpose corporations (the "Purchasers") from time to time party to the Purchase Agreement (as defined below), BANK OF AMERICA, N.A., as Managing Facility Agent for the Purchasers (in such capacity, the "Managing Facility Agent"), JPMORGAN CHASE BANK and BANK OF AMERICA, N.A., as Co-Administrative Agents for the Purchasers (each in such capacity, a "Co-Administrative Agent"), J.P. MORGAN SECURITIES INC. and BANC OF AMERICA SECURITIES LLC, as Co-Arrangers and Joint Bookrunners (the "Co-Arrangers"), J.P. MORGAN SECURITIES INC., as Syndication Agent (in such capacity, the "Syndication Agent"), CITIBANK, N.A., CREDIT SUISSE FIRST BOSTON and FLEET SECURITIES, INC., as Co-Documentation Agents (each in such capacity, a "Co-Documentation Agent"), and each Administrative Agent referred to in the Purchase Agreement (in such capacity, an "Administrative Agent").

## W I T N E S S E T H:

WHEREAS, the parties hereto include the parties to that certain Fourth Amended and Restated Purchase and Sale Agreement, dated as of March 8, 2002 (as amended and supplemented to date, the "Purchase Agreement");

WHEREAS, the Seller desires to terminate the Commitments of the Purchasers, other than the Remaining Committed Purchaser referred to below (the Purchasers having Commitments, other than the Remaining Committed Purchaser, may be referred to collectively as the "Terminating Committed Purchasers"; all of the Purchasers, other than the Remaining Committed Purchaser and the Remaining Conduit Purchaser (referred to below), may be referred to collectively as the "Terminating Purchasers"), under the Purchase Agreement;

WHEREAS, all of the Purchasers (other than the Remaining Committed Purchaser and Receivables Capital Corporation (the "Remaining Conduit Purchaser")) desire to sell to the Seller their respective undivided interests in the Receivables purchased under the Purchase Agreement and to terminate their respective Commitments under the Purchase Agreement;

WHEREAS, Bank of America, N.A., in its capacity as a Purchaser (the "Remaining Committed Purchaser"; the Remaining Committed Purchaser and the Remaining Conduit Purchaser may be referred to collectively as the "Remaining Purchasers"), desires to continue to be a Purchaser under the Purchase Agreement and to reduce its Commitment under

the Purchase Agreement to the amount set forth on Schedule I hereto and in accordance with the terms set forth below;

WHEREAS, the Remaining Conduit Purchaser desires to continue to be a Purchaser under the Purchase Agreement and to transfer and convey to the Seller a portion of the Remaining Conduit Purchaser's undivided interest in the Receivables, so that the Remaining Conduit Purchaser maintains an undivided interest in the Receivables (the "Remaining Conduit Purchaser's Retained Interest") with an Outstanding Purchase Price set forth on Schedule II hereto; and

WHEREAS, the parties hereto desire that the Purchase Agreement be

amended as more fully set forth herein.

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, do covenant and agree as follows:

1. Capitalized terms defined in the Purchase Agreement and used but not otherwise defined herein shall have the respective meanings assigned to them in the Purchase Agreement (such definitions to be equally applicable to both the singular and the plural forms of the terms defined). Any term defined by reference to an agreement, instrument or other document shall have the meaning so assigned to it whether or not such document is in effect. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

2. On the date hereof and on the Repurchase Effective Date referred to below, each Terminating Purchaser represents and warrants, with respect to itself only, for the benefit of the other parties hereto that such Terminating Purchaser has not assigned any or all of its respective undivided interests, Commitment or other interests under the Purchase Agreement to any other Person, except as reflected on Annex 1 to this Agreement.

3. The "Repurchase Effective Date" shall be the date of receipt by the Managing Facility Agent of (i) an executed counterpart of this Agreement from the Seller, the Servicer, RAC, Raytheon, all of the Purchasers, the Co-Administrative Agents, the Co-Arrangers, the Joint Bookrunners, the Syndication Agent, the Co-Documentation Agents and the Old Administrative Agent, (ii) an amount (the "Repurchase Price"), in immediately available funds from (or at the direction of) the Seller equal to the sum of (A) the aggregate amount of the Outstanding Purchase Price under the Purchase Agreement, as set forth on Schedule III hereto (other than the Outstanding Purchase Price set forth on Schedule II hereto that will remain outstanding and owing to the Remaining Purchasers), plus (B) interest accrued and to accrue thereon until (but not including) the Repurchase Effective Date, which interest shall accrue on and after the date hereof, at a two-week LIBO Rate (the "Designated LIBO Rate") to be set by the Managing Facility Agent on or about the second Business Day prior to November 8, 2002 for the period from and including November 8, 2002 to the expected Repurchase Effective Date of November 25, 2002, plus (C) fees accrued and to accrue through the Repurchase Effective Date,

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in the amount as set forth on Schedule III hereto and (iii) an executed letter agreement, dated of even date herewith, in form and substance satisfactory to the Managing Facility Agent (in its sole and absolute discretion), among the Remaining Purchasers, the Managing Facility Agent, the Seller, the Servicer, RAC and Raytheon. This Section 3 is subject to Section 5 hereof. On the Repurchase Effective Date, (i) each Terminating Purchaser hereby agrees that all outstanding amounts due and owing to such Terminating Purchaser related to the Purchase Agreement shall have been paid in full and each Terminating Purchaser shall be automatically released from any and all obligations and liabilities thereunder and (ii) each Terminating Purchaser hereby transfers and reconveys to the Seller, without recourse and without representation or warranty other than as set forth in Section 2 above, all of its respective right, title and interest in, to and under all Receivables, and the Remaining Conduit Purchaser hereby transfers and reconveys to the Seller, without recourse and without representation or warranty, all of its right, title and interest (other than the Remaining Conduit Purchaser's Retained Interest) in, to and under the Receivables (the interests reconveyed pursuant to this clause (ii) may be referred to collectively as, the "Reconveyed Interest"). The Seller hereby accepts the transfer and reconveyance of the Reconveyed Interest. Notwithstanding any term or provision of this Agreement, nothing in this Agreement shall terminate the security interests (a) granted under Section 11.11 of the Purchase Agreement or (b) otherwise arising under the Purchase Agreement.



4. The Managing Facility Agent hereby agrees (a) to pay to the respective Terminating Purchasers and the Remaining Purchasers, promptly following the Managing Facility Agent's receipt of the Repurchase Price, the applicable amounts set forth under the names of the Terminating Purchasers and the Remaining Purchasers on Annex 1 to this Agreement and (b) promptly to notify each of the Purchasers, the Co-Administrative Agents, the Co-Arrangers, the Joint Bookrunners, the Syndication Agent, the Co-Documentation Agents and the Old Administrative Agent of the occurrence of the Repurchase Effective Date.

5. Each of the parties hereto agrees, acknowledges and consents to (a) the payment by the Seller to the Managing Facility Agent of the Repurchase Price on the Repurchase Effective Date, notwithstanding any of the provisions of the Purchase Agreement, (b) the termination of the respective Commitment of each of the Terminating Purchasers on the Repurchase Effective Date and the reduction of the Commitment of the Remaining Committed Purchaser on the Repurchase Effective Date, notwithstanding any of the provisions of the Purchase Agreement, including Section 2.9 thereof and (c) maintain its respective Commitment and Outstanding Purchase Price from the date of this Agreement until the Repurchase Effective Date with interest to accrue thereon at the Designated LIBO Rate, notwithstanding any of the provisions of the Purchase Agreement; provided, however that if the Repurchase Effective Date does not occur on or prior to the expected Repurchase Effective Date of November 25, 2002, interest will accrue at the Base Rate from (and including) November 25, 2002 until the occurrence of the Repurchase Effective Date, notwithstanding any of the provisions of the Purchase Agreement. It is expressly agreed to and understood by the parties hereto that if the Repurchase Effective Date does not occur on the expected Repurchase Effective Date of November 25, 2002, then the Repurchase Price shall be increased accordingly to reflect the interest to accrue (at the Base Rate) and fees to accrue from (and including) November 25, 2002 until the occurrence of the Repurchase Effective Date.

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6. Upon the occurrence of the Repurchase Effective Date, the Purchase Agreement shall automatically be amended so that (a) the Purchasers (other than the Remaining Purchasers), the Co-Administrative Agents, the Co-Arrangers, the Joint Bookrunners, the Syndication Agent and the Co-Documentation Agents are removed as parties to the Purchase Agreement and such parties shall no longer have any rights or obligations thereunder (other than those rights which by their terms survive the termination of the Purchase Agreement), (b) the Seller shall not request and the Remaining Purchasers shall, in no event, be under any obligation to purchase any Receivable or any interest in any Receivable from the Seller (and shall, in no event, be liable for declining any such request), without the prior written consent of the Remaining Purchasers, and (c) Schedule I of the Purchase Agreement is amended and replaced in its entirety by Schedule I to this Agreement.

7. Each of the parties hereto agrees that it shall from time to time on and after the date hereof, at the sole expense of the Seller, take all such actions (and execute and deliver all such documents and instruments) as are reasonably necessary to carry out the purposes and intent of this Agreement.

8. This Agreement shall be binding upon the successors and assigns of each of the parties hereto and shall inure to the benefit of each of the parties to the Purchase Agreement, as applicable, and their respective successors and permitted assigns.

9. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (WITHOUT REGARD TO ITS CONFLICTS OF LAW PRINCIPLES).

10. This Agreement may be executed in any number of counterparts, all such counterparts together constituting but one and the same instrument. Executed counterparts of this Agreement may be delivered to the Managing Facility Agent by facsimile transmission. Except as specifically amended hereby,

the Purchase Agreement shall remain in full force and effect. All references to the Purchase Agreement shall be deemed to mean the Purchase Agreement as amended and modified hereby. This Agreement shall not constitute a novation of the Purchase Agreement, but shall constitute an amendment thereof.

[Signature Pages Follow]

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IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the day and year first above set forth.

RAYTHEON AIRCRAFT RECEIVABLES CORPORATION,  
as Seller

By: \_\_\_\_\_

Name:  
Title:

RAYTHEON AIRCRAFT CREDIT CORPORATION,  
as Servicer

By: \_\_\_\_\_

Name:  
Title:

RAYTHEON AIRCRAFT COMPANY

By: \_\_\_\_\_

Name:  
Title:

RAYTHEON COMPANY

By: \_\_\_\_\_

Name:  
Title:

S-1

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

By: \_\_\_\_\_

Name:  
Title:

JPMORGAN CHASE BANK,  
as Co-Administrative Agent

By: \_\_\_\_\_

Name:  
Title:

J.P. MORGAN SECURITIES INC.,  
as Co-Arranger, Syndication Agent and  
Joint Bookrunner

By: \_\_\_\_\_  
Name:  
Title:

BANC OF AMERICA SECURITIES LLC,  
as Co-Arranger and Joint Bookrunner

By: \_\_\_\_\_  
Name:  
Title:

S-2

UBS AG, STAMFORD BRANCH,  
solely as Administrative Agent

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

JPMORGAN CHASE BANK

By: \_\_\_\_\_  
Name:  
Title:

S-3

SPC: RECEIVABLES CAPITAL CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

SPC BANK: BANK OF AMERICA, N.A.

By: \_\_\_\_\_  
Name:  
Title:

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SPC: CHARTA CORPORATION.

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

By: \_\_\_\_\_  
Name:

Title:

SPC BANK: CITIBANK, N.A.

By:

-----  
Name:

Title:

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CREDIT SUISSE FIRST BOSTON, CAYMAN ISLAND BRANCH

By:

-----  
Name:

Title:

By:

-----  
Name:

Title:

S-6

SPC: EAGLEFUNDING CAPITAL CORP.

By: FLEET SECURITIES, INC.

By:

-----  
Name:

Title:

SPC BANK: FLEET NATIONAL BANK

By:

-----  
Name:

Title:

S-7

SPC: STARBIRD FUNDING CORPORATION

By:

-----  
Name:

Title:

SPC BANK: BNP PARIBAS, NEW YORK BRANCH

By:

-----  
Name:

Title:

By:

-----  
Name:

Title:

S-8

SPC: ATLANTIC ASSET SECURITIZATION CORP.

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

By: \_\_\_\_\_

Name:  
Title:

SPC BANK: CREDIT LYONNAIS NEW YORK BRANCH

By: \_\_\_\_\_

Name:  
Title:

S-9

MIZUHO CORPORATE BANK, LTD., formerly known as The  
Industrial Bank of Japan, Limited

By: \_\_\_\_\_

Name:  
Title:

S-10

THE ROYAL BANK OF SCOTLAND PLC

By: \_\_\_\_\_

Name:  
Title:

S-11

SOCIETE GENERALE

By: \_\_\_\_\_

Name:  
Title:

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WACHOVIA BANK, NATIONAL ASSOCIATION, formerly  
known as First Union National Bank

By: \_\_\_\_\_

Name:  
Title:

S-13

SPC: THREE RIVERS FUNDING CORPORATION

By: \_\_\_\_\_

Name:  
Title:

S-14

SPC: VICTORY RECEIVABLES CORPORATION

By: \_\_\_\_\_

Name:  
Title:

SPC BANK: THE BANK OF TOKYO - MITSUBISHI, LTD.,  
NEW YORK BRANCH

By: \_\_\_\_\_

Name:  
Title:

S-15

SPC: FALCON ASSET SECURITIZATION CORPORATION

By: \_\_\_\_\_

Name:  
Title:

SPC BANK: BANK ONE, NA

By: \_\_\_\_\_

Name:  
Title:

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BAYERISCHE LANDESBANK GIROZENTRALE,  
CAYMAN ISLAND BRANCH

By: \_\_\_\_\_

Name:  
Title:

By: \_\_\_\_\_

Name:  
Title:

S-17

SPC: BAVARIA UNIVERSAL FUNDING CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

SPC BANK: BAYERISCHE HYPO- UND VEREINSBANK AG

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

S-18

KBC BANK NV

By: \_\_\_\_\_  
Name:  
Title:

S-19

THE BANK OF NEW YORK

By: \_\_\_\_\_  
Name:  
Title:

S-20

THE BANK OF NOVA SCOTIA

By: \_\_\_\_\_  
Name:  
Title:

S-21

SPC: PARADIGM FUNDING LLC

By: \_\_\_\_\_  
Name:  
Title:

SPC BANK: WESTDEUTSCHE LANDESBANK  
GIROZENTRALE, NEW YORK BRANCH

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:  
  
S-22

BANCA NAZIONALE DEL LAVORO S.p.A.  
New York Branch

By: \_\_\_\_\_  
Name:  
Title:  
  
By: \_\_\_\_\_  
Name:  
Title:

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ANNEX 1 TO THE  
PAYOFF LETTER, CONSENT AND  
AMENDMENT AGREEMENT

EXISTING COMMITMENT INFORMATION

PURCHASERS	COMMITMENTS	RECEIVABLES	
		OUTSTANDING	PERCENTAGE
Banca Nazionale del Lavoro S.p.A.	25,000,000.00	18,372,000.17	1.785714285%
Bank of America (Receivables Capital Corp.)	91,200,000.00	67,021,056.61	6.514285714%
Bank of New York (The)	27,000,000.00	19,841,760.20	1.928571429%
Bank of Nova Scotia (The)	27,000,000.00	19,841,760.20	1.928571429%
Bank of Tokyo-Mitsubishi Ltd. (The) (Gotham Funding)	50,000,000.00	36,744,000.38	3.571428572%
Bank One (Falcon Asset Securitization Corp.)	50,000,000.00	36,744,000.38	3.571428572%
Bayerische Hypo-und Vereinsbank (Bavaria Fund)	50,000,000.00	36,744,000.38	3.571428572%
Bayerische Landesbank	50,000,000.00	36,744,000.38	3.571428572%
BNP Paribas (Starbird Funding)	75,000,000.00	55,116,000.54	5.357142857%
Citibank N.A. (Charta Corporation)	116,200,000.00	85,393,056.84	8.300000000%
Credit Lyonnais (Atlantic Asset Securitization)	75,000,000.00	55,116,000.54	5.357142857%
Credit Suisse First Boston (Alpine Securitization)	116,200,000.00	85,393,056.84	8.300000000%
Fleet National Bank (Eagle Funding Capital Corp.)	116,200,000.00	85,393,056.84	8.300000000%
JPMorgan Chase Bank	116,200,000.00	85,393,056.84	8.300000000%
KBC Bank	30,000,000.00	22,046,400.21	2.142857143%
Mizuho Corporate Bank, Ltd. (fka IBJ)	75,000,000.00	55,116,000.54	5.357142857%
Royal Bank of Scotland plc (The)	75,000,000.00	55,116,000.54	5.357142857%
Societe Generale	75,000,000.00	55,116,000.54	5.357142857%
Three Rivers Funding Corp.	60,000,000.00	44,092,800.44	4.285714286%
Wachovia Bank	75,000,000.00	55,116,000.54	5.357142857%
Westdeutsche Landesbank (Paradigm Funding LLC)	25,000,000.00	18,372,000.19	1.785714286%
TOTAL	1,400,000,000.00	1,028,832,010.14	100.0000%
1,400,000,000.00		1,028,832,010.14	

Annex-1

SCHEDULE I TO THE  
PAYOFF LETTER, CONSENT AND  
AMENDMENT AGREEMENT

SCHEDULE I

COMMITMENTS AND PURCHASER INFORMATION



Purchaser	Amount of Commitment	Commitment Percentage
-----	-----	-----
Bank of America, N.A. IL1-231-16-02 231 South LaSalle Street Chicago, IL 60604 Attention: Willem Van Beek	\$ 1,000,000.00	100%

TOTAL \$ 1,000,000.00

Schl-1

SCHEDULE II TO THE  
PAYOFF LETTER, CONSENT AND  
AMENDMENT AGREEMENT

REMAINING CONDUIT PURCHASER'S  
RETAINED INTEREST

Remaining Conduit Purchaser	Remaining Conduit Purchaser's Retained Interest
-----	-----
Receivables Capital Corporation c/o Bank of America, N.A. IL1-231-16-02 231 South LaSalle Street Chicago, IL 60604 Attention: Willem Van Beek	\$ 1,000,000.00

Schl-1

SCHEDULE III TO THE  
PAYOFF LETTER, CONSENT AND  
AMENDMENT AGREEMENT

OUTSTANDING PURCHASE PRICE AND FEES

1.) Outstanding Purchase Price	\$ 1,028,832,010.14
2.) Fees	\$ 1,425,026.07

Schl-1

=====

\$1,550,000,000

364-DAY COMPETITIVE ADVANCE AND

REVOLVING CREDIT FACILITY

among

RAYTHEON COMPANY

as the Borrower,

RAYTHEON TECHNICAL SERVICES COMPANY and

RAYTHEON AIRCRAFT COMPANY,

each as a Guarantor,

THE LENDERS NAMED HEREIN,

BANK OF AMERICA, N.A.,

as Syndication Agent,

CITICORP USA, INC. and CREDIT SUISSE FIRST BOSTON,

as Documentation Agents,

and

JPMORGAN CHASE BANK,

as Administrative Agent,

Dated as of November 25, 2002

=====

J.P. MORGAN SECURITIES INC. and

BANC OF AMERICA SECURITIES LLC

as Joint Lead Arrangers and Joint Bookrunners

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Exhibit B	Form of Assignment and Acceptance
Exhibit C	Form of Borrowing Request
Exhibit D-1	Form of Competitive Bid Request
Exhibit D-2	Form of Notice of Competitive Bid Request
Exhibit D-3	Form of Competitive Bid
Exhibit D-4	Form of Competitive Bid Accept/Reject Letter
Exhibit E	Form of Opinion of Jay B. Stephens
Exhibit F	Form of Opinion of Bingham McCutchen LLP

SCHEDULES

Schedule 2.01	Lenders and Commitments
Schedule 3.01	Significant Subsidiaries
Schedule 3.05	Financial Statements/Material Liabilities
Schedule 3.07	Litigation
Schedule 6.01	Existing Liens
Schedule 6.04	Existing Subsidiary Indebtedness

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364-DAY COMPETITIVE ADVANCE AND REVOLVING CREDIT FACILITY, dated as of November 25, 2002, among RAYTHEON COMPANY, a Delaware corporation (the "Borrower"), RAYTHEON TECHNICAL SERVICES COMPANY, a Delaware corporation, and RAYTHEON AIRCRAFT COMPANY, a Kansas corporation, each as a Guarantor (in such capacity, each a "Guarantor" and, collectively, the "Guarantors"), the Lenders (as defined in Article I), J.P. MORGAN SECURITIES INC. and BANC OF AMERICA SECURITIES LLC, as joint lead arrangers and joint bookrunners (in such capacity, the "Arrangers"), BANK OF AMERICA, N.A., as syndication agent (in such capacity, the "Syndication Agent"), CITICORP USA, INC. and CREDIT SUISSE FIRST BOSTON, as documentation agents (in such capacity, each a "Documentation Agent" and, collectively, the "Documentation Agents"), and JPMORGAN CHASE BANK, a New York banking corporation, as administrative agent (in such capacity, the "Administrative Agent", and, collectively with the Syndication Agent, the "Agents") for the Lenders.

The Borrower has requested the Lenders, and the Lenders have agreed, to extend credit in the form of Revolving Loans at any time and from time to time prior to the Maturity Date, in an aggregate principal amount at any time outstanding not in excess of \$1,550,000,000. The Borrower also has requested the Lenders to provide a procedure pursuant to which the Borrower may invite the Lenders to bid on an uncommitted basis on short-term borrowings by the Borrower. The proceeds of the Loans are to be used by the Borrower for working capital and general corporate purposes of the Borrower and its Subsidiaries.

The Lenders are willing to extend such credit to the Borrower on the terms and subject to the conditions set forth herein. Accordingly, the parties hereto agree as follows:

## ARTICLE I

### Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms shall have the meanings specified below:

"ABR Borrowing" shall mean a Borrowing comprised of ABR Loans.

"ABR Loan" shall mean any Loan bearing interest at the Alternate Base Rate in accordance with the provisions of Article II.

"Administrative Questionnaire" shall mean an Administrative Questionnaire in the form of Exhibit A.

"Affiliate" shall mean, when used with respect to a specified person, another person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the person specified.

"Agents" shall have the meaning assigned to such term in the preamble.

"Agents' Fees" shall have the meaning assigned to such term in Section 2.06(c).

"Aggregate Revolving Credit Exposure" shall mean the aggregate amount of the Lenders' Revolving Credit Exposures.

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"Agreement" shall mean this 364-Day Competitive Advance and Revolving Credit Facility, as amended, supplemented or otherwise modified from time to time.

"Alternate Base Rate" shall mean, for any day, a rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. If for any reason the Administrative Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Base CD Rate or the Federal Funds Effective Rate or both for any reason, including the inability or failure of the Administrative Agent to obtain sufficient quotations in accordance with the terms hereof, the Alternate Base Rate shall be determined without regard to clause (b) or (c), or both, of the preceding sentence, as appropriate, until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate shall be effective on the effective date of such change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate, respectively.

"Applicable Percentage" shall mean, with respect to any Eurodollar Loan (other than any Eurodollar Competitive Loan), with respect to any ABR Loan or with respect to the Facility Fees, as the case may be, with respect to the day of, and any day after, the Closing Date, the applicable percentage set forth below under the caption "Eurodollar Spread", "ABR Spread" or "Fee Percentage", as the case may be, based upon the ratings by S&P and Moody's, respectively, applicable on such date to the Index Debt; provided, that, after the Maturity Date and until the six-month anniversary of the Maturity Date, the applicable percentage (Eurodollar Spread or ABR Spread) below shall be increased by 0.500% per annum, and after the six-month anniversary of the Maturity Date, the applicable percentage (Eurodollar Spread or ABR Spread) below shall be increased by 1.000% per annum:

	Eurodollar Spread -----	ABR Spread -----	Fee Percentage -----
Category 1 BBB+ or higher by S&P or Baa1 or higher by Moody's	0.625%	0.000%	0.125%
Category 2 BBB by S&P or Baa2 by Moody's	0.725%	0.000%	0.150%
Category 3 BBB- by S&P or Baa3 by Moody's	0.950%	0.000%	0.175%
Category 4 BB+ by S&P or Baa1 by Moody's	1.275%	0.500%	0.225%
Category 5 BB or lower by S&P or Baa2 or lower by Moody's	1.675%	1.000%	0.325%

For purposes of this definition, (i) if either Moody's or S&P shall not have in effect a rating for the Index Debt (other than by reason of the circumstances referred to in the last sentence of this paragraph), then such rating agency shall be deemed to have established a rating in Category 5; (ii) if the

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ratings established or deemed to have been established by Moody's and S&P for the Index Debt shall fall within different Categories, the Applicable Percentage shall be based on the higher of the two ratings unless the ratings differ by more than one category, in which case the governing rating shall be the rating next below the higher of the two; and (iii) if the ratings established or deemed to have been established by Moody's and S&P for the Index Debt shall be changed (other than as a result of a change in the rating system of Moody's or S&P), such change shall be effective as of the date on which it is first announced by the applicable rating agency. Each change in the Applicable Percentage shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of Moody's or S&P shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Lenders shall negotiate in good faith to amend this definition to reflect such changed rating system or the non-availability of ratings from such rating agency and, pending the effectiveness of any such amendment, the Applicable Percentage shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"Arrangers" shall have the meaning assigned to such term in the preamble.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Lender and an assignee, and accepted by the Administrative Agent, in the form of Exhibit B or such other form as shall be approved by the Administrative Agent.

"Base CD Rate" shall mean the sum of (a) the product of (i) the Three-Month Secondary CD Rate and (ii) Statutory Reserves and (b) the Assessment Rate. The term "Statutory Reserves" shall mean a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board and any other domestic banking authority to which the Administrative Agent or any Lender (including any branch, Affiliate, or other fronting office making or holding a Loan) is subject with respect to the Base CD Rate, for new negotiable nonpersonal time deposits in Dollars of over \$100,000 with maturities approximately equal to three months. Statutory Reserves shall be adjusted automatically on and as of the effective date of any change in any reserve percentage. The term "Assessment Rate" shall mean for any date the

annual rate (rounded upwards, if necessary, to the next 1/100 of 1%) most recently estimated by the Administrative Agent as the then current net annual assessment rate that will be employed in determining amounts payable by the Administrative Agent to the Federal Deposit Insurance Corporation (or any successor) for insurance by such Corporation (or such successor) of time deposits made in Dollars at the Administrative Agent's domestic offices.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States.

"Borrowing" shall mean a group of Loans of a single Type made by the Lenders (or, in the case of a Competitive Borrowing, by the Lender or Lenders whose Competitive Bids have been accepted pursuant to Section 2.03) on a single date and as to which a single Interest Period is in effect.

"Borrowing Request" shall mean a request by the Borrower in accordance with the terms of Section 2.04 and substantially in the form of Exhibit C.

"Business" shall have the meaning assigned to such term in Section 3.17.

"Business Day" shall mean any day other than a Saturday, Sunday or day on which banks in New York City are authorized or required by law to close; provided, however, that, when used in connection

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with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in Dollar deposits in the London interbank market.

"Capital Lease Obligations" shall mean as to any person, the obligations of such person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such person under GAAP and, for the purposes of this Agreement, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

A "Change in Control" shall be deemed to have occurred if (a) any "person" or "group" as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) shall become the "beneficial owner" (as defined in Rules 13(d)-3 and 13(d)-5 under the Exchange Act), directly or indirectly, of more than 50% of the outstanding common stock of the Borrower, or (b) a majority of the seats (other than vacant seats) on the board of directors of the Borrower shall at any time have been occupied by persons who were neither (i) nominated by the board of directors of the Borrower nor (ii) appointed by directors so nominated.

"Closing Date" shall mean November 25, 2002.

"Code" shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time.

"Commitment" shall mean, with respect to each Lender, the commitment of such Lender to make Revolving Loans hereunder in an aggregate principal and/or face amount not to exceed the amount set forth opposite such Lender's name on Schedule 2.01 or in the Assignment and Acceptance pursuant to which such Lender became a party hereto, as the same may be (a) reduced from time to time pursuant to Section 2.10 or pursuant to Section 2.16, and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 10.04. The aggregate initial Commitments shall be \$1,550,000,000.

"Competitive Bid" shall mean an offer by a Lender to make a Competitive Loan pursuant to Section 2.03.

"Competitive Bid Accept/Reject Letter" shall mean a notification made by the Borrower pursuant to Section 2.03(d) in the form of Exhibit D-4.

"Competitive Bid Rate" shall mean, as to any Competitive Bid made by a Lender pursuant to Section 2.03(b), (i) in the case of a Eurodollar Competitive Loan, the Margin, and (ii) in the case of a Fixed Rate Loan, the fixed rate of interest offered by the Lender making such Competitive Bid.

"Competitive Bid Request" shall mean a request made pursuant to Section 2.03 in the form of Exhibit D-1.

"Competitive Borrowing" shall mean a Borrowing consisting of a Competitive Loan or concurrent Competitive Loans from the Lender or Lenders whose Competitive Bids for such Borrowing have been accepted by the Borrower under the bidding procedure described in Section 2.03.

"Competitive Loan" shall mean a Loan from a Lender to the Borrower pursuant to the bidding procedure described in Section 2.03. Each Competitive Loan shall be a Eurodollar Competitive Loan or a Fixed Rate Loan.

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"Confidential Information Memorandum" shall mean the Confidential Information Memorandum of the Borrower dated October 2002, as revised, amended, modified or otherwise supplemented prior to the date hereof.

"Consolidated EBITDA" shall mean, for any period, the sum of (a) Consolidated Net Income for such period and (b) the aggregate amounts deducted in determining Consolidated Net Income in respect of (i) Consolidated Net Interest Expense for such period, (ii) income taxes, depreciation and amortization of the Borrower and its consolidated Subsidiaries for such period determined in accordance with GAAP and (iii) write-offs of goodwill as required, or as would be required in the next succeeding fiscal year of the Borrower, by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

"Consolidated Interest Coverage Ratio" shall mean for any period, the ratio of (a) Consolidated EBITDA for such period to (b) Consolidated Net Interest Expense for such period.

"Consolidated Net Income": for any period, the consolidated net income (or deficit) of the Borrower and its consolidated Subsidiaries for such period, determined in accordance with GAAP; provided that for the fiscal quarter of the Borrower and its consolidated Subsidiaries ending June 30, 2002, such Consolidated Net Income shall be increased by an amount not to exceed \$450,000,000 for such fiscal quarter, representing one-time charges to the extent recorded in connection with the discontinued operations of Raytheon Engineers and Constructors with respect to such quarter.

"Consolidated Net Interest Expense" shall mean, for any period, net interest expense of the Borrower and its consolidated Subsidiaries for such period, determined in accordance with GAAP.

"Consolidated Net Tangible Assets" shall mean, as at any date of determination, the total amount of assets of the Borrower and the Subsidiaries (less applicable depreciation, amortization and other valuation reserves) at such date, after deducting therefrom (a) all current liabilities of the Borrower and the Subsidiaries at such date and (b) all goodwill, trade names, trademarks, patents, unamortized debt issuance fees and expenses and other like intangibles at such date.

"Contractual Obligations" shall mean, as to any person, any provision of any security issued by such person or of any agreement, instrument or other undertaking to which such person is a party or by which it or any of its property is bound.



"Control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a person, whether through the ownership of voting securities, by contract or otherwise, and "Controlling" and "Controlled" shall have meanings correlative thereto.

"Default" shall mean any event or condition which upon notice, lapse of time or both would constitute an Event of Default.

"Dollars" or "\$" shall mean lawful money of the United States of America.

"Environmental Laws" shall mean any and all foreign, Federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, requirements of any Governmental Authority or other applicable laws or regulations (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of human health or the environment, as now or may at any time hereafter be in effect.

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"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code, or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" shall mean (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder, with respect to a Plan; (b) the adoption of any amendment to a Plan that would require the provision of security pursuant to Section 401(a)(29) of the Code or Section 307 of ERISA; (c) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (d) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (e) the incurrence of any liability under Title IV of ERISA with respect to the termination of any Plan or the withdrawal or partial withdrawal of the Borrower or any of its ERISA Affiliates from any Plan or Multiemployer Plan; (f) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to the intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (g) the receipt by the Borrower or any ERISA Affiliate of any notice that Withdrawal Liability is being imposed or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA; and (h) the occurrence of a non-exempt "prohibited transaction" with respect to which the Borrower or any of its Subsidiaries is a "disqualified person" (within the meaning of Section 4975) of the Code, or with respect to which the Borrower or any such Subsidiary could otherwise be liable.

"Eurocurrency Reserve Requirements" shall mean for any day as applied to a Eurodollar Loan, the aggregate (without duplication) of the maximum rates (expressed as a decimal fraction) of reserve requirements in effect on such day (including basic, supplemental, marginal and emergency reserves) under any regulations of the Board or other Governmental Authority having jurisdiction with respect thereto dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board) maintained by a member bank of the Federal Reserve System.

"Eurodollar Base Rate" shall mean with respect to each day during each Interest Period pertaining to a Eurodollar Loan, the rate per annum determined on the basis of the rate for deposits in Dollars for a period equal to such Interest Period commencing on the first day of such Interest Period appearing on Page 3750 of the Telerate screen as of 11:00 A.M., London time, two Business Days prior to the beginning of such Interest Period. In the event that such rate

does not appear on Page 3750 of the Telerate screen (or otherwise on such screen), the "Eurodollar Base Rate" shall be determined by reference to such other comparable publicly available service for displaying eurodollar rates as may be selected by the Administrative Agent or, in the absence of such availability, by reference to the rate at which the Administrative Agent is offered Dollar deposits at or about 11:00 A.M., New York City time, two Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where its eurodollar and foreign currency and exchange operations are then being conducted for delivery on the first day of such Interest Period for the number of days comprised therein.

"Eurodollar Borrowing" shall mean a Borrowing comprised of Eurodollar Loans.

"Eurodollar Competitive Borrowing" shall mean a Borrowing comprised of Eurodollar Competitive Loans.

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"Eurodollar Competitive Loan" shall mean any Competitive Loan bearing interest at a rate determined by reference to the Eurodollar Rate in accordance with the provisions of Article II.

"Eurodollar Loan" shall mean any Eurodollar Revolving Loan or Eurodollar Competitive Loan.

"Eurodollar Rate" shall mean with respect to each day during each Interest Period pertaining to a Eurodollar Loan, a rate per annum determined for such day in accordance with the following formula (rounded upward to the nearest 1/100th of 1%):

Eurodollar Base Rate  
-----  
1.00 - Eurocurrency Reserve Requirements

"Eurodollar Revolving Credit Borrowing" shall mean a Borrowing comprised of Eurodollar Revolving Loans.

"Eurodollar Revolving Loan" shall mean any Revolving Loan bearing interest at a rate determined by reference to the Eurodollar Rate in accordance with the provisions of Article II.

"Event of Default" shall have the meaning assigned to such term in Article VII.

"Excess Utilization Day" shall mean each day on which the Utilization Percentage exceeds 33.3%.

"Existing Credit Agreement" shall mean the 364-Day Competitive Advance and Revolving Credit Facility Credit Agreement, dated as of November 28, 2001 (as amended, supplemented or otherwise modified through the date hereof), among Raytheon Company, as the borrower, Raytheon Technical Services Company and Raytheon Aircraft Company, as guarantors, the lenders from time to time parties thereto, Bank of America, N.A., as syndication agent, and JPMorgan Chase Bank, as administrative agent.

"Facility Fee" shall have the meaning assigned to such term in Section 2.06(a).

"Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for the day of such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Fee Letter" shall be the collective reference to (i) the Fee Letter, dated October 17, 2002, between the Borrower, the Administrative Agent and J.P. Morgan Securities Inc. and (ii) the Fee Letter, dated October 17, 2002, between the Borrower, Bank of America, N.A., and Banc of America Securities LLC.

"Fees" shall mean the Facility Fees and the Agents' Fees.

"Financial Officer" of any corporation shall mean the chief financial officer, principal accounting officer, Treasurer, Assistant Treasurer or Controller of such corporation.

"Five-Year Credit Agreement" shall mean the Five-Year Credit Agreement, dated as of November 28, 2001, as amended, supplemented or otherwise modified from time to time, among the Borrower, Raytheon Technical Services Company, a Delaware corporation, and Raytheon Aircraft

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Company, a Kansas corporation, each as a Guarantor, the several lenders from time to time parties thereto, J.P. Morgan Securities Inc. and Banc of America Securities LLC, as joint lead arrangers and joint bookrunners, Citicorp USA, Inc., Credit Suisse First Boston and Mizuho Financial Group, each as a documentation agent, Bank of America, N.A, as the syndication agent, and JPMorgan Chase Bank, as the administrative agent.

"Fixed Rate Borrowing" shall mean a Borrowing comprised of Fixed Rate Loans.

"Fixed Rate Loan" shall mean any Competitive Loan bearing interest at a fixed percentage rate per annum (expressed in the form of a decimal to no more than four decimal places) specified by the Lender making such Loan in its Competitive Bid.

"GAAP" shall mean generally accepted accounting principles applied on a consistent basis.

"Governmental Authority" shall mean any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"Guarantee" of or by any person shall mean any obligation, contingent or otherwise, of such person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other liability of any other person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligations of such person, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or liability or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Indebtedness or liability, (b) to purchase property, securities or services for the purpose of assuring the owner of such Indebtedness or liability of the payment of such Indebtedness or liability or (c) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or liability.

"Guarantor" shall have the meaning assigned to such term in the preamble.

"Hedge Agreements" shall mean all interest rate swaps, caps or collar agreements or similar arrangements dealing with interest rates or currency exchange rates or the exchange of nominal interest obligations, either generally or under specific contingencies.

"Indebtedness" of any person shall mean, as at any date of determination, all indebtedness (including capitalized lease obligations) of such person and its consolidated subsidiaries at such date that would be required to be included as a liability on a consolidated balance sheet (excluding the footnotes thereto) of such person prepared in accordance with GAAP applied on a basis consistent

with the application used in the financial statements referred to in Section 3.05.

"Index Debt" shall mean the senior, unsecured, non-credit enhanced, long-term indebtedness for borrowed money of the Borrower.

"Interest Payment Date" shall mean, with respect to any Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months' duration, each day that would have been an Interest Payment Date had successive Interest Periods of three months' duration been applicable to such Borrowing, and, in addition, except with respect to any ABR Loan, the date of any prepayment of such Loan or conversion of such Loan to a Loan of a different Type.

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"Interest Period" shall mean (a) as to any Eurodollar Borrowing, the period commencing on the date of such Borrowing or on the last day of the immediately preceding Interest Period applicable to such Borrowing, as the case may be, and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3 or 6 months thereafter, as the Borrower may elect, (b) as to any ABR Borrowing, the period commencing on the date of such Borrowing or on the last day of the immediately preceding Interest Period applicable to such Borrowing, as the case may be, and ending on the earlier of (i) the next succeeding March 31, June 30, September 30 or December 31 and (ii) subject to Section 2.05(a), the Maturity Date and (c) as to any Fixed Rate Borrowing, the period commencing on the date of such Borrowing and ending on the date specified in the Competitive Bids in which the offer to make the Fixed Rate Loans comprising such Borrowing was extended, which shall not be earlier than seven days after the date of such Borrowing or later than 360 days after the date of such Borrowing; provided, however, that, if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period. Notwithstanding anything to the contrary in this definition of "Interest Period", and except as provided in Section 2.05(a), any Interest Period that would otherwise extend beyond the Maturity Date shall end on the Maturity Date.

"Lender Affiliate" shall mean (a) any Affiliate of any Lender, (b) any person that is administered or managed by any Lender or any Affiliate of any Lender and that is engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business and (c) with respect to any Lender which is a fund that invests in commercial loans and similar extensions of credit, any other fund that invests in commercial loans and similar extensions of credit and is managed or advised by the same investment advisor as such Lender or by an Affiliate of such Lender or investment advisor.

"Lenders" shall mean (a) the financial institutions listed on Schedule 2.01 (other than any such financial institution that has ceased to be a party hereto pursuant to an Assignment and Acceptance) and (b) any financial institution that has become a party hereto pursuant to an Assignment and Acceptance.

"Lien" shall mean, with respect to any asset of any person, (a) any mortgage, deed of trust, lien, pledge, encumbrance, charge or security interest in or on such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities that constitute assets of such person, any purchase option, call or similar right of a third party with respect to such securities.

"Loans" shall mean the Revolving Loans and the Competitive Loans.

"Mandatorily Redeemable Equity Securities" shall mean the 17,250,000 equity security units, including any remarketed securities, issued by the Borrower in May 2001. Each equity security unit consists of a contract to purchase shares of the Borrower's common stock on May 15, 2004, and a mandatorily redeemable equity security, with a stated liquidation amount of \$50.00 due on May 15, 2004. The mandatorily redeemable equity security represents an undivided interest in the assets of RC Trust I, a Delaware business trust, formed for the purpose of issuing these securities and whose assets consist solely of subordinated notes issued by the Borrower.

"Margin" shall mean, as to any Eurodollar Competitive Loan, the margin (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) to be added to or

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subtracted from the Eurodollar Rate in order to determine the interest rate applicable to such Loan, as specified in the Competitive Bid relating to such Loan.

"Margin Stock" shall have the meaning assigned to such term in Regulation U.

"Material Adverse Effect" shall mean a materially adverse effect on the business, assets, operations or condition, financial or otherwise, of the Borrower and the Subsidiaries taken as a whole.

"Materials of Environmental Concern" shall mean all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, urea-formaldehyde insulation, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Maturity Date" shall mean the date which is 364 days after the Closing Date.

"Moody's" shall mean Moody's Investors Service, Inc.

"Multiemployer Plan" shall mean a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Obligations" shall mean (a) the due and punctual payment of (i) the principal of and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Loans, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, and (ii) all other monetary obligations, including Fees, costs, expenses and indemnities, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) of the Borrower to the Lenders under this Agreement and (b) the due and punctual performance of all covenants, agreements, obligations and liabilities of the Borrower under or pursuant to this Agreement.

"PBGC" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

"Permitted Receivables Program" shall mean any receivables securitization program pursuant to which the Borrower or any of the Subsidiaries sells accounts receivable and related receivables to any non-Affiliate in a "true sale" transaction; provided, however, that any related indebtedness incurred to

finance the purchase of such accounts receivable is not includible on the balance sheet of the Borrower or any Subsidiary in accordance with GAAP and applicable regulations of the Securities and Exchange Commission.

"person" shall mean any natural person, corporation, limited liability company, business trust, joint venture, association, company, partnership or government, or any agency or political subdivision thereof.

"Plan" shall mean any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 307 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

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"Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by the Administrative Agent as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective on the date such change is publicly announced as being effective.

"Property" shall have the meaning assigned to such term in Section 3.17.

"Ratio Certificate" shall mean a certificate, signed on behalf of the Borrower by a Financial Officer of the Borrower, delivered to the Administrative Agent on the Closing Date and as may be required by Section 5.04(c), and setting forth the calculations, in reasonable detail, required to determine compliance with all covenants set forth in Sections 6.05 (a) and (b) on the Closing Date or on the last day of any fiscal quarter, as the case may be.

"Register" shall have the meaning given such term in Section 10.04(d).

"Regulation U" shall mean Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation X" shall mean Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Required Lenders" shall mean, at any time, the holders of more than 50% of the Commitments then in effect or, if the Commitments have been terminated, the Aggregate Revolving Credit Exposure then outstanding.

"Responsible Officer" of any corporation shall mean any executive officer or Financial Officer of such corporation and any other officer or similar official thereof responsible for the administration of the obligations of such corporation in respect of this Agreement.

"Revolving Credit Borrowing" shall mean a Borrowing comprised of Revolving Loans.

"Revolving Credit Exposure" shall mean, as to any Lender at any time, an amount equal to the aggregate principal amount of all Revolving Loans held by such Lender then outstanding.

"Revolving Loans" shall mean the revolving loans made by the Lenders to the Borrower pursuant to Section 2.01. Each Revolving Loan shall be a Eurodollar Revolving Loan or an ABR Loan.

"S&P" shall mean Standard & Poor's Ratings Service.

"Significant Subsidiary" shall mean any Subsidiary that would be a "Significant Subsidiary" at such time, as such term is defined in Regulation S-X promulgated by the Securities and Exchange Commission as in effect on the Closing Date. Notwithstanding Regulation S-X, each Guarantor will at all times be deemed to be a Significant Subsidiary.

"Solvent" when used with respect to any person, shall mean that, as of any date of determination, (a) the amount of the "present fair saleable value" of the assets of such person will, as of such date, exceed the amount of all "liabilities of such person, contingent or otherwise", as of such date, as such quoted terms are determined in accordance with applicable federal and state laws governing determinations of the insolvency of debtors, (b) the present fair saleable value of the assets of such person will, as of such date, be greater than the amount that will be required to pay the liability of such person on its debts as such debts become absolute and matured, (c) such person will not have, as of such date, an unreasonably small amount of capital with which to conduct its business, and (d) such person will be able

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to pay its debts as they mature. For purposes of this definition, (i) "debt" means liability on a "claim", and (ii) "claim" means any (x) right to payment, whether or not such a right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured or (y) right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured or unmatured, disputed, undisputed, secured or unsecured.

"Stockholders' Equity" shall mean, as at any date of determination, the stockholders' equity of the Borrower and its consolidated Subsidiaries as of such date, as determined in accordance with GAAP.

"subsidiary" shall mean, with respect to any person (herein referred to as the "parent"), any corporation, partnership, association or other business entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or more than 50% of the general partnership interests are, at the time any determination is being made, owned, controlled or held or (b) that is, at the time any determination is made, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Subsidiary" shall mean any subsidiary of the Borrower.

"Term-out Loans" shall mean Loans the principal amount of which the Borrower allows to remain outstanding after the Maturity Date, but prior to the first anniversary of the Maturity Date, in accordance with subsection 2.05(a).

"Three-Month Secondary CD Rate" shall mean, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day shall not be a Business Day, the next preceding Business Day) by the Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day), or, if such rate shall not be so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m., New York City time, on such day (or, if such day shall not be a Business Day, on the next preceding Business Day) by the Administrative Agent from three New York City negotiable certificate of deposit dealers of recognized standing selected by it.

"Total Capitalization" shall mean, as at any date of determination, the sum of Total Debt at such date and Mandatorily Redeemable Equity Securities and Stockholders' Equity at such date.

"Total Commitment" shall mean, at any time, the aggregate amount of the Commitments, as in effect at such time.

"Total Debt" shall mean, at a particular date, all amounts which would be

included as indebtedness (including capitalized leases) on a consolidated balance sheet of the Borrower and its consolidated Subsidiaries, determined in accordance with GAAP.

"Transactions" shall have the meaning assigned to such term in Section 3.02.

"Type", when used in respect of any Loan or Borrowing, shall refer to the Rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined. For purposes hereof, the term "Rate" shall include the Eurodollar Rate and the Alternate Base Rate.

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"Utilization Fee" shall have the meaning assigned to such term in Section 2.06(b).

"Utilization Percentage" shall mean on any day the percentage equivalent to a fraction (a) the numerator of which is the sum of the aggregate outstanding principal amount of (i) the Loans, (ii) the Loans (as defined under the Five-Year Credit Agreement) and (iii) the L/C Obligations (as defined under the Five-Year Credit Agreement); and (b) the denominator of which is the sum of (y) the aggregate Commitments (or, on any day after termination of the Commitments, the aggregate Commitments in effect immediately preceding such termination) and (z) the aggregate Commitments (as defined under the Five-Year Credit Agreement) (or, on any day after termination of the Commitments (as defined under the Five-Year Credit Agreement), the aggregate Commitments (as defined under the Five-Year Credit Agreement) in effect immediately preceding such termination).

"Withdrawal Liability" shall mean liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Terms Generally. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, (a) any reference to this Agreement shall mean this Agreement as amended, restated, supplemented or otherwise modified from time to time and (b) all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, however, that for purposes of determining compliance with the covenants contained in Article VI, all accounting terms herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with GAAP as in effect on the date of this Agreement and applied on a basis consistent with the application used in the financial statements referred to in Section 3.05.

## ARTICLE II

### The Credits

SECTION 2.01. Commitments. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Lender agrees, severally and not jointly, to make Revolving Loans to the Borrower, at any time and from time to time on or after the Closing Date, and until the earlier of the Maturity Date and the termination of the Commitment of such Lender in accordance with the terms hereof, in an aggregate principal amount at any time outstanding that will not result in (a) (i) such Lender's Revolving Credit Exposure exceeding (ii) such Lender's Commitment or (b) (i) the aggregate amount of outstanding Loans exceeding (ii) the Total Commitment. Within the limits set forth in the preceding sentence, the Borrower may borrow, pay or prepay and reborrow Revolving Loans on or after the Closing Date and prior to



the Maturity Date, subject to the terms, conditions and limitations set forth herein.

SECTION 2.02. Loans. (a) Each Revolving Loan shall be made as part of a Borrowing consisting of Loans made by the Lenders ratably in accordance with their respective Commitments; provided, however, that the failure of any Lender to make any Loan shall not in itself relieve any other Lender of its obligation to lend hereunder (it being understood, however, that no Lender shall be responsible for the failure of any other Lender to make any Loan required to be made by such other Lender). Each Competitive Loan shall be made in accordance with the procedures set forth in

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Section 2.03. The Loans comprising any Borrowing shall be in an aggregate principal amount that is (i) an integral multiple of \$1,000,000 and not less than \$10,000,000 or (ii) equal to the remaining available balance of the Total Commitment.

(b) Subject to Sections 2.09 and 2.14, each Competitive Borrowing shall be comprised entirely of Eurodollar Competitive Loans or Fixed Rate Loans, and each Revolving Credit Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request pursuant to Section 2.03 or 2.04, as applicable. Each Lender may at its option make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement. Borrowings of more than one Type may be outstanding at the same time; provided, however, that the Borrower shall not be entitled to request any Borrowing that, if made, would result in more than 15 Eurodollar Borrowings outstanding hereunder at any time. For purposes of the foregoing, Borrowings having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Borrowings.

(c) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds to such account in New York City as the Administrative Agent may designate not later than 11:00 a.m., New York City time, and the Administrative Agent shall by 12:00 (noon), New York City time, credit the amounts so received to an account with the Administrative Agent designated by the Borrower in the applicable Borrowing Request or Competitive Bid Request, which account must be in the name of the Borrower or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Lenders.

(d) Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's portion of such Borrowing, the Administrative Agent may assume that such Lender has made such portion available to the Administrative Agent on the date of such Borrowing in accordance with paragraph (c) above and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If the Administrative Agent shall have so made funds available then, to the extent that such Lender shall not have made such portion available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent within one Business Day of demand therefor such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) in the case of the Borrower, the interest rate applicable at the time to the Loans comprising such Borrowing and (ii) in the case of such Lender, a rate determined by the Administrative Agent to represent its cost of overnight or short-term funds (which determination shall be conclusive absent manifest error). If such Lender shall repay to the Administrative Agent such corresponding amount, such amount shall constitute such Lender's Loan as part of such Borrowing for purposes of this Agreement.

(e) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date, unless the Borrower has given notice to extend payment of the principal amount of the Loans until the first anniversary of the Maturity Date in accordance with subsection 2.05(a).

SECTION 2.03. Competitive Bid Procedure. (a) In order to request Competitive Bids, the Borrower shall hand deliver or telecopy to the Administrative Agent a duly completed Competitive Bid Request (i) in the case of a Eurodollar Competitive Borrowing, not later than 10:00 a.m., New York City time, four Business Days before the proposed date of such Borrowing and (ii) in the case of a Fixed Rate

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Borrowing, not later than 10:00 a.m., New York City time, one Business Day before the proposed date of such Borrowing. A Competitive Bid Request shall not be made within five Business Days after the date of any previous Competitive Bid Request. No ABR Loan shall be requested in, or made pursuant to, a Competitive Bid Request. A Competitive Bid Request that does not conform substantially to the format of Exhibit D-1 may be rejected by the Administrative Agent and the Administrative Agent shall notify the Borrower of such rejection as promptly as practicable. Each Competitive Bid Request shall refer to this Agreement and specify (i) whether the Borrowing being requested is to be a Eurodollar Competitive Borrowing or a Fixed Rate Borrowing; (ii) the date of such Borrowing (which shall be a Business Day); (iii) the number and the location of the account to which funds are to be disbursed (which shall be an account that complies with the requirements of Section 2.02(c)); (iv) the aggregate principal amount of such Borrowing, which shall be a minimum of \$10,000,000 and an integral multiple of \$1,000,000 and not greater than the Total Commitment then available; and (v) the Interest Period with respect thereto (which may not end after the Maturity Date unless the Borrower has given notice to extend payment of the principal amount of the Loans until the first anniversary of the Maturity Date in accordance with subsection 2.05(a)). Promptly after its receipt of a Competitive Bid Request that is not rejected, the Administrative Agent shall by telecopy in the form set forth in Exhibit D-2 invite the Lenders to bid to make Competitive Loans pursuant to the Competitive Bid Request.

(b) Each Lender may make one or more Competitive Bids to the Borrower responsive to a Competitive Bid Request. Each Competitive Bid by a Lender must be received by the Administrative Agent by telecopy in the form of Exhibit D-3, (i) in the case of a Eurodollar Competitive Borrowing, not later than 9:30 a.m., New York City time, three Business Days before the proposed date of such Competitive Borrowing and (ii) in the case of a Fixed Rate Borrowing, not later than 9:30 a.m., New York City time, on the proposed date of such Competitive Borrowing. Competitive Bids that do not conform substantially to the format of Exhibit D-3 may be rejected by the Administrative Agent, and the Administrative Agent shall notify the applicable Lender as promptly as practicable. Each Competitive Bid shall refer to this Agreement and specify (x) the principal amount (which shall be a minimum of \$5,000,000 and an integral multiple of \$1,000,000 and which may equal the entire principal amount of the Competitive Borrowing requested by the Borrower) of the Competitive Loan or Loans that the Lender is willing to make, (y) the Competitive Bid Rate or Rates at which the Lender is prepared to make such Loan or Loans and (z) the Interest Period applicable to such Loan or Loans and the last day thereof.

(c) The Administrative Agent shall promptly notify the Borrower by telecopy of the Competitive Bid Rate and the principal amount of each Competitive Loan in respect of which a Competitive Bid shall have been made and the identity of the Lender that shall have made each bid.

(d) The Borrower may, subject only to the provisions of this paragraph (d), accept or reject any Competitive Bid. The Borrower shall notify the Administrative Agent by telephone, confirmed by telecopy in the form of a Competitive Bid Accept/Reject Letter, whether and to what extent it has decided

to accept or reject each Competitive Bid, (x) in the case of a Eurodollar Competitive Borrowing, not later than 10:30 a.m., New York City time, three Business Days before the date of the proposed Competitive Borrowing and (y) in the case of a Fixed Rate Borrowing, not later than 10:30 a.m., New York City time, on the proposed date of the Competitive Borrowing; provided, however, that (i) the failure of the Borrower to give such notice shall be deemed to be a rejection of each Competitive Bid, (ii) the Borrower shall not accept a Competitive Bid made at a particular Competitive Bid Rate if the Borrower has decided to reject a Competitive Bid made at a lower Competitive Bid Rate, (iii) the aggregate amount of the Competitive Bids accepted by the Borrower shall not exceed (but may be less than) the principal amount specified in the Competitive Bid Request, (iv) if the Borrower shall accept a Competitive Bid or Bids made at a particular Competitive Bid Rate but the amount of such Competitive Bid or Bids would cause the total amount to be accepted by the Borrower to exceed the amount specified in the Competitive Bid Request, then the Borrower shall accept a portion of such Competitive Bid or Bids in an amount equal to

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the amount specified in the Competitive Bid Request less the amount of all other Competitive Bids so accepted, which acceptance, in the case of multiple Competitive Bids at such Competitive Bid Rate, shall be made pro rata in accordance with the amount of each such Bid and (v) except pursuant to clause (iv) above, no Competitive Bid shall be accepted for a Competitive Loan unless such Competitive Loan is in a minimum principal amount of \$5,000,000 and an integral multiple of \$1,000,000; provided further, however, that if a Competitive Loan must be in an amount less than \$5,000,000 because of the provisions of clause (iv) above, such Competitive Loan may be for a minimum of \$1,000,000 or any integral multiple thereof, and in calculating the pro rata allocation of acceptances of portions of multiple Competitive Bids at a particular Competitive Bid Rate pursuant to clause (iv) the amounts shall be rounded to integral multiples of \$1,000,000 in a manner determined by the Borrower. A notice given by the Borrower pursuant to this paragraph (d) shall be irrevocable.

(e) The Administrative Agent shall promptly notify each bidding Lender by telecopy whether or not its Competitive Bid has been accepted (and, if so, in what amount and at what Competitive Bid Rate), and each successful bidder will thereupon become bound, upon the terms and subject to the conditions hereof, to make the Competitive Loan in respect of which its Competitive Bid has been accepted.

(f) If the Administrative Agent shall elect to submit a Competitive Bid in its capacity as a Lender, it shall submit such Competitive Bid directly to the Borrower at least one quarter of an hour earlier than the time by which the other Lenders are required to submit their Competitive Bids to the Administrative Agent pursuant to paragraph (b) above.

SECTION 2.04. Borrowing Procedure. In order to request a Borrowing (other than a Competitive Borrowing, as to which this Section 2.04 shall not apply), the Borrower shall hand deliver or telecopy to the Administrative Agent a duly completed Borrowing Request (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before a proposed Borrowing and (b) in the case of an ABR Borrowing, not later than 10:00 a.m., New York City time, on the day of a proposed Borrowing. Each Borrowing Request shall be irrevocable, signed by or on behalf of the Borrower, and shall specify the following information: (i) whether the Borrowing then being requested is to be a Eurodollar Borrowing or an ABR Borrowing; (ii) the date of such Borrowing (which shall be a Business Day); (iii) the number and location of the account to which funds are to be disbursed (which shall be an account that complies with the requirements of Section 2.02(c)); (iv) the amount of such Borrowing; and (v) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect thereto; provided, however, that, notwithstanding any contrary specification in any Borrowing Request, each requested Borrowing shall comply with the requirements set forth in Section 2.02. If no election as to the Type of Borrowing is specified in any such notice, then the requested

Borrowing shall be an ABR Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. The Administrative Agent shall promptly advise the Lenders of any notice given pursuant to this Section 2.04 (and the contents thereof), and of each Lender's portion of the requested Borrowing.

SECTION 2.05. Evidence of Debt; Repayment of Loans. (a) The Borrower hereby agrees that the outstanding principal balance of each Revolving Loan shall be payable on the Maturity Date and the outstanding principal balance of each Competitive Loan shall be payable on the last day of the Interest Period applicable thereto. Each Loan shall bear interest from and including the date of such Loan on the outstanding principal balance thereof as set forth in Section 2.07. The Borrower may, upon written notice to the Administrative Agent given not more than 60 days and at least 15 days prior to the Maturity Date, extend the date upon which the principal amount of the Loans of the Lenders outstanding as of the Maturity Date will be due and payable to the first anniversary of the Maturity Date. If the Borrower gives notice to the Administrative Agent in accordance with the preceding sentence, the Borrower hereby

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unconditionally promises to pay to the Administrative Agent for the account of each Lender the then unpaid principal amount of the Loans of such Lender on the first anniversary of the Maturity Date (or such earlier date on which the Loans become due and payable pursuant to Article VII).

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid by such Lender from time to time under this Agreement.

(c) The Administrative Agent shall maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraphs (b) and (c) of this Section 2.05 shall be prima facie evidence of the existence and amounts of the obligations therein recorded; provided, however, that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligations of the Borrower to repay the Loans in accordance with their terms.

(e) Notwithstanding any other provision of this Agreement, in the event any Lender shall request and receive a promissory note payable to such Lender and its registered assigns, the interests represented by such note shall at all times (including after any assignment of all or part of such interests pursuant to Section 10.04) be represented by one or more promissory notes payable to the payee named therein or its registered assigns.

SECTION 2.06. Fees. (a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a facility fee (a "Facility Fee") for the period from and including the Closing Date to the later of (i) the Maturity Date (or if the Borrower gives notice to the Administrative Agent pursuant to Section 2.05(a), the first anniversary of the Maturity Date) and (ii) the date the Commitments have been terminated and the principal of and interest on each Loan, all Fees and all other expenses or amounts payable under this Agreement shall have been paid in full, computed at the Applicable Percentage on the average daily amount of the Commitments (whether used or unused) or, after the Maturity Date or after the Commitments have been otherwise terminated hereunder, the average daily amount of the Loans outstanding, of such Lender during the period for which payment is made, payable quarterly in arrears

on the last day of each March, June, September and December and on the later of (i) the Maturity Date (or if the Borrower gives notice to the Administrative Agent pursuant to Section 2.05(a), the first anniversary of the Maturity Date) and (ii) the date the Commitments have been terminated and the principal of and interest on each Loan, all Fees and all other expenses or amounts payable under this Agreement shall have been paid in full, commencing on the first of such dates to occur after the date hereof. All Facility Fees shall be computed on the basis of the actual number of days elapsed in a year of 360 days.

(b) The Borrower agrees to pay to the Administrative Agent for the ratable account of each Lender, a utilization fee (a "Utilization Fee") at a rate per annum equal to 0.125% for each Excess Utilization Day during the period for which payment is made on the outstanding Loans of such Lender on such Excess Utilization Day. Such Utilization Fees shall be payable quarterly in arrears on the last day of each March, June, September and December and on the later of (i) the Maturity Date (or if the Borrower gives notice to the Administrative Agent pursuant to Section 2.05(a), the first anniversary of the Maturity Date) and (ii) the date the Commitments have been terminated and the principal of and interest on each

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Loan, all Fees and all other expenses or amounts payable under this Agreement shall have been paid in full, commencing on the first of such dates to occur after the Closing Date.

(c) The Borrower agrees to pay to each of the Agents or their Affiliates, for their own account, the fees set forth in the Fee Letter at the times and in the amounts specified therein (the "Agents' Fees").

(d) All Fees shall be paid on the dates due, in immediately available funds. Once paid, none of the Fees shall be refundable under any circumstances.

SECTION 2.07. Interest on Loans. (a) Subject to the provisions of Section 2.08, the Loans comprising each ABR Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be, when the Alternate Base Rate is determined by reference to the Prime Rate and over a year of 360 days at all other times) at a rate per annum equal to the Alternate Base Rate plus the Applicable Percentage in effect from time to time.

(b) Subject to the provisions of Section 2.08, the Loans comprising each Eurodollar Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to (i) in the case of each Revolving Loan, the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Applicable Percentage in effect from time to time and (ii) in the case of each Competitive Loan, the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Margin offered by the Lender making such Loan and accepted by the Borrower pursuant to Section 2.03.

(c) Subject to the provisions of Section 2.08, each Fixed Rate Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the fixed rate of interest offered by the Lender making such Loan and accepted by the Borrower pursuant to Section 2.03.

(d) Interest on each Loan shall be payable on the Interest Payment Dates applicable to such Loan except as otherwise provided in this Agreement. Any change in the interest rate on a Loan resulting from a change in the Alternate Base Rate or the Eurocurrency Reserve Requirements shall become effective as of the opening of business on the day on which such change becomes effective. The applicable Alternate Base Rate or Eurodollar Rate for each Interest Period or day within an Interest Period, as the case may be, shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.08. Default Interest. If the Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, by acceleration or otherwise, the Borrower shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount to but excluding the date of actual payment (after as well as before judgment) (a) in the case of overdue principal, at the rate otherwise applicable to such Loan pursuant to Section 2.07 plus 2.00% per annum and (b) in all other cases, at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be, when determined by reference to the Prime Rate and over a year of 360 days at all other times) equal to the sum of the Alternate Base Rate plus 2.00%.

SECTION 2.09. Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Borrowing the Administrative Agent shall have determined that (a) Dollar deposits in the principal amounts of the Loans comprising such Borrowing are not generally available in the London interbank market, or (b) the rates at

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which such Dollar deposits are being offered will not adequately and fairly reflect the cost to Lenders having Commitments representing at least 20% of the Total Commitment of making or maintaining Eurodollar Loans during such Interest Period, or (c) reasonable means do not exist for ascertaining the Eurodollar Rate, the Administrative Agent shall, as soon as practicable thereafter, give written or telecopy notice of such determination to the Borrower and the Lenders. In the event of any such determination (other than any such determination pursuant to clause (b) of the preceding sentence, to the extent the circumstances giving rise to such determination would also give Lenders the right to demand additional amounts pursuant to Section 2.13), until the Administrative Agent shall have advised the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any request by the Borrower for a Eurodollar Revolving Credit Borrowing pursuant to Section 2.04 shall be deemed to be a request for an ABR Borrowing and (ii) any request by the Borrower for a Eurodollar Competitive Borrowing pursuant to Section 2.03 shall be of no force and effect and shall be denied by the Administrative Agent. Each determination by the Administrative Agent hereunder shall be conclusive absent manifest error.

SECTION 2.10. Termination and Reduction of Commitments. (a) The Commitments shall automatically terminate on the Maturity Date.

(b) Upon at least three Business Days' prior irrevocable written or telecopy notice to the Administrative Agent, the Borrower may at any time in whole permanently terminate, or from time to time in part permanently reduce, the Commitments; provided, however, that (i) each partial reduction of the Commitments shall be in an integral multiple of \$1,000,000 and in a minimum amount of \$10,000,000 and (ii) the Total Commitment shall not be reduced to an amount that is less than the sum of the Aggregate Revolving Credit Exposure and the aggregate outstanding principal amount of the Competitive Loans at the time.

(c) Each reduction in the Commitments hereunder shall be made ratably among the Lenders in accordance with their respective Commitments. The Borrower shall pay to the Administrative Agent for the account of the applicable Lenders, on the date of each termination or reduction, the Facility Fees on the amount of the Commitments so terminated or reduced accrued to but excluding the date of such termination or reduction.

SECTION 2.11. Conversion and Continuation of Revolving Credit Borrowings. The Borrower shall have the right at any time upon prior irrevocable notice to the Administrative Agent (a) not later than 10:00 a.m., New York City time, on the day of conversion, to convert any Eurodollar Borrowing into an ABR Borrowing, (b) not later than 10:00 a.m., New York City time, three Business Days prior to conversion or continuation, to convert any ABR Borrowing into a Eurodollar Borrowing or to continue any Eurodollar Borrowing as a Eurodollar

Borrowing for an additional Interest Period, and (c) not later than 10:00 a.m., New York City time, three Business Days prior to conversion, to convert the Interest Period with respect to any Eurodollar Borrowing to another permissible Interest Period, subject in each case to the following:

(i) each conversion or continuation shall be made pro rata among the Lenders in accordance with the respective principal amounts of the Loans comprising the converted or continued Borrowing;

(ii) if less than all the outstanding principal amount of any Borrowing shall be converted or continued, then each resulting Borrowing shall satisfy the limitations specified in Sections 2.02(a) and 2.02(b) regarding the principal amount and maximum number of Borrowings of the relevant Type;

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(iii) each conversion shall be effected by each Lender by recording for the account of such Lender the new Loan of such Lender resulting from such conversion and reducing the Loan (or portion thereof) of such Lender being converted by an equivalent principal amount; accrued interest on any Eurodollar Loan (or portion thereof) being converted shall be paid by the Borrower at the time of conversion;

(iv) if any Eurodollar Borrowing is converted at a time other than the end of the Interest Period applicable thereto, the Borrower shall pay, upon demand, any amounts due to the Lenders pursuant to Section 2.15;

(v) subject to Section 2.05(a), any portion of a Borrowing maturing or required to be repaid in less than one month may not be converted into or continued as a Eurodollar Borrowing; and

(vi) any portion of a Eurodollar Borrowing that cannot be converted into or continued as a Eurodollar Borrowing by reason of the immediately preceding clause shall be automatically converted at the end of the Interest Period in effect for such Borrowing into an ABR Borrowing.

Each notice pursuant to this Section 2.11 shall be irrevocable and shall refer to this Agreement and specify (i) the identity and amount of the Borrowing that the Borrower requests be converted or continued, (ii) whether such Borrowing is to be converted into or continued as a Eurodollar Borrowing or an ABR Borrowing, (iii) if such notice requests a conversion, the date of such conversion (which shall be a Business Day) and (iv) if such Borrowing is to be converted into or continued as a Eurodollar Borrowing, the Interest Period with respect thereto (which, subject to Section 2.05(a), may not end after the Maturity Date). If no Interest Period is specified in any such notice with respect to any conversion into or continuation as a Eurodollar Borrowing, the Borrower shall be deemed to have selected an Interest Period of one month's duration. The Administrative Agent shall advise the other Lenders of any notice given pursuant to this Section 2.11 and of each Lender's portion of any converted or continued Borrowing. If the Borrower shall not have given notice in accordance with this Section 2.11 to continue any Borrowing into a subsequent Interest Period (and shall not otherwise have given notice in accordance with this Section 2.11 to convert such Borrowing), such Borrowing shall, at the end of the Interest Period applicable thereto (unless repaid pursuant to the terms hereof), automatically be continued into a new Interest Period as an ABR Borrowing. The Borrower shall not have the right to continue or convert the Interest Period with respect to any Competitive Borrowing pursuant to this Section 2.11.

SECTION 2.12. Prepayment. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing (other than a Competitive Borrowing), in whole or in part, upon at least three Business Days' prior written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) to the Administrative Agent before 11:00 a.m., New York City time; provided, however, that each partial prepayment shall be in an amount that

is an integral multiple of \$1,000,000 and not less than \$10,000,000. The Borrower shall not have the right to prepay any Competitive Borrowing without the prior written consent of the relevant Lender.

(b) In the event of any termination of the Commitments, the Borrower shall repay or prepay all its outstanding Revolving Credit Borrowings on the date of such termination. In the event of any partial reduction of the Commitments, then (i) at or prior to the effective date of such reduction, the Administrative Agent shall notify the Borrower and the Lenders of the Aggregate Revolving Credit Exposure and (ii) if the Aggregate Revolving Credit Exposure would exceed the available Total Commitment after giving effect to such reduction, the Borrower shall, on the date of such reduction, repay or prepay Revolving Credit Borrowings in an amount sufficient to eliminate such excess.

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(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing by the amount stated therein on the date stated therein. All prepayments under this Section 2.12 shall be subject to Section 2.15 but otherwise without premium or penalty. All prepayments of Eurodollar Loans under this Section 2.12 shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment.

SECTION 2.13. Reserve Requirements; Change in Circumstances. (a) Notwithstanding any other provision of this Agreement, if after the date of this Agreement the adoption of, or any change in, applicable law or regulation or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof (whether or not having the force of law) shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by any Lender or shall impose on such Lender or the London interbank market any other condition affecting this Agreement or Eurodollar Loans or Fixed Rate Loans made by such Lender, and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan or Fixed Rate Loan, or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or otherwise) by an amount deemed by such Lender to be material, then the Borrower will pay to such Lender upon demand such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(b) If any Lender shall have determined that the adoption after the date hereof of any law, rule, regulation, agreement or guideline regarding capital adequacy, or any change after the date hereof in any such law, rule, regulation, agreement or guideline (whether such law, rule, regulation, agreement or guideline has been adopted) or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance by any Lender (or any lending office of such Lender) or any Lender's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any Governmental Authority has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement or the Loans made by such Lender pursuant hereto to a level below that which such Lender or such Lender's holding company could have achieved but for such applicability, adoption, change or compliance (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company (including the calculation thereof) as specified in paragraph (a) or (b) above shall be



delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay to such Lender the amount shown as due on any such certificate delivered by it within 10 days after its receipt of the same.

(d) Failure or delay on the part of any Lender to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital shall not constitute a waiver of such Lender's right to demand such compensation. The protection of this Section shall be available to each Lender regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, agreement, guideline or other change or condition that shall have occurred or been imposed. Notwithstanding any other provision of this Section, no Lender shall be entitled to demand compensation hereunder in respect of any Competitive Loan if it shall have been aware of the event or

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circumstance giving rise to such demand at the time it submitted the Competitive Bid pursuant to which such Loan was made.

SECTION 2.14. Change in Legality. (a) Notwithstanding any other provision of this Agreement, if, after the date hereof, any change in any law or regulation or in the interpretation thereof by any Governmental Authority charged with the administration or interpretation thereof shall make it unlawful for any Lender to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to any Eurodollar Loan, then, by written notice to the Borrower and to the Administrative Agent:

(i) such Lender may declare that Eurodollar Loans will not thereafter (for the duration of such unlawfulness) be made by such Lender hereunder (or be continued for additional Interest Periods and ABR Loans will not thereafter (for such duration) be converted into Eurodollar Loans), whereupon such Lender shall not submit a Competitive Bid in response to a request for a Eurodollar Competitive Loan and any request for a Eurodollar Borrowing (or to convert an ABR Borrowing to a Eurodollar Borrowing or to continue a Eurodollar Borrowing for an additional Interest Period) shall, as to such Lender only, be deemed a request for an ABR Loan unless such declaration shall be subsequently withdrawn (or a request to continue an ABR Loan as such for an additional Interest Period or to convert a Eurodollar Loan into an ABR Loan, as the case may be); and

(ii) such Lender may require that all outstanding Eurodollar Loans made by it be converted to ABR Loans, in which event all such Eurodollar Loans shall be automatically converted to ABR Loans as of the effective date of such notice as provided in paragraph (b) below.

In the event any Lender shall exercise its rights under (i) or (ii) above, all payments and prepayments of principal that would otherwise have been applied to repay the Eurodollar Loans that would have been made by such Lender or the converted Eurodollar Loans of such Lender shall instead be applied to repay the ABR Loans made by such Lender in lieu of, or resulting from the conversion of, such Eurodollar Loans.

(b) For purposes of this Section 2.14, a notice to the Borrower by any Lender shall be effective as to each Eurodollar Loan made by such Lender, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Loan; in all other cases such notice shall be effective on the date of receipt by the Borrower.

SECTION 2.15. Indemnity. The Borrower shall indemnify each Lender against any loss or expense that such Lender may sustain or incur as a consequence of any event, other than a default by such Lender in the performance of its obligations hereunder, that results in (i) such Lender receiving or being deemed to receive any amount on account of the principal of any Fixed Rate Loan or Eurodollar Loan prior to the end of the Interest Period in effect therefor, (ii) the conversion of any Eurodollar Loan to an ABR Loan, or the conversion of the

Interest Period with respect to any Eurodollar Loan, in each case prior to the end of the Interest Period in effect therefor or (iii) any Fixed Rate Loan or Eurodollar Loan to be made by such Lender (including any Eurodollar Loan to be made pursuant to a conversion or continuation under Section 2.11) not being made after notice of such Loan shall have been given by the Borrower hereunder (any of the events referred to in this sentence being called a "Breakage Event"). In the case of any Breakage Event, such loss shall include an amount equal to the excess, as reasonably determined by such Lender, of (i) its cost of obtaining funds for the Eurodollar Loan or Fixed Rate Loan that is the subject of such Breakage Event for the period from the date of such Breakage Event to the last day of the Interest Period in effect (or that would have been in effect) for such Loan over (ii) the amount of interest likely to be realized by such Lender in redeploying the funds released or not utilized by reason

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of such Breakage Event for such period. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section 2.15 shall be delivered to the Borrower and shall be conclusive absent manifest error.

SECTION 2.16. Pro Rata Treatment. Except as provided in the two succeeding sentences with respect to Competitive Borrowings and as required under Section 2.14, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each payment of the Facility Fees, each reduction of the Commitments and each continuation or conversion of any Borrowing to a Borrowing of any Type shall be allocated pro rata among the Lenders in accordance with their respective Commitments (or, if such Commitments shall have expired or been terminated, in accordance with the respective principal amounts of their outstanding Loans). Each payment of principal of any Competitive Borrowing shall be allocated pro rata among the Lenders participating in such Borrowing in accordance with the respective principal amounts of their outstanding Competitive Loans comprising such Borrowing. Each payment of interest on any Competitive Borrowing shall be allocated pro rata among the Lenders participating in such Borrowing in accordance with the respective amounts of accrued and unpaid interest on their outstanding Competitive Loans comprising such Borrowing. For purposes of determining the available Commitments of the Lenders at any time, each outstanding Competitive Borrowing shall be deemed to have utilized the Commitments of the Lenders (including those Lenders that shall not have made Loans as part of such Competitive Borrowing) pro rata in accordance with such respective Commitments. Each Lender agrees that in computing such Lender's portion of any Borrowing to be made hereunder, the Administrative Agent may, in its discretion, round each Lender's percentage of such Borrowing to the next higher or lower whole Dollar amount.

SECTION 2.17. Sharing of Setoffs. Each Lender agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against the Borrower, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable bankruptcy, insolvency or other similar law or otherwise, or by any other means, obtain payment (voluntary or involuntary) in respect of any Revolving Loan or Loans as a result of which the unpaid principal portion of its Revolving Loans shall be proportionately less than the unpaid principal portion of the Revolving Loans of any other Lender, it shall be deemed simultaneously to have purchased from such other Lender at face value, and shall promptly pay to such other Lender the purchase price for, a participation in the Revolving Loans of such other Lender, so that the aggregate unpaid principal amount of the Revolving Loans and participations in Revolving Loans held by each Lender shall be in the same proportion to the aggregate unpaid principal amount of all Revolving Loans then outstanding as the principal amount of its Revolving Loans prior to such exercise of banker's lien, setoff or counterclaim or other event was to the principal amount of all Revolving Loans outstanding prior to such exercise of banker's lien, setoff or counterclaim or other event; provided, however, that, if any such purchase or purchases or adjustments shall be made pursuant to this

Section and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Borrower expressly consents to the foregoing arrangements and agrees that any Lender holding a participation in a Revolving Loan deemed to have been so purchased may exercise any and all rights of banker's lien, setoff or counterclaim with respect to any and all moneys owing by the Borrower to such Lender by reason thereof as fully as if such Lender had made a Revolving Loan directly to the Borrower in the amount of such participation.

SECTION 2.18. Payments. (a) The Borrower shall make each payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder not later than 12:00 (noon), New York City time, on the date when due in immediately available Dollars, without defense, setoff or counterclaim. Each such payment shall be made to the Administrative Agent at its offices at 270 Park Avenue, New York, New York.

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(b) Whenever any payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

SECTION 2.19. Taxes. (a) Any and all payments by the Borrower hereunder shall be made, in accordance with Section 2.18, free and clear of and without deduction for any and all current or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding (i) income taxes imposed on the net income of the Administrative Agent or any Lender (or any transferee or assignee thereof, including a participation holder (any such entity a "Transferee")) and (ii) franchise taxes imposed on the net income of the Administrative Agent or any Lender (or Transferee), in each case by the jurisdiction under the laws of which the Administrative Agent or such Lender (or Transferee) is organized or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities, collectively or individually, being called "Taxes"). If the Borrower shall be required to deduct any Taxes from or in respect of any sum payable hereunder to the Administrative Agent or any Lender (or any Transferee), (i) the sum payable shall be increased by the amount (an "additional amount") necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.19) the Administrative Agent or such Lender (or Transferee), as the case may be, shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower agrees to pay to the relevant Governmental Authority in accordance with applicable law any current or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement ("Other Taxes").

(c) The Borrower will indemnify the Administrative Agent and each Lender (or Transferee) for the full amount of Taxes and Other Taxes paid by the Administrative Agent or such Lender (or Transferee), as the case may be, and any liability (including penalties, interest and expenses (including reasonable attorney's fees and expenses)) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability prepared by the Administrative Agent or a Lender (or Transferee), or the Administrative Agent on its behalf, absent manifest error, shall be final, conclusive and binding for all purposes. Such indemnification shall be made within 30 days after the date the Administrative Agent or any

Lender (or Transferee), as the case may be, makes written demand therefor.

(d) If the Administrative Agent or a Lender (or Transferee) receives a refund in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.19, it shall within 30 days from the date of such receipt pay over such refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 2.19 with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Administrative Agent or such Lender (or Transferee) and without interest (other than interest paid by the relevant Governmental Authority with respect to such refund); provided, however, that the Borrower, upon the request of the Administrative Agent or such Lender (or Transferee), shall repay the amount paid over to the Borrower (plus penalties, interest or other charges) to the Administrative Agent or such Lender (or Transferee) in the event the Administrative Agent or such Lender (or Transferee) is required to repay such refund to such Governmental Authority.

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(e) As soon as practicable after the date of any payment of Taxes or Other Taxes by the Borrower to the relevant Governmental Authority, the Borrower will deliver to the Administrative Agent, at its address referred to in Section 10.01, the original or a certified copy of a receipt issued by such Governmental Authority evidencing payment thereof.

(f) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section 2.19 shall survive the payment in full of the principal of and interest on all Loans made hereunder.

(g) Each Lender (or Transferee) that is organized under the laws of a jurisdiction other than the United States, any State thereof or the District of Columbia (a "Non-U.S. Lender") shall deliver to each of the Borrower and the Administrative Agent two copies of either United States Internal Revenue Service Form W-8BEN or Form W-8ECI, or, in the case of a Non-U.S. Lender claiming exemption from U.S. Federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of "portfolio interest", a Form W-8BEN, or any subsequent versions thereof or successors thereto (and, if such Non-U.S. Lender delivers a Form W-8BEN, a certificate representing that such Non-U.S. Lender is not a bank for purposes of Section 881(c) of the Code, is not a 10-percent shareholder (within the meaning of Section 871(h)(3)(B) of the Code) of the Borrower and is not a controlled foreign corporation related to the Borrower (within the meaning of Section 864(d)(4) of the Code)), properly completed and duly executed by such Non-U.S. Lender claiming complete exemption from, or reduced rate of, U.S. Federal withholding tax on payments by the Borrower under this Agreement. Such forms shall be delivered by each Non-U.S. Lender on or before the date it becomes a party to this Agreement (or, in the case of a Transferee that is a participation holder, on or before the date such participation holder becomes a Transferee hereunder) and on or before the date, if any, such Non-U.S. Lender changes its applicable lending office by designating a different lending office (a "New Lending Office"). In addition, each Non-U.S. Lender shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non-U.S. Lender. Notwithstanding any other provision of this Section 2.19(g), a Non-U.S. Lender shall not be required to deliver any form pursuant to this Section 2.19(g) that such Non-U.S. Lender is not legally able to deliver.

(h) The Borrower shall not be required to indemnify any Non-U.S. Lender or to pay any additional amounts to any Non-U.S. Lender, in respect of United States Federal withholding tax pursuant to paragraph (a) or (c) above to the extent that (i) the obligation to withhold amounts with respect to United States Federal withholding tax existed under applicable laws and regulations on the date such Non-U.S. Lender became a party to this Agreement (or, in the case of a Transferee that is a participation holder, on the date such participation holder became a Transferee hereunder) or, with respect to payments to a New Lending

Office, the date such Non-U.S. Lender designated such New Lending Office with respect to a Loan; provided, however, that this paragraph (h) shall not apply (x) to any Transferee or New Lending Office that becomes a Transferee or New Lending Office as a result of an assignment, participation, transfer or designation made at the request of the Borrower and (y) to the extent the indemnity payment or additional amounts any Transferee, or any Lender (or Transferee), acting through a New Lending Office, would be entitled to receive (without regard to this paragraph (h)) do not exceed the indemnity payment or additional amounts that the person making the assignment, participation or transfer to such Transferee, or Lender (or Transferee) making the designation of such New Lending Office, would have been entitled to receive in the absence of such assignment, participation, transfer or designation or (ii) the obligation to pay such additional amounts would not have arisen but for a failure by such Non-U.S. Lender to comply with the provisions of paragraph (g) above.

(i) Nothing contained in this Section 2.19 shall require any Lender (or any Transferee) or the Administrative Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

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SECTION 2.20. Assignment of Commitments Under Certain Circumstances; Duty to Mitigate. (a) In the event (i) any Lender delivers a certificate requesting compensation pursuant to Section 2.13, (ii) any Lender delivers a notice described in Section 2.14 or (iii) the Borrower is required to pay any additional amount to any Lender or any Governmental Authority on account of any Lender pursuant to Section 2.19, the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to transfer and assign, without recourse (in accordance with and subject to the restrictions contained in Section 10.04), all of its interests, rights and obligations under this Agreement to an assignee which shall assume such assigned obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (x) such assignment shall not conflict with any law, rule or regulation or order of any court or other Governmental Authority having jurisdiction, (y) the Borrower shall have received the prior written consent of the Administrative Agent, which consent shall not unreasonably be withheld, and (z) the Borrower or such assignee shall have paid to the affected Lender in immediately available funds an amount equal to the sum of the principal of and interest accrued to the date of such payment on the outstanding Loans of such Lender plus all Fees and other amounts accrued for the account of such Lender hereunder (including any amounts under Section 2.13 and Section 2.15); provided further that if prior to any such transfer and assignment the circumstances or event that resulted in such Lender's claim for compensation under Section 2.13 or notice under Section 2.14 or the amounts paid pursuant to Section 2.19, as the case may be, cease to cause such Lender to suffer increased costs or reductions in amounts received or receivable or reduction in return on capital, or cease to have the consequences specified in Section 2.14, or cease to result in amounts being payable under Section 2.19, as the case may be (including as a result of any action taken by such Lender pursuant to paragraph (b) below), or if such Lender shall waive its right to claim further compensation under Section 2.13 in respect of such circumstances or event or shall withdraw its notice under Section 2.14 or shall waive its right to further payments under Section 2.19 in respect of such circumstances or event, as the case may be, then such Lender shall not thereafter be required to make any such transfer and assignment hereunder.

(b) If (i) any Lender shall request compensation under Section 2.13, (ii) any Lender delivers a notice described in Section 2.14 or (iii) the Borrower is required to pay any additional amount to any Lender or any Governmental Authority on account of any Lender, pursuant to Section 2.19, then, such Lender shall use reasonable efforts (which shall not require such Lender to incur an unreimbursed loss or unreimbursed cost or expense or otherwise take any action inconsistent with its internal policies or legal or regulatory restrictions or suffer any disadvantage or burden deemed by it to be significant) (x) to file any certificate or document reasonably requested in writing by the Borrower or

(y) to assign its rights and delegate and transfer its obligations hereunder to another of its offices, branches or affiliates, if such filing or assignment would reduce its claims for compensation under Section 2.13 or enable it to withdraw its notice pursuant to Section 2.14 or would reduce amounts payable pursuant to Section 2.19, as the case may be, in the future. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such filing, assignment, delegation and transfer.

### ARTICLE III

#### Representations And Warranties

To induce the Administrative Agent and the Lenders to enter into this Agreement and to make the Loans, the Borrower represents and warrants to the Administrative Agent and each of the Lenders that:

SECTION 3.01. Organization; Powers. The Borrower and each of the Significant Subsidiaries (a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has all requisite power and authority to own its property and assets and to carry on its business as now conducted and as proposed to be conducted and (c) is qualified to do

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business in, and is in good standing in, every jurisdiction where such qualification is required, except where the failure so to qualify could not reasonably be expected to result in a Material Adverse Effect. The Borrower has the corporate power and authority to execute, deliver and perform its obligations under this Agreement and to borrow hereunder. Schedule 3.01 sets forth each Significant Subsidiary of the Borrower in existence on the Closing Date.

SECTION 3.02. Authorization. The execution, delivery and performance by the Borrower of this Agreement and the borrowings hereunder (collectively, the "Transactions") (a) have been duly authorized by all requisite corporate and, if required, stockholder action and (b) will not (i) violate (A) any provision of law, statute, rule or regulation, or of the certificate or articles of incorporation or other constitutive documents or by-laws of the Borrower or any Significant Subsidiary, (B) any order of any Governmental Authority or (C) any material provision of any material indenture, agreement or other instrument to which the Borrower or any Significant Subsidiary is a party or by which any of them or any of their property is or may be bound, (ii) be in material conflict with, result in a material breach of or constitute (alone or with notice or lapse of time or both) a material default under, or give rise to any right to accelerate or to require the prepayment, repurchase or redemption of any obligation under any such material indenture, agreement or other instrument or (iii) result in the creation or imposition of any Lien upon or with respect to any property or assets now owned or hereafter acquired by the Borrower or any Significant Subsidiary.

SECTION 3.03. Enforceability. This Agreement has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms.

SECTION 3.04. Governmental Approvals. No action, consent or approval of, registration or filing with or any other action by any Governmental Authority is or will be required in connection with the Transactions, except those which have been made or obtained.

SECTION 3.05. Financial Statements. The Borrower has heretofore furnished to the Lenders the consolidated balance sheet, statement of income and statement of cash flows of the Borrower and its Subsidiaries as of and for the fiscal year ended December 31, 2001, audited by and accompanied by the opinion of PricewaterhouseCoopers LLP, independent public accountants. Such financial statements present fairly the financial condition and results of operations of

the Borrower and its Subsidiaries as of such date and for such period and were prepared in accordance with GAAP applied on a consistent basis. The unaudited consolidated balance sheet of the Borrower and its Subsidiaries as at March 31, 2002, June 30, 2002 and September 29, 2002, and the related unaudited consolidated statements of income and cash flows for the three-month periods ended on such dates, present fairly the consolidated financial condition of the Borrower and its Subsidiaries as at such dates, and the consolidated results of its operations and its consolidated cash flows for the three-month periods then ended (subject to normal year-end audit adjustments). All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as disclosed therein). Such financial statements and the notes thereto, and Schedule 3.05, when taken together, disclose all material liabilities, direct or contingent, of the Borrower and its consolidated Subsidiaries as of the date thereof.

SECTION 3.06. No Material Adverse Change. There has been no material adverse change in the business, assets, operations or condition, financial or otherwise, of the Borrower and the Subsidiaries, taken as a whole, since December 31, 2001.

SECTION 3.07. Litigation; Compliance with Laws. (a) Except as set forth on Schedule 3.07, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental

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Authority now pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or any business, property or rights of any such person (i) that involve this Agreement or the Transactions or (ii) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

(b) None of the Borrower or any of the Subsidiaries or any of their respective material properties or assets is in violation of, nor will the continued operation of their material properties and assets as currently conducted violate, any law, rule or regulation, or is in default with respect to any judgment, writ, injunction, decree or order of any Governmental Authority (including any of the foregoing relating to the environment), where such violation or default could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.08. Federal Reserve Regulations. (a) Neither the Borrower nor any of the Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of buying or carrying Margin Stock.

(b) No part of the proceeds of any Loan will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately for any purpose that entails a violation of, or that is inconsistent with, the provisions of the Regulations of the Board, including Regulation U or X. Margin Stocks do not constitute 25% or more of the fair market value of the assets of the Borrower and the Subsidiaries subject to the restrictions of Section 6.01.

SECTION 3.09. Investment Company Act; Public Utility Holding Company Act. Neither the Borrower nor any Subsidiary is (a) an "investment company", or a company "controlled" by an "investment company", as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935. SECTION 3.10. Tax Returns. Each of the Borrower and the Subsidiaries has filed or caused to be filed all Federal and all material state, local and foreign tax returns or materials required to have been filed by it and has paid or caused to be paid all taxes shown to be due and payable by it on such returns and all assessments received by it, except taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or

such Subsidiaries, as applicable, shall have set aside on its books adequate reserves in accordance with GAAP.

SECTION 3.11. No Material Misstatements. Neither (a) the Confidential Information Memorandum nor (b) any other information, report, financial statement, exhibit or schedule furnished in writing by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or included herein or delivered pursuant hereto contained, contains or will contain any material misstatement of fact or omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are or will be made, not misleading; provided that to the extent any such information, report, financial statement, exhibit or schedule was based upon or constitutes a forecast or projection, the Borrower represents only that it acted in good faith and utilized reasonable assumptions and due care in the preparation of such information, report, financial statement, exhibit or schedule.

SECTION 3.12. Employee Benefit Plans. Each of the Borrower and its ERISA Affiliates is in compliance in all material respects with the applicable provisions of ERISA and the Code and the regulations and published interpretations thereunder. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events, could reasonably be

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expected to result in a Material Adverse Effect. The present value of all benefit liabilities under all Plans (based on those assumptions used to fund each such Plan) did not, as of the last annual valuation date applicable thereto before the Closing Date, exceed the fair market value of the assets of all Plans as of such date, and the present value of all benefit liabilities of all underfunded Plans (based on those assumptions used to fund each such Plan) did not, as of the last annual valuation dates applicable thereto before the Closing Date, exceed by more than \$280 million the fair market value of the assets of all such underfunded Plans as of such dates.

SECTION 3.13. No Default. Neither the Borrower nor any Subsidiary is in default under or with respect to any of its Contractual Obligations in any respect that has had or would reasonably be expected to have a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

SECTION 3.14. Ownership of Property; Liens; Insurance. The Borrower and each of its Significant Subsidiaries has title in fee simple to, or a valid leasehold interest in, all its material real property, and good title to, or a valid leasehold interest in, all its other material property, and none of such property is subject to any Lien except as permitted by Section 6.01. The Borrower and each of its Subsidiaries maintains with financially sound and reputable insurance companies insurance on all its property in at least such amounts and against at least such risks (but including in any event public liability, product liability and business interruption) as are usually insured against in the same general area by companies engaged in the same or a similar business, provided that nothing in this Section 3.14 shall preclude the Borrower or any Subsidiary from being self-insured (to the extent deemed prudent by the Borrower or such Subsidiary and customary with companies in the same or similar business).

SECTION 3.15. Intellectual Property. The Borrower and each of its Subsidiaries owns, is licensed to use or otherwise has the right to use all Intellectual Property necessary for the conduct of its business as currently conducted, except where the failure of the Borrower and its Subsidiaries to have any such rights has had or would reasonably be expected to have a Material Adverse Effect. To the knowledge of the Borrower, no material claim that would reasonably be expected to have a Material Adverse Effect if adversely decided, has been asserted and is currently active and pending by any person (i) alleging that the business of the Borrower or its Subsidiaries as currently conducted



infringes the Intellectual Property rights of a third party or (ii) challenging or questioning the use of any Intellectual Property of the Borrower or its Subsidiaries or the validity or effectiveness of any Intellectual Property of the Borrower or its Subsidiaries. Except for such activities as may be subject to authorization and consent pursuant to 28 U.S.C. Section 1498 or substantially equivalent law or regulation, to the Borrower's knowledge, the operation of the businesses of the Borrower and its Subsidiaries as currently conducted do not infringe any valid and enforceable Intellectual Property rights of any third party where a finding of such infringement would reasonably be expected to have a Material Adverse Effect.

SECTION 3.16. Labor Matters. Except as, in the aggregate, has not had or would not reasonably be expected to have a Material Adverse Effect: (a) there are no strikes or other labor disputes against the Borrower or any of its Subsidiaries pending or, to the knowledge of the Borrower, threatened; (b) hours worked by and payment made to employees of the Borrower and each of its Subsidiaries have not been in violation of the Fair Labor Standards Act or any other applicable law or regulation dealing with such matters; and (c) all payments due from the Borrower or any of its Subsidiaries on account of employee health and welfare insurance have been paid or accrued as a liability on the books of the Borrower or the relevant Subsidiary, as applicable.

SECTION 3.17. Environmental Matters. Except as, in the aggregate, has not had or would not reasonably be expected to have a Material Adverse Effect:

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(a) the facilities and properties owned, leased or operated by the Borrower or any Subsidiary (the "Properties") do not contain, and have not previously contained, any Materials of Environmental Concern in amounts or concentrations or under circumstances that constitute or constituted a violation of, or could give rise to liability under, any Environmental Law;

(b) neither the Borrower nor any Subsidiary has received or is aware of any notice of violation, alleged violation, non-compliance, liability or potential liability regarding environmental matters or compliance with Environmental Laws with regard to any of the Properties or the business operated by the Borrower or any Subsidiary (the "Business"), nor does any Responsible Officer of the Borrower have actual knowledge or a reasonable basis to believe that any such notice will be received or is being threatened;

(c) Materials of Environmental Concern have not been transported or disposed of from the Properties in violation of, or in a manner or to a location that could give rise to liability under, any Environmental Law, nor have any Materials of Environmental Concern been generated, treated, stored or disposed of at, on or under any of the Properties in violation of, or in a manner that could give rise to liability under, any applicable Environmental Law;

(d) no judicial proceeding or governmental or administrative action is pending or, to the knowledge of any Responsible Officer of the Borrower, threatened, under any Environmental Law to which the Borrower or any Subsidiary is or will be named as a party with respect to the Properties or the Business, nor are there any consent decrees or other decrees, consent orders, administrative orders or other orders, or other administrative or judicial requirements outstanding under any Environmental Law with respect to the Properties or the Business;

(e) there has been no release or threat of release of Materials of Environmental Concern at or from the Properties, or arising from or related to the operations of the Borrower or any Subsidiary in connection with the Properties or otherwise in connection with the Business, in violation of or in amounts or in a manner that could give rise to liability under Environmental Laws;

(f) the Properties and all operations at the Properties are in compliance, and have in the last five years been in compliance, with all applicable

Environmental Laws, and there is no contamination at, under or about the Properties or violation of any Environmental Law with respect to the Properties or the Business; and

(g) neither the Borrower nor any Subsidiary has assumed any liability of any other person under Environmental Laws.

SECTION 3.18. Solvency. The Borrower is, and after giving effect to the incurrence of all Indebtedness and obligations being incurred in connection herewith will be and will continue to be, Solvent.

#### ARTICLE IV

##### Conditions Of Effectiveness and Lending

The obligations of the Lenders to make Loans (including the initial Borrowing) hereunder are subject to the satisfaction of the following conditions:

SECTION 4.01. All Borrowings. On the date of each Borrowing (other than, in the case of paragraph (b) below, a Borrowing that does not increase the aggregate principal amount of Loans

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outstanding of any Lender) and on the date of the conversion of Revolving Loans to Term-out Loans in accordance with Section 2.05(a):

(a) The Administrative Agent shall have received a notice of such Borrowing as required by Section 2.03 or 2.04, as applicable, or conversion as required by Section 2.05, as the case may be.

(b) The representations and warranties set forth in Article III hereof shall be true and correct in all material respects on and as of the date of such Borrowing or conversion, as the case may be, with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date.

(c) At the time of and immediately after such Borrowing or conversion, as the case may be, no Event of Default or Default shall have occurred and be continuing.

Each Borrowing and the conversion of Revolving Loans to Term-out Loans pursuant to Section 2.05(a) by the Borrower shall be deemed to constitute a representation and warranty by the Borrower on the date of such Borrowing or conversion as to the matters specified in paragraphs (b) (except as aforesaid) and (c) of this Section 4.01.

SECTION 4.02. Effectiveness. On the date of effectiveness (which may or may not be the date of the initial Borrowing):

(a) Credit Agreement. The Administrative Agent shall have received this Agreement, executed and delivered by the Administrative Agent, the Borrower, each Guarantor and each person listed on Schedule 2.01.

(b) Legal Opinions. The Administrative Agent shall have received, on behalf of itself and the Lenders and the Agents, the favorable written opinions of (i) Jay B. Stevens, Senior Vice President, Secretary and General Counsel of the Borrower and other appropriate in-house counsel with respect to the Guarantors and (ii) Bingham McCutchen LLP, special counsel for the Borrower, substantially to the effect set forth in Exhibits E and F, respectively, each (A) dated the date of the initial Borrowing, (B) addressed to the Administrative Agent, the Lenders and the Agents, and (C) covering such other matters relating to this Agreement and the transactions contemplated hereby as the Administrative Agent and the Syndication Agent may reasonably request as a result of any change in law or regulation after

the Closing Date relating to such transactions or any material change in facts previously disclosed to the Lenders, or disclosure of facts not previously disclosed to the Lenders, and the Borrower hereby requests such counsel deliver such opinions.

(c) Legal Matters. All legal matters incident to this Agreement, the Borrowings and extensions of credit hereunder shall be reasonably satisfactory to the Lenders and to Simpson Thacher & Bartlett, counsel for the Administrative Agent and the Syndication Agent.

(d) Closing Certificates. The Administrative Agent and the Syndication Agent shall have received (i) a copy of the certificate of incorporation, including all amendments thereto, of the Borrower and each Guarantor, each certified by the relevant authority of the jurisdiction of organization, and a certificate as to the good standing of the Borrower and each Guarantor as of a recent date, from such relevant authority; (ii) a certificate of the Secretary or Assistant Secretary of the Borrower and each Guarantor, each dated the Closing Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of the Borrower or the relevant Guarantor, as

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applicable, as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of the Borrower or the relevant Guarantor, as applicable, authorizing the execution, delivery and performance of this Agreement and, in the case of the Borrower, the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate of incorporation of the Borrower or the relevant Guarantor, as applicable, has not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer executing this Agreement or any other document delivered in connection herewith on behalf of the Borrower or the relevant Guarantor, as applicable; (iii) a certificate of another officer of the Borrower or the relevant Guarantor, as applicable, as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; and (iv) such other documents as the Lenders or Simpson Thacher & Bartlett, counsel for the Administrative Agent and the Syndication Agent, may reasonably request.

(e) Financial Officer's Certificate. The Administrative Agent and the Syndication Agent shall each have received (i) a certificate, dated the date of the initial Borrowing and signed by a Financial Officer of the Borrower, confirming compliance with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.01 and (ii) a Ratio Certificate, setting forth the calculations, in reasonable detail, required to determine compliance with all covenants set forth in Sections 6.05(a) and (b) on the Closing Date and on the date of the initial Borrowing.

(f) Fees and Expenses. The Administrative Agent and the other Agents and their Affiliates shall have received all Fees and other amounts due and payable on or prior to the Closing Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

(g) Existing Credit Agreement. The Existing Credit Agreement shall have been terminated and the outstanding loans thereunder and accrued interest thereon and accrued and unpaid commitment fees owed thereunder shall have been paid in full.

(h) Purchase and Sale Agreement. All capital, yield and other amounts outstanding to the Purchasers (as defined below) and the agents under the

Fourth Amended and Restated Purchase and Sale Agreement, dated as of March 8, 2002, as amended, among, inter alia, Raytheon Aircraft Credit Corporation, Raytheon Aircraft Receivables Corporation and the existing purchasers thereunder (the "Purchasers") shall have been paid in full and all commitments thereunder shall have been terminated in full, except that Bank of America, N.A. (and any commercial paper conduit for which it is acting as agent), may retain an outstanding amount of capital and a commitment thereunder each in the amount of \$1,000,000.

## ARTICLE V

### Affirmative Covenants

The Borrower covenants and agrees with each Lender that so long as this Agreement shall remain in effect and until the Commitments have been terminated and the principal of and interest on each Loan, all Fees and all other expenses or amounts payable under this Agreement shall have been paid in full, unless the Required Lenders shall otherwise consent in writing, the Borrower will, and will cause each of the Subsidiaries to:

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SECTION 5.01. Existence; Businesses and Properties. In the case of the Borrower and the Significant Subsidiaries:

(a) do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights and franchises, except as otherwise expressly permitted under Section 6.03;

(b) comply in all material respects with all applicable laws, rules, regulations and decrees and orders of any Governmental Authority, whether now in effect or hereafter enacted; and at all times maintain, preserve and protect all property material to the conduct of its business; and

(c) comply with all Contractual Obligations except to the extent that failure to comply therewith, in the aggregate, has not had or would not reasonably be expected to have a Material Adverse Effect.

SECTION 5.02. Insurance. Keep its insurable properties adequately insured at all times by financially sound and reputable insurers; and maintain such other insurance, to such extent and against such risks, including fire and other risks insured against by extended coverage, as is customary with companies in the same or similar businesses, provided that nothing in this Section 5.02 shall preclude the Borrower or any Subsidiary from being self-insured (to the extent deemed prudent by the Borrower or such Subsidiary and customary with companies in the same or similar business).

SECTION 5.03. Payment of Obligations; Taxes. (a) Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all its material obligations (which, with respect to payment obligations, shall be any obligation of \$50,000,000 or greater) of whatever nature, except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings and adequate reserves with respect thereto shall, to the extent required by GAAP, have been set aside; and

(b) Pay and discharge promptly when due all material taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise that, if unpaid, might give rise to a Lien upon such properties or any part thereof unless and to the extent the same are being contested in good faith by appropriate proceedings and adequate reserves with respect thereto shall, to the extent required by GAAP, have been set aside.

SECTION 5.04. Financial Statements, Reports, etc. In the case of the Borrower, furnish to the Administrative Agent and each Lender:

(a) within 90 days after the end of each fiscal year, a consolidated balance sheet, statement of income and statement of cash flows showing the financial condition and results of operations of the Borrower and its consolidated Subsidiaries as of and for the fiscal year then ended, all audited by PricewaterhouseCoopers LLP or other independent public accountants of recognized national standing and accompanied by an opinion of such accountants (which shall not be qualified in any material respect) to the effect that such consolidated financial statements fairly present the financial condition and results of operations of the Borrower and its consolidated Subsidiaries, as the case may be, on a consolidated basis in accordance with GAAP;

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year, a consolidated balance sheet, statement of income and statement of cash flows showing the

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financial condition and results of operations of the Borrower and its consolidated Subsidiaries as of and for the fiscal quarter then ended and the then elapsed portion of the fiscal year, all certified by a Financial Officer of the Borrower as fairly presenting the financial condition and results of operations of the Borrower, as the case may be, on a consolidated basis in accordance with GAAP, subject to normal year-end audit adjustments;

(c) concurrently with any delivery of financial statements under paragraph (a) or (b) above, (i) a Ratio Certificate and (ii) a certificate of a Financial Officer of the Borrower certifying that no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto;

(d) promptly, after their becoming available, copies of all financial statements, stockholders reports and proxy statements that the Borrower shall have sent to its stockholders generally, and copies of all registration statements filed by the Borrower under the Securities Act of 1933, as amended (other than registration statements on Form S-8 or any registration statement filed in connection with a dividend reinvestment plan), and regular and periodic reports, if any, which the Borrower shall have filed with the Securities and Exchange Commission (or any governmental agency or agencies substituted therefor) under Section 13 or Section 15(d) of the Securities and Exchange Act of 1934, as amended, or with any national securities exchange (other than those on Form 11-K or any successor form); provided, that documents required to be delivered under this clause (d) which are made available on the internet via the EDGAR, or any successor, system of the Securities and Exchange Commission shall be deemed delivered; and

(e) promptly, from time to time, such other information regarding the Borrower or any Significant Subsidiary (including the operations, business affairs and financial condition of the Borrower or any Significant Subsidiary), or compliance with the terms of this Agreement, as the Administrative Agent or any Lender may reasonably request.

SECTION 5.05. Litigation and Other Notices. Promptly upon any Responsible Officer of the Borrower obtaining knowledge of any of the following, furnish to the Administrative Agent and each Lender written notice of the following:

(a) any Event of Default or Default, specifying the nature and extent thereof and the corrective action (if any) taken or proposed to be taken with respect thereto;

(b) the filing or commencement of, or any notice of intention of any person to file or commence, any action, suit or proceeding, whether at law

or in equity or by or before any Governmental Authority, against the Borrower or any Affiliate thereof that could reasonably be expected to result in a Material Adverse Effect or materially impair the Borrower's ability to perform its obligations under this Agreement;

(c) any change in the ratings by S&P or Moody's of the Index Debt; and

(d) any development that has resulted in, or could reasonably be expected to result in, a Material Adverse Effect.

SECTION 5.06. Employee Benefits. (a) Comply in all material respects with the applicable provisions of ERISA and the Code and (b) furnish to the Administrative Agent and each Lender as soon as possible after, and in any event within 30 days after any Responsible Officer of the Borrower or any ERISA Affiliate knows that, any ERISA Event has occurred that, alone or together with any other ERISA

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Event known to have occurred, could reasonably be expected to result in liability of the Borrower in an aggregate amount exceeding \$75,000,000 in any year, a statement of a Financial Officer of the Borrower setting forth details as to such ERISA Event and the action, if any, that the Borrower proposes to take with respect thereto

SECTION 5.07. Maintaining Records; Access to Properties and Inspections. Maintain financial records in accordance with GAAP and, upon reasonable notice, permit any representatives designated by the Administrative Agent or any Lender to visit and inspect the financial records and the properties of the Borrower or any Significant Subsidiary during normal business hours and to discuss the affairs, finances and condition of the Borrower or any Significant Subsidiary with the officers thereof and independent accountants therefor.

SECTION 5.08. Use of Proceeds. Use the proceeds of the Loans only for the purposes set forth in the preamble to this Agreement.

SECTION 5.09. Environmental Laws. Except as, in the aggregate, has not had or would not reasonably be expected to have a Material Adverse Effect:

(a) Comply in all material respects with, and undertake all reasonable efforts to ensure compliance in all material respects by all tenants and subtenants, if any, with, all applicable Environmental Laws, and obtain and comply in all material respects with and maintain, and ensure that all tenants and subtenants obtain and comply in all material respects with and maintain, any and all licenses, approvals, notifications, registrations or permits required by applicable Environmental Laws.

(b) Conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under Environmental Laws and comply as required in all material respects with all lawful orders and directives of all Governmental Authorities regarding Environmental Laws.

## ARTICLE VI

### Negative Covenants

The Borrower covenants and agrees with each Lender that, so long as this Agreement shall remain in effect and until the Commitments have been terminated and the principal of and interest on each Loan, all Fees and all other expenses or amounts payable under this Agreement have been paid in full, unless the Required Lenders shall otherwise consent in writing, the Borrower will not, and will not cause or permit any of the Subsidiaries to:

SECTION 6.01. Liens. Create, incur, assume or permit to exist any Lien on

any property or assets (including stock or other securities of any person, including any Subsidiary) now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except:

(a) Liens on property or assets of the Borrower or any of its Subsidiaries existing on the date hereof except, in the case of the Borrower, any such Lien securing Indebtedness for borrowed money in excess of \$5,000,000 that is not set forth in Schedule 6.01, provided that all Liens permitted by this paragraph (a) shall secure only those obligations which they secure on the date hereof;

(b) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Subsidiary, provided that (i) such Lien is not created in contemplation of or in

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connection with such acquisition and (ii) such Lien does not apply to any other property or assets of the Borrower or any Subsidiary;

(c) Liens for taxes not yet past due or which are being contested in compliance with Section 5.03;

(d) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business and securing obligations that are not due and payable or which are being contested in compliance with Section 5.03;

(e) pledges and deposits made in the ordinary course of business in compliance with workmen's compensation, unemployment insurance and other social security laws or regulations;

(f) deposits to secure the performance of bids, trade contracts (other than for Indebtedness), leases (other than capital leases), statutory obligations, surety and appeal bonds, advance payment bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(g) zoning restrictions, easements, rights-of-way, restrictions on use of real property and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and do not materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries;

(h) Liens upon any property acquired, constructed or improved by the Borrower or any Subsidiary which are created or incurred within 360 days of such acquisition, construction or improvement to secure or provide for the payment of any part of the purchase price of such property or the cost of such construction or improvement, including carrying costs (but no other amounts), provided that any such Lien shall not apply to any other property of the Borrower or any Subsidiary;

(i) Liens on the property or assets of any Subsidiary in favor of the Borrower;

(j) extensions, renewals and replacements of Liens referred to in paragraphs (a) through (i) of this Section 6.01, provided that any such extension, renewal or replacement Lien shall be limited to the property or assets covered by the Lien extended, renewed or replaced and that the obligations secured by any such extension, renewal or replacement Lien shall be in an amount not greater than the amount of the obligations secured by the Lien extended, renewed or replaced;

(k) any Lien of the type described in clause (c) of the definition of the term "Lien" on securities imposed pursuant to an agreement entered into

for the sale or disposition of such securities pending the closing of such sale or disposition; provided such sale or disposition is otherwise permitted hereunder;

(l) Liens arising in connection with any Permitted Receivables Program (to the extent the sale by the Borrower or the applicable Subsidiary of its accounts receivable is deemed to give rise to a Lien in favor of the purchaser thereof in such accounts receivable or the proceeds thereof); and

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(m) Liens to secure Indebtedness if, immediately after the grant thereof, the aggregate amount of all Indebtedness secured by Liens that would not be permitted but for this clause (m), when aggregated with the amount of Indebtedness permitted by Section 6.04(h), does not exceed the greater of (i) \$100,000,000 or (ii) 15% of Consolidated Net Tangible Assets as shown on the most recent consolidated balance sheet delivered pursuant to Section 3.05 or 5.04(a) or (b), as the case may be.

SECTION 6.02. Sale and Lease-Back Transactions. Enter into any arrangement, directly or indirectly, with any person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease back such property; provided, however, that the Borrower and the Subsidiaries may enter into any such transaction to the extent the Lien on any such property would be permitted by Section 6.01(m).

SECTION 6.03. Mergers, Consolidations and Sales of Assets. In the case of the Borrower, merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of, or permit the sale, transfer, lease or other disposition of (in one transaction or in a series of transactions) all or substantially all of its assets (including any Subsidiary), or agree to do any of the foregoing; provided, however, that any person may merge into or consolidate with the Borrower in a transaction in which the Borrower is the surviving corporation if no Event of Default or Default shall have occurred and be continuing or would occur immediately after giving effect thereto; provided, further, that nothing in this Section 6.03 shall prohibit the sale of the capital stock or assets of either or both Guarantors.

SECTION 6.04. Subsidiary Indebtedness. Permit any Subsidiary to create, incur, assume or permit to exist any Indebtedness, except:

(a) Indebtedness existing on the date hereof and set forth in Schedule 6.04 and extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof;

(b) Indebtedness issued to the Borrower or any other Subsidiary;

(c) Indebtedness incurred to finance the acquisition, construction or improvement of any fixed or capital assets, and extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof; provided that such Indebtedness is incurred prior to or within 90 days after such acquisition or the completion of such construction or improvement;

(d) Indebtedness of any person that becomes a Subsidiary after the date hereof; provided that such Indebtedness exists at the time such person becomes a Subsidiary and is not created in contemplation of or in connection with such person becoming a Subsidiary;

(e) Indebtedness as an account party in respect of trade letters of credit;

(f) Indebtedness arising in connection with any Permitted Receivables



Program (to the extent the sale by the applicable Subsidiary of its accounts receivable is deemed to be Indebtedness of such Subsidiary);

(g) performance, advance payment, warranty and bid guarantees and other similar guarantees of payment (other than in respect of Indebtedness for borrowed money) made by a Subsidiary in the ordinary course of business; and

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(h) other Indebtedness in an aggregate principal amount, when aggregated with the amount of all Indebtedness secured by Liens permitted by Section 6.01(m), not exceeding the greater of (i) \$100,000,000 or (ii) 15% of Consolidated Net Tangible Assets as shown on the most recent consolidated balance sheet delivered pursuant to Section 3.05 or 5.04(a) or (b), as the case may be.

SECTION 6.05. Financial Covenants. (a) Debt to Capitalization. Permit Total Debt to exceed (i) 55% of Total Capitalization at any time to but excluding June 28, 2004 and (ii) 50% of Total Capitalization at any time from and including June 28, 2004 and thereafter.

(b) Consolidated Interest Coverage Ratio. Permit the Consolidated Interest Coverage Ratio for any period of four consecutive fiscal quarters of the Borrower ending with any fiscal quarter (i) after the Closing Date until, but excluding, June 28, 2004 to be less than 2.5 to 1.0 and (ii) commencing June 28, 2004 and thereafter to be less than 3.0 to 1.0.

#### ARTICLE VII

##### Events Of Default

In case of the happening of any of the following events ("Events of Default"):

(a) any representation or warranty made or deemed made in or in connection with this Agreement or the borrowings hereunder, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished in connection with or pursuant to this Agreement, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

(b) default shall be made in the payment of any principal of any Loan when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise;

(c) default shall be made in the payment of any interest on any Loan or any Fee or any other amount (other than an amount referred to in (b) above) due under this Agreement, when and as the same shall become due and payable, and such default shall continue unremedied for a period of three Business Days following notice thereof;

(d) default shall be made in the due observance or performance by the Borrower or any Subsidiary of any covenant, condition or agreement contained in Section 5.01(a), 5.05(a) or 5.08 or in Article VI;

(e) default shall be made in the due observance or performance by the Borrower or any Subsidiary of any covenant, condition or agreement contained in this Agreement (other than those specified in (b), (c) or (d) above) and such default shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent or any Lender to the Borrower;

(f) the Borrower or any Subsidiary shall (i) fail to pay any

principal or interest, regardless of amount, due in respect of any Indebtedness (excluding guarantees, which are covered by clause (ii) below) in a principal amount in excess of \$50,000,000, when and as the same shall become due and payable, or (ii) fail to make any payment under any guarantee, if the aggregate amount of the guaranteed obligations is in excess of \$50,000,000, except to the extent the Borrower or such Subsidiary is contesting in good faith the requirement to make such

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payment, or (iii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Indebtedness if the effect of any failure referred to in this clause (iii) is to cause such Indebtedness to become due prior to its stated maturity;

(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Borrower or any Significant Subsidiary, or of a substantial part of the property or assets of the Borrower or a Significant Subsidiary, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal, state or foreign bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Significant Subsidiary or for a substantial part of the property or assets of the Borrower or a Significant Subsidiary or (iii) the winding-up or liquidation of the Borrower or any Significant Subsidiary; and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(h) the Borrower or any Significant Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal, state or foreign bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (g) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Significant Subsidiary or for a substantial part of the property or assets of the Borrower or any Significant Subsidiary, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take any action for the purpose of effecting any of the foregoing;

(i) one or more judgments for the payment of money in an aggregate amount in excess of \$50,000,000 (to the extent not adequately covered by insurance as to which the insurance company has acknowledged coverage in writing) shall be rendered against the Borrower, any Subsidiary or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to levy upon assets or properties of the Borrower or any Subsidiary to enforce any such judgment;

(j) an ERISA Event shall have occurred that, in the reasonable opinion of the Required Lenders, when taken together with all other such ERISA Events that have occurred could reasonably be expected to result in a Material Adverse Effect;

(k) there shall have occurred a Change in Control; or

(l) the Guarantee contained in Article IX of this Agreement shall cease, for any reason (other than in accordance with Section 10.17), to be

in full force and effect with respect to any Guarantor or the Borrower or any Guarantor or any Affiliate of the Borrower or any Guarantor shall so assert;

then, and in every such event (other than an event with respect to the Borrower described in paragraph (g) or (h) above), and at any time thereafter during the continuance of such event, the Administrative Agent

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may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate forthwith the Commitments and (ii) declare the Loans then outstanding to be forthwith due and payable in whole or in part, whereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein to the contrary notwithstanding; and in any event with respect to the Borrower described in paragraph (g) or (h) above, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein to the contrary notwithstanding.

#### ARTICLE VIII

##### The Administrative Agent

In order to expedite the transactions contemplated by this Agreement, JPMorgan Chase Bank is hereby appointed to act as Administrative Agent on behalf of the Lenders. Each of the Lenders and each assignee of any such Lender hereby irrevocably authorizes the Administrative Agent to take such actions on behalf of such Lender or assignee and to exercise such powers as are specifically delegated to the Administrative Agent by the terms and provisions hereof, together with such actions and powers as are reasonably incidental thereto. The Administrative Agent is hereby expressly authorized by the Lenders, without hereby limiting any implied authority, (a) to receive on behalf of the Lenders all payments of principal of and interest on the Loans and all other amounts due to the Lenders hereunder, and promptly to distribute to each Lender its proper share of each payment so received; (b) to give notice on behalf of each of the Lenders to the Borrower of any Event of Default specified in this Agreement of which the Administrative Agent has actual knowledge acquired in connection with its agency hereunder; and (c) to distribute to each Lender copies of all notices, financial statements and other materials delivered by the Borrower pursuant to this Agreement as received by the Administrative Agent.

Neither the Administrative Agent nor any of its directors, officers, employees or agents shall be liable as such for any action taken or omitted by any of them except for its or his own gross negligence or wilful misconduct, or be responsible for any statement, warranty or representation herein or the contents of any document delivered in connection herewith, or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower of any of the terms, conditions, covenants or agreements contained in this Agreement. The Administrative Agent shall not be responsible to the Lenders for the due execution, genuineness, validity, enforceability or effectiveness of this Agreement or any other instruments or agreements. The Administrative Agent shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Lenders (or, when expressly required hereunder, all the Lenders) and, except as otherwise specifically provided herein, such instructions and any action or inaction pursuant thereto shall be binding on all the Lenders. The Administrative Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any

instrument or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper person or persons. Neither the Administrative Agent nor any of its directors, officers, employees or agents shall have any responsibility to the Borrower on account of the failure of or delay in performance or breach by any Lender of any of its obligations hereunder or to any Lender on account of the failure of or delay in performance or breach by any other Lender or the Borrower of any of their respective obligations hereunder or in connection herewith. The Administrative Agent may execute any and all duties hereunder by or through agents or employees and shall be entitled to rely upon the advice of

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legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

The Lenders hereby acknowledge that the Administrative Agent shall be under no duty to take any discretionary action permitted to be taken by it pursuant to the provisions of this Agreement unless it shall be requested in writing to do so by the Required Lenders.

Subject to the appointment and acceptance of a successor Administrative Agent as provided below, the Administrative Agent may resign at any time by notifying the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right, with the consent of the Borrower (which consent shall not be unreasonably withheld), to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, having a combined capital and surplus of at least \$500,000,000 or an Affiliate of any such bank. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor bank, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 10.05 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

With respect to the Loans made by it hereunder, the Administrative Agent in its individual capacity and not as Administrative Agent shall have the same rights and powers as any other Lender and may exercise the same as though it were not the Administrative Agent, and the Administrative Agent and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent.

Each Lender agrees (a) to reimburse the Administrative Agent, on demand, in the amount of its pro rata share (based on its Commitment hereunder) of any expenses incurred for the benefit of the Lenders by the Administrative Agent, including counsel fees, that shall not have been reimbursed by the Borrower and (b) to indemnify and hold harmless the Administrative Agent and any of its directors, officers, employees or agents, on demand, in the amount of such pro rata share, from and against any and all liabilities, taxes, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by or asserted against it in its capacity as the Administrative Agent or any of them in any way relating to or arising out of this Agreement or any action taken or omitted by it or any of them under this Agreement, to the extent the same shall not have been reimbursed by the Borrower, provided that no Lender shall be liable to the Administrative Agent or any such other indemnified person for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross

negligence or wilful misconduct of the Administrative Agent or any of its directors, officers, employees or agents.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or any document furnished hereunder. Each Lender further acknowledges that (i)

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the Syndication Agent and the Documentation Agents have no duties or obligations as such under this Agreement and (ii) with respect to its Loans made or renewed by it, the Syndication Agent and each Documentation Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an Agent, and the terms "Lender" and "Lenders" shall include the Syndication Agent and each Documentation Agent in its individual capacity.

#### ARTICLE IX

##### Guarantee

In order to induce the Lenders to extend credit hereunder and in consideration therefor, each Guarantor hereby, jointly and severally, unconditionally and irrevocably guarantees, as a primary obligor and not merely as a surety, the Obligations. Each Guarantor further agrees that the Obligations may be extended or renewed, in whole or in part, without notice to or further assent from it, and that it will remain bound upon its Guarantee hereunder notwithstanding any such extension or renewal of any Obligation.

Each Guarantor waives presentment to, demand of payment from and protest to the Borrower of any of the Obligations, and also waives notice of acceptance of its obligations and notice of protest for nonpayment. The obligations of each Guarantor hereunder shall not be affected by the failure of any Lender or the Administrative Agent to assert any claim or demand or to enforce any right or remedy against the Borrower under the provisions of this Agreement or otherwise, or, except as specifically provided therein, by any rescission, waiver, amendment or modification of any of the terms or provisions of this Agreement or any other agreement.

Each Guarantor further agrees that its Guarantee hereunder constitutes a promise of payment when due and not merely of collection, and waives any right to require that any resort be had by any Lender to any balance of any deposit account or credit on the books of any Lender in favor of the Borrower or any other person.

The obligations of either Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever, by reason of the invalidity, illegality or unenforceability of the Obligations, any impossibility in the performance of the Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of either Guarantor hereunder shall not be discharged or impaired or otherwise affected by the failure of the Administrative Agent or any Lender to assert any claim or demand or to enforce any remedy under this Agreement or any other agreement, by any waiver or modification in respect of any thereof, by any default, failure or delay, wilful or otherwise, in the performance of the Obligations, or by any other act or omission which may or might in any manner or to any extent vary the risk of either Guarantor or otherwise operate as a discharge of either Guarantor as a matter of law or equity.

Each Guarantor further agrees that its obligations hereunder shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal of or interest on any Obligation is rescinded or must otherwise be restored by the Administrative Agent or any Lender upon the bankruptcy or reorganization of the Borrower or otherwise.

In furtherance of the foregoing and not in limitation of any other right which the Administrative Agent or any Lender may have at law or in equity against either Guarantor by virtue hereof, upon the failure of the Borrower to pay any Obligation when and as the same shall become due, whether at maturity, by acceleration, after notice of prepayment or otherwise, each Guarantor hereby promises to and

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will, upon receipt of written demand by the Administrative Agent, forthwith pay, or cause to be paid, in immediately available Dollars the amount of such unpaid Obligation.

Anything herein to the contrary notwithstanding, the maximum liability of each Guarantor hereunder shall in no event exceed the amount which can be guaranteed by such Guarantor under applicable federal and state laws relating to the insolvency of debtors (after giving effect to the right of contribution established in the paragraph below).

Each Guarantor hereby agrees that to the extent that either Guarantor shall have paid more than its proportionate share of any payment made hereunder, such Guarantor shall be entitled to seek and receive contribution from and against the other Guarantor hereunder which has not paid its proportionate share of such payment. Each Guarantor's right of contribution shall be subject to the terms and conditions of the following paragraph. The provisions of this paragraph shall in no respect limit the obligations and liabilities of either Guarantor to the Administrative Agent and the Lenders, and each Guarantor shall remain liable to the Administrative Agent and the Lenders for the full amount guaranteed by such Guarantor hereunder.

Upon payment by either Guarantor of any sums as provided above, all rights of either Guarantor against the Borrower arising as a result thereof by way of subrogation or otherwise shall in all respects be subordinated and junior in right of payment to the prior indefeasible payment in full of all the Obligations.

#### ARTICLE X

##### Miscellaneous

SECTION 10.01. Notices. Unless otherwise specified herein, notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrower or the Guarantors, at 141 Spring Street, Lexington, Massachusetts 02421 Attention of Cheryl Norden (Telecopy No. (781) 860-2505); with a copy to Stephen J. Iglowski at the same address;

(b) if to the Administrative Agent, to JPMorgan Chase Bank, One Chase Manhattan Plaza, 8th Floor, New York, New York 10017, Attention of Doris Mesa (Telecopy No. (212) 552-5650), with a copy to JPMorgan Chase Bank, at 270 Park Avenue, New York, New York 10017, Attention of Mr. Richard Smith (Telecopy No. (212) 270-5127); and

(c) if to a Lender, to it at its address (or telecopy number) set forth in Schedule 2.01 or in the Assignment and Acceptance pursuant to which such Lender shall have become a party hereto.

All notices and other communications given to any party hereto in accordance

with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service or sent by telecopy or on the date five Business Days after dispatch by certified or registered mail if mailed, in each case delivered, sent or mailed (properly addressed) to such party as provided in this Section 10.01 or in accordance with the latest unrevoked direction from such party given in accordance with this Section 10.01.

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SECTION 10.02. Survival of Agreement. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the Lenders and shall survive the making by the Lenders of the Loans, regardless of any investigation made by the Lenders or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any Fee or any other amount payable under this Agreement is outstanding and unpaid and so long as the Commitments have not been terminated. The provisions of Sections 2.13, 2.15, 2.19 and 10.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the expiration of the Commitments, the invalidity or unenforceability of any term or provision of this Agreement, or any investigation made by or on behalf of the Administrative Agent or any Lender.

SECTION 10.03. Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrower and the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns.

SECTION 10.04. Successors and Assigns. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the permitted successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Borrower, the Administrative Agent or the Lenders that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns.

(b) Each Lender may assign to one or more assignees all or a portion of its interests, rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided, however, that (i) except in the case of an assignment to a Lender or a Lender Affiliate, (x) the Administrative Agent and (unless an Event of Default shall have occurred and be continuing) the Borrower must give their prior written consent to such assignment (which consent shall not be unreasonably withheld) and (y) unless the Borrower and the Administrative Agent shall otherwise agree to a lower dollar amount, the amount of the Commitment of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$10,000,000 (or the entire remaining amount of the assigning Lender's Commitment), unless such Lender is making a substantially simultaneous assignment to the same assignee pursuant to Section 10.04(b) of the Five-Year Credit Agreement in which case the aggregate of the amount of the Commitment of the assigning Lender subject to the assignment under this Agreement and the amount of the commitment of the assigning Lender subject to the assignment under the Five-Year Credit Agreement shall not be less than \$10,000,000, (ii) the parties to each such assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of \$3,500 and (iii) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire. Upon acceptance and recording pursuant to paragraph (e) of this Section 10.04, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and,

to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement and (B) the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.13, 2.15, 2.19 and 10.05, as well as to

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any Fees accrued for its account and not yet paid). Any assignment by a Lender of rights and/or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and/or obligations, as the case may be, in accordance with paragraph (f) of this Section 10.04.

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Lender warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Commitment, and the outstanding balances of its Revolving Loans and Competitive Loans, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance, (ii) except as set forth in (i) above, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto, or the financial condition of the Borrower or any Subsidiary or the performance or observance by the Borrower or any Subsidiary of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements referred to in Section 3.05 or delivered pursuant to Section 5.04 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Administrative Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The Borrower, the Administrative Agent and the Lenders may treat each person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary, and such entries in the Register shall be conclusive absent manifest error. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, an Administrative Questionnaire



completed in respect of the assignee (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) above and, if required, the written consent of the Borrower and the Administrative Agent to such assignment, the Administrative Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Lenders and the Borrower. No assignment shall be effective unless it has been recorded in the Register as provided in this paragraph (e).

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(f) Each Lender may without the consent of the Borrower or the Administrative Agent sell participations to one or more banks or other entities in all or a portion of its rights and/or obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided, however, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other entities shall be entitled to the benefit of the cost protection provisions contained in Sections 2.13, 2.15 and 2.19 (and shall have the duty to mitigate under Section 2.20) to the same extent as if they were Lenders (provided, that unless such participation was consented to by the Borrower, each participating bank or other entity shall only be entitled to the benefit of the cost protection provisions contained in Sections 2.13, 2.15 and 2.19 to the same extent as its participating Lender) and (iv) the Borrower, the Administrative Agent and the Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, and such Lender shall retain the sole right to enforce the obligations of the Borrower relating to the Loans and to approve any amendment, modification or waiver of any provision of this Agreement (other than amendments, modifications or waivers decreasing any fees payable hereunder or the amount of principal of or the rate at which interest is payable on the Loans, extending any scheduled principal payment date or date fixed for the payment of interest on the Loans or increasing or extending the Commitments).

(g) Any Lender or participant may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 10.04, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided that, prior to any such disclosure of information designated by the Borrower as confidential, "Company Private" or "Proprietary", each such assignee or participant or proposed assignee or participant shall execute an agreement whereby such assignee or participant shall agree (subject to customary exceptions) to preserve the confidentiality of such confidential information on terms no less restrictive than those applicable to the Lenders pursuant to Section 10.16.

(h) Any Lender may at any time assign all or any portion of its rights under this Agreement to a Federal Reserve Bank without the consent of the Borrower or the Administrative Agent to secure extensions of credit by such Federal Reserve Bank to such Lender; provided that no such assignment shall release a Lender from any of its obligations hereunder or substitute any such Bank for such Lender as a party hereto. In order to facilitate such an assignment to a Federal Reserve Bank, the Borrower shall, at the request of the assigning Lender, duly execute and deliver to the assigning Lender a promissory note or notes evidencing the Loans made to the Borrower by the assigning Lender hereunder.

(i) The Borrower shall not assign or delegate any of its rights or duties hereunder without the prior written consent of the Administrative Agent and each Lender, and any attempted assignment without such consent shall be null and void.

(j) Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Lender") may grant to a special purpose funding vehicle (an "SPC") of such Granting Lender, identified as such in writing from time to time by the

Granting Lender to the Administrative Agent and the Borrower, the option to provide to the Borrower all or any part of any Loan that such Granting Lender would otherwise be obligated to make to the Borrower pursuant to Section 2.01 or 2.03(e), provided that (i) nothing herein shall constitute a commitment to make any Loan by any SPC and (ii) if an SPC elects not to exercise such option or otherwise fails to provide all or any part of such Loan, the Granting Lender shall be obligated to make such Loan pursuant to the terms hereof. The making of a Loan by an SPC hereunder shall utilize the Commitment of the Granting Lender (and, if such Loan is a Competitive Loan, shall be deemed to utilize the Commitments of all the Lenders) to the same extent, and as if, such Loan were made by the Granting Lender. Each party hereto hereby agrees that no SPC shall be liable for any indemnity or similar payment obligation under this Agreement (all liability for which shall remain with

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the related Granting Lender). In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding senior indebtedness of any SPC, it will not institute against, or join any other person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings or similar proceedings under the laws of the United States or any State thereof. In addition, notwithstanding anything to the contrary contained in this Section 10.04 or in Section 10.16, any SPC may (i) with notice to, but without the prior written consent of, the Borrower or the Administrative Agent and without paying any processing fee therefor, assign all or a portion of its interests in any Loans to its Granting Lender or to any financial institutions providing liquidity and/or credit facilities to or for the account of such SPC to fund the Loans made by such SPC or to support the securities (if any) issued by such SPC to fund such Loans and (ii) disclose on a confidential basis any non-public information relating to its Loans to any rating agency, commercial paper dealer or provider of a surety, guarantee or credit or liquidity enhancement to such SPC.

SECTION 10.05. Expenses; Indemnity. (a) The Borrower agrees (i) to pay all reasonable out-of-pocket expenses incurred by the Agents and the Arrangers in connection with the syndication of the credit facilities provided for herein and the preparation and administration of this Agreement or in connection with any amendments, modifications or waivers of the provisions hereof (whether or not the transactions hereby or thereby contemplated shall be consummated), including the reasonable fees, charges and disbursements of Simpson Thacher & Bartlett, counsel for the Agents and (ii) to pay all out-of-pocket expenses incurred by any Agent, either Arranger or any Lender in connection with the enforcement or protection of its rights in connection with this Agreement or in connection with the Loans made hereunder, including the fees, charges and disbursements of Simpson Thacher & Bartlett, counsel for the Agents, and, in connection with any such enforcement or protection, the fees, charges and disbursements of any other counsel (including the allocated charges of in-house counsel) for any Agent or any Lender. The Borrower shall not be obligated to reimburse out-of-pocket legal expenses pursuant to the preceding sentence for more than one law firm for the Agents incurred in connection with the preparation of this Agreement or in connection with any particular amendment, modification or waiver of the provisions hereof.

(b) The Borrower agrees to indemnify each Agent, each Arranger and each Lender, each Affiliate of any of the foregoing persons and each of their respective directors, officers, employees, advisors and agents (each such person being called an "Indemnatee") against, and to hold each Indemnatee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnatee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any agreement or instrument contemplated thereby, the performance by the parties thereto of their respective obligations thereunder or the consummation of the Transactions and the other transactions contemplated hereby, (ii) the use of the proceeds of the

Loans or (iii) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnatee is a party thereto; provided that such indemnity shall not, as to any Indemnatee, be available to the extent that such losses, claims, damages, liabilities or related expenses result from the gross negligence or wilful misconduct of such Indemnatee.

(c) The provisions of this Section 10.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the expiration of the Commitments, the invalidity or unenforceability of any term or provision of this Agreement, or any investigation made by or on behalf of any Agent or any Lender. All amounts due under this Section 10.05 shall be payable on written demand therefor.

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SECTION 10.06. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender or any affiliate, branch or agency thereof to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 10.07. APPLICABLE LAW. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

SECTION 10.08. Waivers; Amendment. (a) No failure or delay of the Administrative Agent or any Lender in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders; provided, however, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan or the payment of any Facility Fee, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan, without the prior written consent of each Lender affected thereby, (ii) change or extend the Commitment or decrease the Facility Fees or Utilization Fees of any Lender without the prior written consent of such Lender, (iii) except in accordance with Section 10.17, reduce or terminate the obligations of either Guarantor, without the prior written consent of each Lender or (iv) amend or modify the provisions of Section 2.16, the provisions of Section 10.04(i), the provisions of this Section or the definition of the term "Required Lenders", without the prior written consent of each Lender; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent hereunder without the prior written consent of the Administrative Agent.

SECTION 10.09. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest

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thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 10.10. Entire Agreement. This Agreement and the Fee Letter constitute the entire contract among the parties relative to the subject matter hereof. Any other previous agreement among the parties with respect to the subject matter hereof is superseded by this Agreement. Nothing in this Agreement, expressed or implied, is intended to confer upon any party other than the parties hereto and thereto any rights, remedies, obligations or liabilities under or by reason of this Agreement.

SECTION 10.11. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 10.11.

SECTION 10.12. Severability. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 10.13. Counterparts. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original but all of which when taken together shall constitute a single contract, and shall become effective as provided in Section 10.03. Delivery of an executed signature page to this Agreement by facsimile transmission shall be effective as delivery of a manually signed counterpart of this Agreement.

SECTION 10.14. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 10.15. Jurisdiction; Consent to Service of Process. (a) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or

relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent or any Lender may otherwise have to bring any action or proceeding relating to this Agreement against the Borrower or its properties in the courts of any jurisdiction.

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(b) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 10.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

(d) The Administrative Agent, each Lender, the Borrower and each Guarantor hereby irrevocably and unconditionally waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section any special, exemplary, punitive or consequential damages.

SECTION 10.16. Confidentiality. The Administrative Agent and each of the Lenders agrees to keep confidential (and to use its best efforts to cause its respective agents and representatives to keep confidential) the Information (as defined below) and all copies thereof, extracts therefrom and analyses or other materials based thereon, except that the Administrative Agent, any Lender or any Lender Affiliate shall be permitted to disclose Information (a) to such of its respective officers, directors, employees, agents, affiliates and representatives as need to know such Information, (b) to the extent requested by any regulatory authority or examining authority, (c) to the extent otherwise required by applicable laws and regulations or by any subpoena or similar legal process, (d) in connection with any suit, action or proceeding relating to the enforcement of its rights hereunder, (e) to the extent permitted by Section 10.04(g), or (f) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Agreement or (ii) becomes available to the Administrative Agent or any Lender on a non-confidential basis from a source other than the Borrower. For the purposes of this Section, "Information" shall mean all financial statements, certificates, reports, agreements and information (including all analyses, compilations and studies prepared by the Administrative Agent or any Lender based on any of the foregoing) that are received from the Borrower or any Subsidiary and related to the Borrower, any Subsidiary or any employee, customer or supplier of the Borrower, other than any of the foregoing that were available to the Administrative Agent or any Lender on a non-confidential basis prior to its disclosure thereto by the Borrower, and which are in the case of Information provided after the date hereof, clearly identified at the time of delivery as confidential, "Company Private" or "Proprietary". The provisions of this Section 10.16 shall remain operative and in full force and effect regardless of the expiration and term of this Agreement.

SECTION 10.17. Release of Guarantees. (a) Notwithstanding anything to the contrary contained herein, , so long as no Default or Event of Default shall have occurred and be continuing, the Guarantees created by Article IX of this Agreement automatically shall be terminated and be of no further force or effect

and the Administrative Agent is hereby irrevocably authorized by each Lender (without requirement of notice to or consent of any Lender) to take any action reasonably requested by the Borrower (it being understood that the Administrative Agent shall not refuse to take any reasonable action) to further evidence or document such automatic release of the Guarantees created by Article IX of this Agreement, but in each case only (i) to the extent necessary to permit the sale of all or substantially all of the stock or of all or substantially all of the assets of either Guarantor, (ii) to the extent necessary to permit the consummation of any transaction that has been consented to in accordance with Section 10.08 or (iii) under the circumstances described in paragraph (b) below.

(b) So long as no Default or Event of Default shall have occurred and be continuing, on the first date after the Closing Date on which the Borrower has Index Debt of BBB or better from S&P

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and Baa2 or better from Moody's, in each case on "stable watch" or the equivalent, the Guarantees created by Article IX of this Agreement automatically shall be terminated and be of no further force or effect and the Administrative Agent is hereby irrevocably authorized by each Lender (without requirement of notice to or consent of any Lender) to take any action reasonably requested by the Borrower (it being understood that the Administrative Agent shall not refuse to take any reasonable action) to further evidence or document such automatic release of the Guarantees created by Article IX of this Agreement.

SECTION 10.18. Waiver and Consent of the Existing Credit Agreement. Each Lender which is a Lender (as defined under the Existing Credit Agreement) under the Existing Credit Agreement hereby (i) waives the requirement of Sections 2.10 and 2.12 of the Existing Credit Agreement that termination of Commitments (as defined under the Existing Credit Agreement) and prepayments of Loans (as defined under the Existing Credit Agreement), respectively, may only be made upon at least 3 Business Days' prior irrevocable written notice and (ii) consents to the Borrower prepaying the Loans (as defined under the Existing Credit Agreement) and terminating the Commitments (as defined under the Existing Credit Agreement) under the Existing Credit Agreement on the date of effectiveness of this Agreement.

[Remainder of page left blank intentionally; Signature page to follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

RAYTHEON COMPANY,  
as the Borrower

By: \_\_\_\_\_  
Name:  
Title:

RAYTHEON TECHNICAL SERVICES COMPANY,  
as a Guarantor

By: \_\_\_\_\_  
Name:  
Title:

RAYTHEON AIRCRAFT COMPANY,  
as a Guarantor

By: \_\_\_\_\_

Name:

Title:

JPMORGAN CHASE BANK,  
as a Lender and as Administrative Agent,

By: \_\_\_\_\_

Name:

Title:

BANK OF AMERICA, N.A.,  
as Syndication Agent and as a Lender

By: \_\_\_\_\_

Name:

Title:

CITICORP USA, INC.,  
as Documentation Agent and as a Lender

By: \_\_\_\_\_

Name:

Title:

CREDIT SUISSE FIRST BOSTON,  
as Documentation Agent and as a Lender

By: \_\_\_\_\_

Name:

Title:

Exhibit A to the  
364-Day Credit Agreement

[Form of]  
RAYTHEON COMPANY  
ADMINISTRATIVE QUESTIONNAIRE\*

(\*Lenders party to the 364-Day Credit Agreement need to complete this form and  
submit the completed form as indicated below.)

Please provide the following details:

A) FULL LEGAL BANK NAME: \_\_\_\_\_

B) FULL LEGAL DOMESTIC LENDING OFFICE NAME AND ADDRESS:

\_\_\_\_\_

FAX NUMBER: \_\_\_\_\_

TELEX NUMBER: \_\_\_\_\_

C) FULL LEGAL EURODOLLAR LENDING OFFICE NAME AND ADDRESS:

\_\_\_\_\_

FAX NUMBER: \_\_\_\_\_

TELEX NUMBER: \_\_\_\_\_

D) FULL LEGAL COMPETITIVE LOAN LENDING OFFICE NAME AND ADDRESS:

\_\_\_\_\_

\_\_\_\_\_

FAX NUMBER: \_\_\_\_\_  
TELEX NUMBER: \_\_\_\_\_

E) WHERE EXECUTION COPIES SHOULD BE SENT FOR SIGNATURE(S) \*\*: ADDRESS: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
ATTN: \_\_\_\_\_; or  
ELECTRONIC MAIL ADDRESS: \_\_\_\_\_

\*\* The Lender hereby acknowledges that, in the Administrative Agent's discretion, documents for execution may be sent by electronic mail or posted to a web site designated by the Administrative Agent.

Please fax your completed questionnaire to Doris Mesa at  
JPMorgan Chase Bank; fax (212) 552-5650.

F) WHERE CONFORMED (FINAL) COPIES SHOULD BE SENT: ADDRESS: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
ATTN: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

G) FOR BUSINESS AND/OR CREDIT MATTERS: CONTACT NAME/DEPT: \_\_\_\_\_  
TELEPHONE NUMBER: \_\_\_\_\_  
FAX NUMBER: \_\_\_\_\_  
ELECTRONIC MAIL ADDRESS: \_\_\_\_\_

H) FOR ADMINISTRATIVE/OPERATIONS MATTERS: CONTACT NAME/DEPT: \_\_\_\_\_  
TELEPHONE NUMBER: \_\_\_\_\_  
FAX NUMBER: \_\_\_\_\_  
ELECTRONIC MAIL ADDRESS: \_\_\_\_\_

I) FOR COMPETITIVE BID REQUESTS: CONTACT NAME/DEPT: \_\_\_\_\_  
TELEPHONE NUMBER: \_\_\_\_\_  
FAX NUMBER: \_\_\_\_\_  
ELECTRONIC MAIL ADDRESS: \_\_\_\_\_

J) PAYMENT INSTRUCTIONS (PLEASE SPECIFY WHERE FUNDS, I.E. INTEREST, FEES, LOAN REPAYMENTS SHOULD BE WIRED): BANK NAME: \_\_\_\_\_  
ABA, CHIPS #: \_\_\_\_\_  
ACCOUNT #: \_\_\_\_\_  
CREDIT TO (if applicable): \_\_\_\_\_  
REFERENCE: \_\_\_\_\_  
ATTENTION: \_\_\_\_\_

Exhibit B to the  
364-Day Credit Agreement

[Form of]  
ASSIGNMENT AND ACCEPTANCE

Reference is made to the 364-Day Competitive Advance and Revolving Credit Facility, dated as of November 25, 2002 (as amended, restated, supplemented or otherwise modified, the "Credit Agreement"), among Raytheon Company, as the Borrower, Raytheon Technical Services Company, a Delaware corporation, and Raytheon Aircraft Company, a Kansas corporation, each as a Guarantor, the



several lenders from time to time parties thereto (the "Lenders"), J.P. Morgan Securities Inc. and Banc of America Securities LLC, as joint lead arrangers and joint bookrunners, Citicorp USA, Inc., and Credit Suisse First Boston, each as a documentation agent, Bank of America, N.A, as the syndication agent, and JPMorgan Chase Bank, as the administrative agent for the Lenders. Terms defined in the Credit Agreement are used herein with the same meanings.

1. The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Effective Date set forth below (but not prior to the registration of the information contained herein in the Register pursuant to Section 10.04(e) of the Credit Agreement), the interests set forth below (the "Assigned Interests") in the Assignor's rights and obligations under the Credit Agreement, including, without limitation, the amounts and percentages set forth below of (i) the Commitments of the Assignor on the Effective Date and (ii) the Loans owing to the Assignor which are outstanding on the Effective Date. Each of the Assignor and the Assignee hereby makes and agrees to be bound by all the representations, warranties and agreements set forth in Section 10.04(c) of the Credit Agreement, a copy of which has been received by each such party. From and after the Effective Date (i) the Assignee shall be a party to and be bound by the provisions of the Credit Agreement and, to the extent of the Assigned Interests, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent of the Assigned Interests, relinquish its rights and be released from its obligations under the Credit Agreement.

2. This Assignment and Acceptance is being delivered to the Administrative Agent together with (i) if the Assignee is organized under the laws of a jurisdiction outside the United States, the forms specified in Section 2.19(g) of the Credit Agreement, duly completed and executed by such Assignee, (ii) if the Assignee is not already a Lender under the Credit Agreement, an Administrative Questionnaire in the form of Exhibit A to the Credit Agreement and (iii) a processing and recordation fee of \$3,500.

3. This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the State of New York.

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

2

Effective Date of Assignment  
(may not be fewer than 5  
Business Days after the  
Date of Assignment):

Facility/Commitment	Amount Assigned (Principal Amount Assigned and Identifying information as to individual Competitive Loans)	Percentage Assigned of Applicable Facility/Commitment (set forth, to at least 8 decimals, as a percentage of the Total Commitments)
-----	-----	-----
Commitment	\$ _____	_____ %
Competitive Loans	\$ _____	_____ %

Accepted: \*/

The terms set forth above  
are hereby agreed to:

JPMORGAN CHASE BANK,

as Administrative Agent

-----, as  
Assignor

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

RAYTHEON COMPANY,  
as the Borrower

-----, as  
Assignor

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

\* To be completed to the extent consents are required under Section 11.04(b)  
of the Credit Agreement

Exhibit C to the  
364-Day Credit Agreement

[Form of]  
BORROWING REQUEST

JPMorgan Chase Bank, as Administrative Agent for  
the Lenders referred to below,  
270 Park Avenue  
New York, NY 10017

Attention of [\_\_\_\_\_]

[Date]

Ladies and Gentlemen:

The undersigned, Raytheon Company, a Delaware corporation (the "Borrower"), refers to the 364-Day Competitive Advance and Revolving Credit Facility, dated as of November 25, 2002 (as amended, restated, supplemented or otherwise modified, the "Credit Agreement"), among the Borrower, Raytheon Technical Services Company, a Delaware corporation, and Raytheon Aircraft Company, a Kansas corporation, each as a Guarantor, the several lenders from time to time parties thereto (the "Lenders"), J.P. Morgan Securities Inc. and Banc of America Securities LLC, as joint lead arrangers and joint bookrunners, Citicorp USA, Inc., and Credit Suisse First Boston, each as a documentation agent, Bank of America, N.A, as the syndication agent, and JPMorgan Chase Bank, as the administrative agent for the Lenders (in such capacity, the "Administrative Agent"). Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement. The Borrower hereby gives you notice pursuant to Section 2.04 of the Credit Agreement that it requests a Revolving Borrowing under the Credit Agreement, and in that connection sets forth below the terms on which such Borrowing is requested to be made:

(A) Date of Borrowing (which is a Business Day) \_\_\_\_\_

(B) Principal Amount of Borrowing \*/ \_\_\_\_\_

(C) Interest rate basis \*\*/ \_\_\_\_\_

(D) Interest Period and the last day thereof \*\*\*/ \_\_\_\_\_

(E) Funds are requested to be disbursed to the Borrower's account with JPMorgan Chase Bank (Account No. \_\_\_\_\_)

-----  
\*/ Not less than \$10,000,000 and in an integral multiple of \$1,000,000, but in any event not exceeding the Total Commitment then available.

\*\*/ Specify Eurodollar Borrowing or ABR Borrowing

\*\*\*/ Which shall be subject to the definition of "Interest Period" and end not later than the Maturity Date.

Upon acceptance of any or all of the Loans offered by the Lenders in response to this request, the Borrower shall be deemed to have represented and warranted that the applicable conditions to lending specified in Sections 4.01(b) and 4.01(c) of the Credit Agreement have been satisfied.

RAYTHEON COMPANY,

By:

-----  
Name:

Title: [Responsible Officer]

Exhibit D-1 to the  
364-Day Credit Agreement

[Form of]  
COMPETITIVE BID REQUEST

JPMorgan Chase Bank, as Administrative Agent for  
the Lenders referred to below,  
270 Park Avenue  
New York, N.Y. 10017

[Date]

Attention: [\_\_\_\_\_]

Dear Sirs:

The undersigned, Raytheon Company, a Delaware corporation (the "Borrower"), refers to the 364-Day Competitive Advance and Revolving Credit Facility, dated as of November 25, 2002 (as amended, restated, supplemented or otherwise modified, the "Credit Agreement"), among the Borrower, Raytheon Technical Services Company, a Delaware corporation, and Raytheon Aircraft Company, a Kansas corporation, each as a Guarantor, the several lenders from time to time parties thereto (the "Lenders"), J.P. Morgan Securities Inc. and Banc of America Securities LLC, as joint lead arrangers and joint bookrunners, Citicorp USA, Inc., and Credit Suisse First Boston, each as a documentation agent, Bank of America, N.A, as the syndication agent, and JPMorgan Chase Bank, as the administrative agent for the Lenders (in such capacity, the "Administrative Agent"). Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement. The Borrower hereby gives you notice pursuant to Section 2.03(a) of the Credit Agreement that it requests a Competitive Borrowing under the Credit Agreement, and in that connection sets forth below the terms on which such Competitive Borrowing is requested to be made:

(A) Date of Competitive Borrowing  
(which is a Business Day) \_\_\_\_\_

(B) Principal Amount of  
Competitive Borrowing 1 \_\_\_\_\_

(C) Interest rate basis 2 \_\_\_\_\_

(D) Interest Period and the last  
day thereof 3 \_\_\_\_\_

- 
- 1 Not less than \$10,000,000 (and in an integral multiples of \$1,000,000) and not greater than the Total Commitment then available.
  - 2 Eurodollar Loan or Fixed Rate Loan.
  - 3 Which shall be subject to the definition of "Interest Period" and end not later than the Maturity Date.

Upon acceptance of any or all of the Loans offered by the Lenders in response to this request, the Borrower shall be deemed to have represented and warranted that the conditions to lending specified in Sections 4.01(b) and 4.01(c) of the Credit Agreement have been satisfied.

Very truly yours,

RAYTHEON COMPANY,

By: \_\_\_\_\_

Name:

Title: [Responsible Officer]

Exhibit D-2 to the  
364-Day Credit Agreement

[Form of]  
NOTICE OF COMPETITIVE BID REQUEST

[Name of Lender]

[Address]

Attention:

[Date]

Dear Sirs:

Reference is made to the 364-Day Competitive Advance and Revolving Credit Facility, dated as of November 25, 2002 (as amended, restated, supplemented or otherwise modified, the "Credit Agreement"), among Raytheon Company, as the Borrower, Raytheon Technical Services Company, a Delaware corporation, and Raytheon Aircraft Company, a Kansas corporation, each as a Guarantor, the several lenders from time to time parties thereto (the "Lenders"), J.P. Morgan Securities Inc. and Banc of America Securities LLC, as joint lead arrangers and joint bookrunners, Citicorp USA, Inc., and Credit Suisse First Boston, each as a documentation agent, Bank of America, N.A, as the syndication agent, and JPMorgan Chase Bank, as the administrative agent for the Lenders (in such capacity, the "Administrative Agent"). Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement. The Borrower made a Competitive Bid Request on [\_\_\_\_], [\_\_\_\_], pursuant to Section 2.03(a) of the Credit Agreement, and in that connection you are invited to submit a Competitive Bid by [Date]/[Time].1/ Your Competitive Bid must comply with Section 2.03(b) of the Credit Agreement and the terms set forth below on which the Competitive Bid Request was made:

(E) Date of Competitive Borrowing \_\_\_\_\_

(F) Principal amount of Competitive Borrowing \_\_\_\_\_  
(G) Interest rate basis \_\_\_\_\_  
(H) Interest Period and the last day thereof \_\_\_\_\_

Very truly yours,

JPMORGAN CHASE BANK, as Administrative Agent,

by \_\_\_\_\_

Name:

Title:

-----  
1 The Competitive Bid must be received by the Administrative Agent (i) in the case of Eurodollar Loans, not later than 9:30 a.m., New York City time, three Business Days before a proposed Competitive Borrowing, and (ii) in the case of Fixed Rate Loans, not later than 9:30 a.m., New York City time, on the Business Day of a proposed Competitive Borrowing.

Exhibit D-3 to the  
364-Day Credit Agreement

[Form of]  
COMPETITIVE BID

JPMorgan Chase Bank, as Administrative Agent for  
the Lenders referred to below,  
270 Park Avenue  
New York, N.Y. 10017

[Date]

Attention: [\_\_\_\_\_]

Dear Sirs:

The undersigned, [Name of Lender], refers to the 364-Day Competitive Advance and Revolving Credit Facility, dated as of November 25, 2002 (as amended, restated, supplemented or otherwise modified, the "Credit Agreement"), among Raytheon Company, as the Borrower, Raytheon Technical Services Company, a Delaware corporation, and Raytheon Aircraft Company, a Kansas corporation, each as a Guarantor, the several lenders from time to time parties thereto (the "Lenders"), J.P. Morgan Securities Inc. and Banc of America Securities LLC, as joint lead arrangers and joint bookrunners, Citicorp USA, Inc., and Credit Suisse First Boston, each as a documentation agent, Bank of America, N.A, as the syndication agent, and JPMorgan Chase Bank, as the administrative agent for the Lenders (in such capacity, the "Administrative Agent"). Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement. The undersigned hereby makes a Competitive Bid pursuant to Section 2.03(b) of the Credit Agreement, in response to the Competitive Bid Request made by the Borrower on [\_\_\_\_], [\_\_\_\_], and in that connection sets forth below the terms on which such Competitive Bid is made:

(I) Principal Amount 1/ \_\_\_\_\_  
(J) Competitive Bid Rate 2/ \_\_\_\_\_  
(K) Interest Period and last day thereof \_\_\_\_\_

-----  
1 Not less than \$5,000,000 or greater than the requested Competitive

Borrowing and in integral multiples of \$1,000,000. Multiple bids will be accepted by the Administrative Agent.

2 I.e., Eurodollar Rate + or - %, in the case of Eurodollar Loans, or %, in the case of Fixed Rate Loans.

3

The undersigned hereby confirms that it is prepared, subject to the conditions set forth in the Credit Agreement, to extend credit to the Borrower upon acceptance by the Borrower of this bid in accordance with Section 2.03(d) of the Credit Agreement.

Very truly yours,

[Name of Lender],

By

-----

Name:

Title:

Exhibit D-4 to the  
364-Day Credit Agreement

[Form of]  
COMPETITIVE BID ACCEPT/REJECT LETTER

JPMorgan Chase Bank, as Administrative Agent for  
the Lenders referred to below,  
270 Park Avenue  
New York, N.Y. 10017

[Date]

Attention: [\_\_\_\_\_]

Dear Sirs:

The undersigned, Raytheon Company (the "Borrower"), refers to the 364-Day Competitive Advance and Revolving Credit Facility, dated as of November 25, 2002 (as amended, restated, supplemented or otherwise modified, the "Credit Agreement"), among the Borrower, Raytheon Technical Services Company, a Delaware corporation, and Raytheon Aircraft Company, a Kansas corporation, each as a Guarantor, the several lenders from time to time parties thereto (the "Lenders"), J.P. Morgan Securities Inc. and Banc of America Securities LLC, as joint lead arrangers and joint bookrunners, Citicorp USA, Inc., and Credit Suisse First Boston, each as a documentation agent, Bank of America, N.A, as the syndication agent, and JPMorgan Chase Bank, as the administrative agent for the Lenders (in such capacity, the "Administrative Agent").

In accordance with Section 2.03(c) of the Credit Agreement, we have received a summary of bids in connection with our Competitive Bid Request dated \_\_\_\_\_ and in accordance with Section 2.03(d) of the Credit Agreement, we hereby accept the following bids for maturity on [date]:

Principal Amount	Fixed Rate/Margin	Lender
\$	[%]/[+/- . %]	
\$		

We hereby reject the following bids:

Principal Amount	Fixed Rate/Margin	Lender
------------------	-------------------	--------

\$ [%]/[+/- . %]  
\$

The \$\_\_\_\_\_ should be deposited in JPMorgan Chase Bank account number  
[\_\_\_\_\_] on [date].

Very truly yours,

RAYTHEON COMPANY,

By:

-----  
Name:

Title:

Exhibit E to the  
364-Day Credit Agreement

[Form of]

Opinion of Jay B. Stephens\*

[See Opinions]

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\* Opinions may be divided between one or more in-house counsel to the Borrower  
and each Guarantor, as deemed appropriate by the Borrower.

Exhibit F to the  
364-Day Credit Agreement

[Form of]

Opinion of Bingham McCutchen LLP for the Borrower

[See Opinion]

SCHEDULE  
2.01  
to the 364-Day Credit Agreement

#### COMMITMENTS AND LENDER INFORMATION

Lender	Amount of Commitment at Effective Date	Commitment Percentage at Effective Date <sup>4</sup>
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JPMorgan Chase Bank 270 Park Avenue, 38th Floor New York, NY 10017 Attention: Richard Smith Tel: (212) 270-5435 Fax: (212) 270-5127	\$ 145,000,000.00	9.35%
Bank of America, N.A. 555 South Flower St. CA9-706-11-07 Los Angeles, CA 90071 Attention: Charles Lilygren	\$ 145,000,000.00	9.35%

Tel: (213) 228-2636  
Fax: (213) 623-1959

Citicorp USA, Inc. \$ 120,760,869.50 7.79%  
388 Greenwich Street  
New York, NY 10013  
Attention: Prakash Chonkar  
Tel: (212) 816-5323  
Fax: (212) 816-5711

Credit Suisse First Boston, \$ 120,760,869.50 7.79%  
acting through its Cayman Islands Branch  
11 Madison Avenue  
New York, NY 10010  
Attention: Jay Chall  
Tel: (212) 325-9010  
Fax: (212) 743-1843

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4 Percentages rounded to the second digit after the decimal point

Lender	Amount of Commitment at Effective Date	Commitment Percentage at Effective Date4
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Fleet National Bank 100 Federal Street MA DE 100 10A Boston, MA 02110 Attention: Deborah Dobbins Tel: (617) 434-5455 Fax: (617) 434-0601	\$ 100,000,000.00	6.45%
Societe Generale - Chicago Branch 181 W. Madison Chicago, IL 60602 Attention: Boyd Harman Tel: (312) 578-5057 Fax: (312) 578-5099	\$ 100,000,000.00	6.45%
Wachovia Bank, N.A. 301 South College Street NC 0760 Charlotte, NC 28288 Attention: Rob Sevin Tel: (704) 383-7546 Fax: (704) 374-4793	\$ 100,000,000.00	6.45%
Bank of Tokyo-Mitsubishi Trust Company 1251 Avenue of the Americas, 12th Floor New York, NY 10020 Attention: Thomas Fennessey Tel: (212) 782-6221 Fax: (212) 782-6445	\$ 75,000,000.00	4.84%
Mizuho Corporate Bank, Ltd. 1251 Avenue of the Americas New York, NY 10020 Attention: Hilary Zhang Tel: (212) 282-3467 Fax: (212) 282-4488	\$ 75,000,000.00	4.84%
UBS AG, Stamford Branch 677 Washington Boulevard Stamford, CT 06901	\$ 75,000,000.00	4.84%



Attention: Denise Conzo  
 Tel: (203) 719-3853  
 Fax: (203) 719-3888

Lender	Amount of Commitment at Effective Date	Commitment Percentage at Effective Date4
Barclays Bank PLC 200 Park Avenue, 4th Floor New York, NY 10166 Attention: Joseph Lucarelli Tel: (212) 412-7610 Fax: (212) 412-5751	\$ 50,000,000.00	3.23%
BNP Paribas 787 Seventh Avenue New York, NY 10019 Attention: Richard Pace Tel: (212) 841-3266 Fax: (212) 841-3049	\$ 50,000,000.00	3.23%
Credit Lyonnais New York Branch 1301 Avenue of the Americas New York, NY 10019 Attention: Scott Chappelka Tel: (212) 261-7316 Fax: (212) 459-3179	\$ 50,000,000.00	3.23%
Lehman Commercial Paper Inc. 745 Seventh Avenue, 19th Floor New York, NY 10019 Attention: G. Andrew Keith Tel: (212) 526-4059 Fax: (646) 758-4656	\$ 50,000,000.00	3.23%
The Bank of Nova Scotia One Liberty Plaza New York, NY 10006 Attention: Ben Sileo Tel: (212) 225-5076 Fax: (212) 225-5254	\$ 50,000,000.00	3.23%
The Royal Bank of Scotland PLC 101 Park Avenue New York, NY 10178 Attention: Richard Freedman Tel: (212) 401-3742 Fax: (212) 401-3456	\$ 50,000,000.00	3.23%

Lender	Amount of Commitment at Effective Date	Commitment Percentage at Effective Date4
Morgan Stanley Bank 750 Seventh Avenue, 11th Floor New York, NY 10020 Attention: Joseph DiTomaso Tel: (212) 762-2320 Fax: (212) 762-0346	\$ 43,478,261.00	2.81%
Mellon Bank, N.A.	\$ 40,000,000.00	2.58%

1735 Market Street, 4th Floor  
Philadelphia, PA 19103  
Attention: J. Wade Bell  
Tel: (215) 553-3875  
Fax: (215) 553-4899

WestLB AG, New York Branch 1211 Avenue of the Americas New York, NY 10036 Attention: Alan Bookspan Tel: (212) 852-6023 Fax: (212) 852-6307	\$ 35,000,000.00	2.26%
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Bank One, NA 153 West 51st Street New York, NY 10019 Attention: Randall Faust Tel: (212) 373-1276 Fax: (212) 373-1403	\$ 25,000,000.00	1.61%
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Bayerische Landesbank Girozentrale, Cayman Islands Branch 560 Lexington Avenue, 17th Floor New York, NY 10022 Attention: James H. Boyle Tel: (212) 310-9817 Fax: (212) 310-9868	\$ 25,000,000.00	1.61%
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The Bank of New York One Wall Street, 22nd Floor New York, NY 10286 Attention: Kenneth Sneider Tel: (212) 635-6863 Fax: (212) 635-1480	\$ 25,000,000.00	1.61%
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SCHEDULE 2.01  
to the 364-Day Credit Agreement

COMMITMENTS AND LENDER INFORMATION

[in separate file]

SCHEDULE 3.01  
to the 364-Day Credit Agreement

Significant Subsidiaries

Raytheon Technical Services Company

Raytheon Aircraft Company

Thornwood Trust

Raytheon Aircraft Holdings, Inc.

SCHEDULE 3.05  
to the 364-Day Credit Agreement

Financial Statements/Material Liabilities

None.

SCHEDULE 3.07  
to the 364-Day Credit Agreement

Litigation

Those matters described in Raytheon Company's Annual Report on Form 10-K for the year ended December 31, 2001 and in Raytheon Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2002, June 30, 2002 and September 29, 2002.

SCHEDULE 6.01  
to the 364-Day Credit Agreement

Existing Liens

None.

SCHEDULE 6.04  
to the 364-Day Credit Agreement

Existing Subsidiary Indebtedness

None.

EXECUTION COPY

## SECOND AMENDMENT

SECOND AMENDMENT, dated as of November 25, 2002 (this "Amendment"), to the FIVE-YEAR COMPETITIVE ADVANCE AND REVOLVING CREDIT AGREEMENT, dated as of November 28, 2001 (as amended by the First Amendment thereto, dated as of July 25, 2002, the "Credit Agreement"), among RAYTHEON COMPANY, a Delaware corporation (the "Borrower"), RAYTHEON TECHNICAL SERVICES COMPANY, a Delaware corporation, and RAYTHEON AIRCRAFT COMPANY, a Kansas corporation, each as a Guarantor (in such capacity, each a "Guarantor" and, collectively, the "Guarantors"), the several Lenders from time to time parties thereto (the "Lenders"), J.P. MORGAN SECURITIES INC. and BANC OF AMERICA SECURITIES LLC, as joint lead arrangers and joint bookrunners (in such capacity, the "Arrangers"), BANK OF AMERICA, N.A., as syndication agent (in such capacity, the "Syndication Agent"), CITICORP USA, INC., CREDIT SUISSE FIRST BOSTON and MIZUHO FINANCIAL GROUP, as documentation agents (in such capacity, each a "Documentation Agent" and, collectively, the "Documentation Agents"), and JPMORGAN CHASE BANK, as administrative agent (in such capacity, the "Administrative Agent" and, collectively with the Syndication Agent and the Documentation Agents, the "Agents") for the Lenders.

## W I T N E S S E T H:

WHEREAS, pursuant to the Credit Agreement, the Borrower has requested that the Lenders, and the Lenders have agreed, to extend credit to the Borrower subject to the terms and conditions contained therein;

WHEREAS, the Borrower has requested that the Lenders amend the Credit Agreement in certain ways; and

WHEREAS, the Lenders and the Borrower desire to amend the Credit Agreement in the manner specified herein.

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

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

2. Amendments to Section 1.01 of the Credit Agreement (Defined Terms).

(a) The definition of "L/C Commitment" appearing in Section 1.01 of the Credit Agreement is hereby amended by deleting "\$300,000,000" appearing in clause (i) thereof and by inserting, in lieu thereof, "\$500,000,000".

(b) The definition of "364-Day Credit Agreement" appearing in Section 1.01 of the Credit Agreement is hereby amended by (i) deleting such definition in its entirety and (ii) inserting in lieu thereof the following:

"364-Day Credit Agreement" shall mean the 364-Day Credit Agreement, dated as of November 27, 2002, as amended and in effect from time to time, among the Borrower, Raytheon Technical Services Company, a Delaware corporation, and Raytheon Aircraft Company, a Kansas corporation, each as a Guarantor, the several lenders from time to time parties thereto and JPMorgan Chase Bank, as the administrative agent, or any refinancing or replacement thereof.

3. Amendment to Section 8 of the Credit Agreement (Events of Default). Section 8(f) of the Credit Agreement is hereby amended by inserting, immediately following the appearance of the term "Indebtedness" in clause (i) thereof, the parenthetical "(excluding guarantees, which are covered by clause (ii) below)".

4. Affirmation of Guarantee. Each Guarantor hereby consents to the foregoing amendment to the Credit Agreement set forth herein and reaffirms its obligations under the Guarantee provided by such Guarantor pursuant to Article X of the Credit Agreement.

5. Conditions to Effectiveness. This Amendment shall become effective on the date (the "Amendment Effective Date") on which (i) the Borrower, each Guarantor and the Required Lenders shall have executed and delivered this Amendment to the Administrative Agent and (ii) all capital, yield and other amounts outstanding to the Purchasers (as defined below) and the agents under the Fourth Amended and Restated Purchase and Sale Agreement, dated as of March 8, 2002, as amended, among Raytheon Aircraft Credit Corporation, Raytheon Aircraft Receivables Corporation and the existing purchasers thereunder (the "Purchasers") shall have been paid in full and all commitments thereunder shall have been terminated in full, except that Bank of America, N.A., may retain an outstanding amount of capital and a commitment thereunder each in the amount of \$1,000,000.

6. Representation and Warranties. To induce the Lenders to enter into this Amendment, the Borrower hereby represents and warrants to the Lenders as of the Amendment Effective Date that:

(a) Reaffirmation. As of the date hereof and after giving effect to this Amendment, the representations and warranties set forth in Article IV of the Credit Agreement are true and correct in all material respects; and

(b) No Default. After giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing.

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

8. Counterparts. This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed signature page of this Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof. A set of the copies of this Amendment signed by all the parties shall be lodged with the Borrower and the Administrative Agent.

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

hereof.

10. Continuing Effect of Other Documents. This Amendment shall not constitute an amendment or waiver of any other provision of the Credit Agreement not expressly referred to herein and shall not be construed as a waiver or consent to any further or future action on the part of the Borrower that would require a waiver or consent of the Lenders or the Administrative Agent. Except as expressly amended, modified and supplemented hereby, the provisions of the Credit Agreement are and shall remain in full force and effect.

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

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

RAYTHEON COMPANY,  
as the Borrower

By: \_\_\_\_\_  
Name:  
Title:

RAYTHEON TECHNICAL SERVICES COMPANY,  
as a Guarantor

By: \_\_\_\_\_  
Name:  
Title:

RAYTHEON AIRCRAFT COMPANY,  
as a Guarantor

By: \_\_\_\_\_  
Name:  
Title:

JPMORGAN CHASE BANK,  
as Administrative Agent and as a Lender

By: \_\_\_\_\_  
Name:  
Title:

BANK OF AMERICA, NATIONAL ASSOCIATION  
as a Lender

By: \_\_\_\_\_

Name:  
Title:

CITICORP USA, Inc.,  
as a Lender

By: \_\_\_\_\_  
Name:  
Title:

CREDIT SUISSE FIRST BOSTON,  
as a Lender

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

MIZUHO CORPORATE BANK, LTD.,  
as a Lender

By: \_\_\_\_\_  
Name:  
Title:

SOCIETE GENERALE- CHICAGO BRANCH,  
as a Lender

By: \_\_\_\_\_  
Name:  
Title:

THE BANK OF NOVA SCOTIA,  
as a Lender

By: \_\_\_\_\_  
Name:  
Title:

BARCLAYS BANK PLC,  
as a Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BNP PARIBAS,  
as a Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

COMMERZBANK AG, NEW YORK AND  
GRAND CAYMAN BRANCHES,  
as a Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FLEET NATIONAL BANK,  
as a Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

WACHOVIA BANK, N.A.,  
as a Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



LEHMAN COMMERCIAL PAPER INC.,  
as a Lender

By: \_\_\_\_\_  
Name:  
Title:

BANK OF TOKYO - MITSUBISHI TRUST COMPANY,  
as a Lender

By: \_\_\_\_\_  
Name:  
Title:

BANK ONE, NA (MAIN OFFICE CHICAGO),  
as a Lender

By: \_\_\_\_\_  
Name:  
Title

BAYERISCHE LANDESBANK GIROZENTRALE,  
CAYMAN ISLANDS BRANCH,  
as a Lender

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

CREDIT LYONNAIS NEW YORK BRANCH,  
as a Lender

By: \_\_\_\_\_  
Name:  
Title:

MELLON BANK, N.A.,

as a Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

UBS AG, STAMFORD BRANCH,  
as a Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

WESTDEUTSCHE LANDESBANK GIROZENTRALE,  
NEW YORK BRANCH,  
as a Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

THE BANK OF NEW YORK,  
as a Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BANCA NAZIONALE DEL LAVORO S.p.A.,  
New York Branch,  
as a Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

MORGAN STANLEY BANK, as a Lender

By: \_\_\_\_\_  
Name:  
Title:

## SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT (this "Agreement") is made as of the 23rd day of January, 2002, by and among Raytheon Company, a company incorporated under the laws of the state of Delaware ("Raytheon"). Raytheon Engineers & Constructors International, Inc., a company incorporated under the laws of the state of Delaware ("RECI," and, together with Raytheon and its wholly-owned or controlled subsidiaries and affiliates, the "Raytheon Parties"), Washington Group International, Inc., a company incorporated under the laws of the state of Delaware, a Debtor in the Bankruptcy Case (as defined below), and effective on the date hereof, Reorganized WGI (collectively, "WGI"). Washington Group International, Inc., a company incorporated under the laws of the state of Ohio, both as a Debtor and reorganized (collectively, "WGI Ohio," and together with WGI, and its wholly-owned or controlled subsidiaries and affiliates, and including the Reorganized Debtors, the "WGI Parties") and the Official Unsecured Creditors' Committee, for so long as it is constituted and acting in the Bankruptcy Case (each of the Raytheon Parties, the WGI Parties and the Committee being referred to as a "Party" and collectively as "Parties"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in Appendix I to this Agreement.

WHEREAS, WGI and certain other WGI Parties commenced cases under Chapter 11 of the Bankruptcy Code on May 14, 2001 (the "Bankruptcy Case"); and

WHEREAS, Raytheon, RECI and WGI are parties to a Stock Purchase Agreement by and among Raytheon, RECI and WGI (f/k/a Morrison Knudsen Corporation), dated as of April 14, 2000 (the "Stock Purchase Agreement"); and

WHEREAS, pursuant to certain orders of this Court, the Stock Purchase Agreement and the various agreements executed and delivered pursuant thereto, other than the Disaffiliation Tax Sharing Agreement, have been rejected under section 365 of the Bankruptcy Code; and

WHEREAS, in connection with the Bankruptcy Case there are various claims against one or more of the Debtors, as the term "claim" is defined in section 101(5) of the Bankruptcy Code (the "Estate Claims"); and

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WHEREAS, Raytheon and certain other Raytheon Parties have provided surety bonds, letters of credit, guarantees, or similar credit support arrangements, including substitutions thereof or replacements therefor (each a "Support Agreement" and collectively the "Support Agreements") in favor of third parties for the benefit of certain of the companies transferred by RECI pursuant to the Stock Purchase Agreement; and

WHEREAS, various pending and potential disputes, claims, controversies, adversary proceedings, and lawsuits by and among the Debtors, the Non-Debtor Subsidiaries, and certain Raytheon Parties in the Bankruptcy Case, and in other jurisdictions, have arisen or could potentially arise from or in connection with the negotiation, disclosures, omissions, execution and delivery, performance or non-performance of the Stock Purchase Agreement, the Support Agreements, and the transactions and agreements that are the subject thereof or are contemplated thereby (but expressly excluding the Excluded Matters) (collectively, the "Raytheon Disputes"); and

WHEREAS, on the date hereof, the Debtor WGI, as a debtor-in-possession in the Bankruptcy Case, is becoming Reorganized WGI, and in this capacity has been duly authorized to enter into this Agreement under the Plan and Confirmation Order; and

WHEREAS, the Parties hereto now desire to resolve all Raytheon

Disputes and the objection of certain Raytheon Parties to the Plan on the terms and conditions set forth in this Agreement;

NOW, THEREFORE, for and in consideration of the mutual agreements and covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, the Parties, intending to be legally bound, agree as follows:

1. RAYTHEON ASSERTED CLAIMS

Section 1.1 Allowance and Discharge in Full. Under the Plan, the Raytheon Asserted Claims shall be allowed as filed (without prejudice to Estate Claims filed by other creditors) and shall be discharged in their entirety. The Raytheon Parties, however, hereby waive and release to the Estates any distribution under the Plan on account of the Raytheon Asserted Claims.

2

Section 1.2 Retention of Rights by Raytheon. Notwithstanding Section 1.1, the following claims and rights of the Raytheon Parties are specifically acknowledged, preserved, and not discharged under the Plan or pursuant to the Confirmation Order:

(a) Administrative Claims under section 503 of the Bankruptcy Code (net of post-petition claims for goods and services provided pre-Effective Date by the Debtors to the Raytheon Parties) to the extent agreed upon by the Raytheon Parties, the Debtors and the Committee, or as allowed by the Bankruptcy Court;

(b) Rights of contribution, reimbursement and subrogation against any of the WGI Parties under outstanding Support Agreements with respect to assumed projects (and the Hudson-Bergen project) or contracts (collectively, and including the Hudson-Bergen project, the "Assumed Projects," it being understood that the Assumed Projects do not include those contracts being assumed in connection with the Ilijan Project Completion Agreements or being assumed and assigned in connection with the Ilijan or Red Oak Project Completion Agreements, or that will be governed by any of such agreements);

(c) Rights under the Disaffiliation Tax Sharing Agreement, which WGI has assumed under the Plan;

(d) Rights arising or expressly reserved pursuant to this Agreement or the specific agreements described in and entered into in connection with, or contemplated by, this Agreement; and

(e) Rights arising under the other agreements listed on Schedules A1 or A2 to the form of Mutual Release attached to this Agreement as Exhibit A.

Section 1.3 Assigned Claims. The Assigned Claims as defined and described in Appendix I attached to this Agreement are not released, settled or affected by this Agreement, and Raytheon may receive distributions as the holder of a Class 7 Claim under the Plan with respect thereto. The Debtors and the Committee reserve all rights to object to the Assigned Claims.

Section 1.4 Evidentiary Impact. Nothing with respect to the allowance or treatment of Raytheon's proofs of claim shall have res judicata or collateral estoppel effect or be admissible in evidence, in each case with respect to the rights of any third party, including but not limited to Mitsubishi (as defined in Section 2.2

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below), against, by or with respect to, Raytheon or with respect to the rights

of Raytheon against, by or with respect to any third party, including Mitsubishi.

## 2. RAYTHEON SUBROGATION CLAIMS

Section 2.1 Raytheon Parties' Rights in Respect of Support Agreements. The Confirmation Order provides, and the WGI Parties and the Committee agree, that the discharge, release, and injunction provisions contained in this Agreement do not affect the claims and rights of the Raytheon Parties against or relating to third parties (but not the Debtors as to pre-petition matters) as to any suretyship, subrogation, or other rights in respect of any Support Agreement. Notwithstanding the foregoing, the Raytheon Parties shall not receive or retain any distribution under the Plan on account of subrogation to, or based upon an assignment of, a Class 7 Claim, and the Raytheon Parties hereby waive and release any distributions under the Plan on account of the claims and rights of the Raytheon Parties, whether known or unknown, based upon suretyship, subrogation, reimbursement, contribution, or indemnity, except, in both cases, as provided in Sections 1.3 above or 2.2 below.

Section 2.2 Rights Under Section 509 of Bankruptcy Code. The rights, if any, of the Raytheon Parties under section 509 of the Bankruptcy Code to be subrogated to rights of Mitsubishi Corporation, Mitsubishi Heavy Industries of America, Inc., Mitsubishi Heavy Industries Ltd., or their affiliates or subsidiaries (collectively, "Mitsubishi") in respect of payments made by the Raytheon Parties to Mitsubishi under a Support Agreement are hereby preserved; provided, however, that (a) the amount of Mitsubishi's Estate Claim as to which the Raytheon Parties may be subrogated shall not exceed or expand the amount of \$217.5 million (the "Mitsubishi Allowed Claim"), (b) if any portion of the Mitsubishi Allowed Claim becomes an Assigned Claim, the amount of such Assigned Claim shall be limited to \$100 million, (c) the aggregate amount of Raytheon's subrogation rights with respect to the Mitsubishi Allowed Claim, plus other amounts with respect to which distributions under the Plan are made to Mitsubishi, shall not exceed in the aggregate the Mitsubishi Allowed Claim (with any allocation to be as may be agreed by Raytheon and Mitsubishi or, failing such agreement, as the Bankruptcy Court may determine), and (d) the amount, extent and nature of the Raytheon Parties' rights under section 509 of the Bankruptcy Code shall be as agreed among Mitsubishi, Raytheon, the Committee and the Debtors, or failing such agreement, as the Bankruptcy Court may determine.

## 3. FUTURE OBLIGATIONS UNDER ASSUMED PROJECTS SUPPORT AGREEMENTS.

Section 3.1 Rights of Raytheon Parties. The WGI Parties agree to take, and to cause their subsidiaries and affiliates to take, reasonable and necessary actions to protect the Raytheon Parties against possible future exposure under the Support Agreements relating to Assumed Projects (the "Assumed Projects Support Agreements"). The Raytheon Parties shall have, and are hereby granted, rights of contribution, reimbursement and subrogation against the WGI Parties under outstanding Assumed Projects Support Agreements, and all such rights are hereby expressly acknowledged and recognized and have been so acknowledged and recognized under the Plan and the Confirmation Order.

Section 3.2 Joint and Several Obligation: Standby Letter of Credit. Each of the WGI Parties (excluding WILLC), jointly and severally, hereby agrees to pay and satisfy their obligations to each of the Raytheon Parties for any and all obligations, payments or liabilities of such Raytheon Party under any of the Assumed Projects Support Agreements. Each of the Assumed Projects Support Agreements, and all obligations arising thereunder shall be, and hereby are agreed to constitute, the joint and several obligation of each of the Reorganized Debtors (excluding WILLC) and the obligations thereunder will be supported by an irrevocable standby letter of credit to be provided by, and for the account of, the Debtors for the benefit of the Raytheon Parties in the maximum drawing amount of \$10,000,000 (the "Raytheon LOC," the form of which is

attached hereto as Exhibit B). The Raytheon LOC will cover first dollar exposure for the Assumed Projects Support Agreements, be drawable in accordance with the terms set forth on Exhibit C hereto and remain in place and available for so long as, but only to the extent that, any obligation under any Assumed Projects Support Agreement is in effect.

#### 4. PENDING LITIGATION

Section 4.1 Suspension and Dismissal with Prejudice. All pending litigation pursued by one or more of the Parties against one or more of the other Parties was suspended on November 8, 2001, and will be dismissed with prejudice on the Effective Date. Such litigation includes (a) the Raytheon Actions (including the Idaho Litigation, the purchase price adjustment process and the American Arbitration Association arbitration matter), and (b) the Debtors' pending fraudulent transfer adversary proceeding in the Bankruptcy Case.

Section 4.2 Certain Raytheon Actions. The applicable Raytheon Parties and WGI Parties agree jointly to withdraw, on or before the Effective Date, the American Arbitration Association arbitration demand and any related filings and dismiss those aspects of the Raytheon Actions, without any further consideration

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except for the exchange of mutual releases, and each such Party agrees to bear its own costs in connection with the foregoing.

Section 4.3 Independent Accounting Firm. The Independent Accounting Firm appointed by the court in the Raytheon Actions has been instructed by WGI and Raytheon to stop work in connection with the purchase price adjustment, and Raytheon and WGI agree to share equally the costs for the Independent Accounting Firm through the cessation of work and each such Party to bear its own costs.

#### 5. PROJECT SERVICES

Section 5.1 Assumed Projects. (a) The WGI Parties agree to provide the Raytheon Parties with (i) on a commercially reasonable efforts basis, monthly project reports on each Assumed Project to the extent provided to owners and other clients with respect to such Assumed Project, (ii) copies of information actually provided to surety companies or WGI Parties' lenders, and (iii) other mutually-agreed information (except to the extent the provision of the items set forth in (i), (ii) and (iii) is limited by contract or government regulation, in which event the WGI Parties and the Raytheon Parties shall use commercially reasonable efforts to attempt to satisfy any such limitation in order to enable the Raytheon Parties to obtain such information). All information provided by the WGI Parties under this Section 5.1 shall be subject to the confidentiality provisions set forth in Section 7.4.

(b) In the event that any of the WGI Parties or Raytheon Parties learns of a threatened or pending claim against an Assumed Projects Support Agreement, WGI shall promptly notify Raytheon (if a WGI Party learns of it) and Raytheon shall promptly notify WGI (if a Raytheon Party learns of it) and WGI agrees to provide Raytheon with reasonable access to the WGI Parties' books, records and personnel on the same basis as provided elsewhere in this Section 5 and Section 8.13.

Section 5.2 Projects with Existing Separate Agreements. For the Sithe Fore River, Sithe Mystic, Red Oak, Puerto Plata, and Ilijan projects (collectively, the "Separate Projects"), any services to be provided by the WGI Parties shall be in accordance with the Separate Agreements, which already have been agreed to.

Section 5.3 Services Agreement for Certain Projects. The Saltend, Damhead, Jindal, Posven, Ratchaburi, Tallahassee, Acme, Ezhou, Egypt

Electric, UCH and NACIC projects, together with any and all other projects or contracts (but

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excluding the Separate Projects) rejected by any of the WGI Parties with respect to which any Raytheon Party has provided a Support Agreement where there may need to be further physical work or other routine project closeout activities, and the Clear Alaska project, shall be the subject of the Services Agreement.

Section 5.4 Third Party Litigation and Claims Support for All Projects/Contracts with Respect to which Project Claims Against Raytheon Are Threatened or Asserted.

(a) Application. The Services Agreement shall govern the provision of litigation and claim-related support that falls within the scope of Completion Services. The Separate Agreements shall govern the provision of litigation and claim-related support that falls within the scope of services required to be provided pursuant to the Separate Agreements. Except to the extent governed by the Services Agreement or Separate Agreements as described above, this Section 5.4 shall describe, and shall apply to, litigation and claims (collectively, the "Project Claims") that fall within one or more of the following categories: (i) litigation or claims that relate to any contract or project rejected by any of the Debtors in the Bankruptcy Case pursuant to section 365 or 1123(b)(2) of the Bankruptcy Code (the "Rejected Projects"); (ii) litigation or claims that relate to projects or contracts neither rejected nor assumed by any WGI Party in the Bankruptcy Case and where such litigation or claims are asserted against any Raytheon Party or under or with respect to a Support Agreement; (iii) litigation or claims that involve an Assumed Project as to which any WGI Party has breached and failed to cure its payment or reimbursement obligations relating to the applicable Support Agreement relating to such Assumed Project as required under Sections 3.1, 3.2 or 6.1(b) (a "Breached Assumed Project"); or (iv) litigation or claims that involve an Assumed Project as to which a claim is asserted against a Raytheon Party, whether or not such claim is asserted under or with respect to a Support Agreement or any of the contracts relating to such Assumed Project assumed by the WGI Parties.

(b) General Assistance. (i) At Raytheon's request, the WGI Parties shall provide the Raytheon Parties with support in asserting or defending actual or threatened Project Claims or litigation or proceedings (including arbitration) in any forum in which any Project Claim is being asserted, defended, or resolved (collectively, the "Project Claims Litigation") involving third parties arising (A) under any contract relating to a Rejected Project, or (B) in respect of (I) Project Claims also asserted or threatened to be asserted against any of the Raytheon Parties or under or with respect to a Support Agreement, or (II) in connection with a Breached Assumed Project, claims asserted or threatened against any of the

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Raytheon Parties or under or with respect to a Support Agreement (the matters described in the foregoing paragraphs (A) and (B) are collectively referred to as "Project Claim Matters"). The WGI Parties agree that they will diligently and in good faith provide documentation, information, access, and access to (but not use of) personnel reasonably requested by the Raytheon Parties in connection with any Project Claim Matters, which information, documentation and access also shall be available to the Committee.

(ii) Without in any way limiting the generality of the foregoing, it shall be deemed reasonable for Raytheon to request to meet with witnesses who are WGI Party personnel in advance of any testimony they may be asked or required to give at a deposition or hearing of any sort and to have them travel to the location of any hearing; provided that WGI Party personnel



shall not be required to provide any in-country support or services in Pakistan or any other foreign country in connection with any project unless (A) WGI is reasonably satisfied regarding safety and security in Pakistan or such other foreign country and (B) in the case of Pakistan only, WGI is satisfied in its sole and absolute discretion regarding its exposure to legal liability to judgments or other legal process. In the event that WGI is not reasonably satisfied regarding safety or security in Pakistan or such other foreign country, WGI shall notify Raytheon of such concerns and the WGI Parties and the Raytheon Parties shall meet to discuss such concerns and, acting in good faith, to enter into alternative arrangements.

(iii) Each of the WGI Parties hereby represents and warrants that, other than in connection with settlements with Raytheon or Mitsubishi or other settlements presented to and approved by the Bankruptcy Court (after notice to Raytheon and the Committee), since November 8, 2001 to the date of this Agreement, the WGI Parties have not compromised or settled any Estate Claim, Project Claim, or Project Claim Litigation involving a matter referred to in this Section 5.4 without obtaining, in addition to any other required consent, the consent of Raytheon and the Committee.

(iv) Except in the case of a Breached Assumed Project, Raytheon agrees to compensate the WGI Parties for the support provided pursuant to this paragraph (b) on the same basis of Allowable Costs plus a 7.5% fee, as provided in the Services Agreement with respect to Completion Services.

(c) Notice. If any of the WGI Parties receives any writing in which a claim is asserted or threatened against any of the WGI Parties either (i) in connection with any project with respect to which a Support Agreement exists or (ii)

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with respect to which any of the Raytheon Parties is alleged to have, or any WGI Party has a reasonable basis for knowing such Raytheon Party has, financial exposure based upon the existence or terms of a Support Agreement or any other agreement or legal theory ("Possible Project Claim"), the WGI Parties agree to provide Raytheon with prompt notice of the claim. If a claim is asserted or threatened against any of the WGI Parties that constitutes or relates to a Possible Project Claim or an Estate Claim, WGI agrees to provide the Committee with prompt notice of such claim.

(d) Additional Obligations. In addition to the general assistance obligations under paragraph (b) above and the notice obligations under paragraph (c) above:

(i) with respect to (A) a Rejected Project Claim, (B) any Project Claim Matter (other than a Rejected Project Claim) or any Possible Project Claim or Project Claim Litigation, in each case as to which both WGI and the Committee indicate that they do not have a material interest, or (C) a claim arising in connection with a Breached Assumed Project (collectively, "Raytheon Controllable Claims"), then in each such case, upon Raytheon's written request, the applicable WGI Parties and the Committee agree to permit Raytheon or the applicable Raytheon Party to direct the response to the claim and any related litigation, including without limitation, asserting counterclaims including those that preserve the WGI Parties' recoupment or set-off rights, control the process and receive any resulting proceeds (subject to the provisions of Section 5.5(b) below), provided that, in the case of Raytheon Controllable Claims of the types described in paragraphs (A) or (B) above, Raytheon pays all of the defense and other litigation costs in connection therewith.

(ii) To the extent that Raytheon requests any of the WGI Parties or the Committee, as applicable, to pursue any Rejected Project Claim or any other affirmative claim of a WGI Party relating to a Project Claim in one or more of the WGI Parties' own name, and the relevant WGI Parties reasonably determine that the pursuit of such matter in its own name would have

a material adverse impact on an existing or potential customer, supplier, subcontractor or other material business relationship, then, subject to the following proviso, the WGI Parties shall not be required to pursue such claim in their own name, but will assign such claim to Raytheon or RECI or their designees; provided that (I) such an assignment would be legally effective and (II) Raytheon determines that the assignment of such claim or the failure of the WGI Parties to pursue the claim in their own name will not adversely affect the pursuit of such claim or other matter related in any way to that claim, including the defense of any claims or counterclaims relating to the same

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project or expose any Raytheon Party to liabilities or damages for which it is not otherwise exposed or liable. In the event of any such assignment, the WGI Parties will provide documentation, information, access and access to, and use of, personnel reasonably requested by Raytheon to provide claim analysis and investigation and other background support, and Raytheon otherwise will have the claim and litigation support provided under this Agreement. In the event that any claim is not assigned due to a failure to meet either of the conditions in the proviso in the second preceding sentence, the relevant WGI Parties will pursue the applicable matter in their own name, but, in the event that the condition referred to in subclause II of such proviso is not met, the Raytheon Parties and WGI Parties will use commercially reasonable efforts to structure such pursuit in a manner that mitigates to the extent reasonably possible any material adverse effect on the WGI Parties' business relationships while not adversely affecting the pursuit or defense of such claim.

(iii) For any Project Claim Matters not addressed in Section 5.4(d)(i) or in the event that Raytheon makes a reasonable determination that any Raytheon Party is or may be exposed to liability under a Support Agreement or any other agreement or legal theory related to a Project Claim Matter that is not a Raytheon Controllable Claim (collectively, "Joint Defense Claims"), upon Raytheon's reasonable request, the applicable WGI Parties, and, if the exposure is related to an existing Estate Claim or may give rise to an Estate Claim, the Committee, and Raytheon shall enter into mutual defense arrangements, to be agreed upon in good faith. Those arrangements shall be appropriate under the circumstances of the particular Joint Defense Claim and, to the extent appropriate, each of the affected Parties will agree to (A) provide each other with all pleadings and notices in connection with such Joint Defense Claim, (B) provide each other with access to all relevant or related records and documents, (C) recognize the joint defense and common interest privilege between the affected Parties and their affiliates, (D) confer with each other prior to filing dispositive pleadings, making offers to settle or other major events, and (E) allow each other privileged access to relevant defense counsel. The WGI Parties and the Committee also acknowledge the right of Raytheon or another applicable Raytheon Party to intervene in its own name. In the event that any such Joint Defense Claim thereafter becomes a Raytheon Controllable Claim, the provisions of Section 5.4(d)(i) shall apply.

(iv) Upon Raytheon's reasonable request, the WGI Parties and the Committee agree to cooperate with Raytheon and provide reasonable cooperation and support to Raytheon in responding to the Project Claims, Project Claim Litigation, Project Claim Matters, and Possible Project Claims to assist the Raytheon Parties in mitigating any exposure and risk they may have; provided,

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however, in no event shall any WGI Party or the Committee be required to provide legal services to Raytheon. Raytheon shall be permitted to use counsel previously involved in the matter, and all Parties agree to waive any conflict.

(e) Costs, Budgeting, Etc. With respect to any provision of Section 5.4(d) that provides that the WGI Parties will provide services, except

with respect to a Breached Support Agreement, Raytheon will reimburse or otherwise be responsible for the WGI Parties' costs in providing support pursuant to this Section 5.4(d) and such costs shall be based on Allowable Costs, including Allowable Costs of in-house counsel and administrative personnel, plus a fee of 7.5%. To the extent practicable, prior to the WGI Parties incurring any costs, Raytheon and WGI will prepare and agree upon a proposed scope description of the services to be provided and budget and reconciliation, payment and audit procedures, similar to the procedures contemplated by Section 2(d) of the Services Agreement.

(f) Without in any way limiting the generality or scope of Section 8.10, nothing in this Section 5.4 is intended to, nor does it, in any way (i) benefit or create any rights or benefits for any Person that is not a signatory to this Agreement, or (ii) establish, or constitute an assumption of, any liabilities, duties, or obligations to, any Person not a signatory to this Agreement.

Section 5.5 Raytheon Parties' Rights to Rejected Project Claims, Etc. (a) The Raytheon Parties shall have the benefit of and be able to pursue or settle rights and claims of the WGI Parties in connection with Rejected Projects against customers, project owners, contractors, subcontractors, vendors and other third parties ("Rejected Project Claims"), subject to such parties' rights and defenses, if any, to such Rejected Project Claims. In addition, Raytheon or another applicable Raytheon Party may elect to control the process in the same manner as provided in Section 5.4 with respect to Raytheon Controllable Claims or may elect to control the process in the same manner as provided in Section 5.6 with respect to Estate Claims, as applicable, and receive any resulting proceeds, in each case with respect to Rejected Projects, subject to the provisions of paragraph (b) below. The WGI Parties and Raytheon agree that as part of the defense of any related Raytheon Controllable Claims and pursuit of Rejected Project Claims, any contract balances and affirmative claims of the WGI Parties, including without limitation the rights in the equity of Posven C.A. (and the WGI Parties agree within fifteen (15) days of a written request therefore, to provide Raytheon or its designee with the stock certificate(s) or other evidence of such equity), against project owners, customers, or others will be used first in respect of each such defense or pursuit to compromise, reduce or eliminate such Estate Claim or claim of a specific owner or any other specific third party in

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connection with that specific Estate Claim or claim asserted, respectively, against the WGI Parties or against the Raytheon Parties. As part of the Rejected Project Claims, assets or proceeds from whatever source claimed from third parties related to the Rejected Projects shall belong and be paid over directly to Raytheon or another applicable Raytheon Party, subject to the provisions of paragraph (b) below. Raytheon shall endeavor in good faith to avoid prejudice to existing rights and claims, if any, of the Reorganized Debtors with respect to such projects and upon request shall give reasonable notice to WGI and the Committee of the status and results of such legal action. With respect to any Rejected Project Claims being pursued by Raytheon directly in the name of the WGI Parties, Raytheon shall provide periodic updates to WGI and the Committee and, if WGI provides notice to Raytheon and the Committee that WGI or the Committee has a concern about specified Rejected Project Claims, (i) Raytheon shall provide to WGI and the Committee reasonable periodic information regarding the case, (ii) before deciding to abandon the pursuit of the particular Rejected Project Claim, so advise WGI and the Committee and permit WGI or the Committee, as appropriate, to take over the Rejected Project Claim for its own account and (iii) Raytheon will not obtain (or retain) an affirmative recovery for its own account (by settlement or otherwise) if the opposing party in the case retains an Estate Claim or an affirmative claim against the Reorganized Debtors.

(b) In addition, and notwithstanding the foregoing paragraph (a), with respect to each of the Rejected Projects, other than the Designated Projects and except as otherwise provided in the Ilijan Project Completion Agreements and the Red Oak Project Completion Agreement, to the extent that

after first paying or discharging obligations due to and related costs incurred by the Raytheon Parties under the related Support Agreement or the Services Agreement and in pursuing Rejected Project Claims relating to that Rejected Project, there remain Net Proceeds from Rejected Project Claims in connection with that Rejected Project, Raytheon shall provide written notice thereof to WGI and the Committee and shall pay over the amount of such excess to WGI, which is entitled to such excess. With respect to the Designated Projects, however, Raytheon or another applicable Raytheon Party shall be entitled to all assets, claims and recoveries, if any.

(c) Without in any way limiting the generality or scope of Section 8.10, nothing in this Section 5.5 is intended to, nor does it in any way (i) benefit or create any rights or benefits for any Person that is not a signatory to this Agreement, or (ii) establish, or constitute an assumption of, any liabilities, duties, or obligations to, any Person not a signatory to this Agreement.

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Section 5.6 Claims Allowance Process. This Section 5.6 shall apply to all Estate Claims being allowed, disputed, or resolved in whole or in part in the Bankruptcy Court or in an alternative forum to which the Bankruptcy Court has ceded jurisdiction by an order entered in the Bankruptcy Case that was not sought by the Committee ("Alternative Forum") with respect to matters involving or otherwise related to any Raytheon Party or any Project Claim with respect to which any Raytheon Party (a) has any actual or potential liability, (b) is entitled to pursue a recovery in respect of such Project Claim in accordance with this Agreement or (c) otherwise has any pecuniary interest in or with respect to such Estate Claim (a "Raytheon Related Estate Claim").

(a) The Raytheon Parties, the WGI Parties and the Committee agree to cooperate in the development and implementation of a process for the resolution of Estate Claims generally and Raytheon Related Estate Claims in particular in the Bankruptcy Case (the "Claims Allowance Process").

(b) The Raytheon Parties may initiate or seek to intervene or otherwise participate as parties in a Claims Allowance Process matter with respect to particular Raytheon Related Estate Claims. The WGI Parties and the Committee agree to support that participation, in a manner consistent with the terms and conditions of this Agreement, so long as such intervention or participation would not unduly delay the adjudication of the rights of the original parties, and further agree to permit Raytheon to control the litigation, arbitration or other determination of the Raytheon Related Estate Claims, including, without limitation, the assertion of counterclaims or the right of setoff or recoupment, as appropriate; provided however that the Committee, as provided in the Plan, may settle or compromise a Raytheon Related Estate Claim as long as such settlement or compromise does not determine or adversely affect the liability, if any, of the Raytheon Parties with respect to such Raytheon Related Estate Claim and as long as such settlement or compromise does not require any payment by a Raytheon Party. If the Bankruptcy Court or the court or panel in such Alternative Forum permits the Raytheon Parties to so intervene or otherwise participate as a party with respect to a particular Raytheon Related Estate Claim, the Committee or Raytheon may seek a determination from the Bankruptcy Court of the obligations, if any, of the Raytheon Parties to a Person with respect to such Raytheon Related Estate Claim that is based upon such party's rights under a Support Agreement and the Raytheon Parties (i) may seek a ruling that their obligations, if any, should not be so determined on any ground other than lack of personal jurisdiction over the Raytheon Parties or improper venue, and/or (ii) may oppose the relief sought on the merits.

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(c) The Raytheon Parties, rather than seeking to intervene

or otherwise participate as a party, may request in a writing that refers to this Section 5.6 that the WGI Parties and/or the Committee permit the Raytheon Parties to direct their actions as to a particular Raytheon Related Estate Claim (including with respect to settlement and allowance of the Raytheon Related Estate Claim), including, without limitation, the assertion of counterclaims or the right of setoff or recoupment, as appropriate, provided that the Raytheon Parties agree to reimburse all reasonable fees, costs, and expenses associated with their doing so. The WGI Parties and the Committee agree to comply with such request and to follow such direction from the Raytheon Parties; provided, however, that the Committee, as provided in the Plan, may settle or compromise a Raytheon Related Estate Claim as long as such settlement or compromise does not determine or adversely affect the liability, if any, of the Raytheon Parties with respect to such Raytheon Related Estate Claim and as long as such settlement or compromise does not require any payment by a Raytheon Party.

(d) Except as, but only to the extent, expressly provided herein, the Estates and the Committee acting on behalf of the Estates reserve their rights, if any, under applicable law or procedural rules to seek an order joining one or more Raytheon Parties in any matter, proceeding or other civil action (including arbitration) in the Claims Allowance Process with respect to a particular Raytheon Related Estate Claim and to request a determination by the Bankruptcy Court of the obligations, if any, of the Raytheon Parties to the Person or Persons asserting such Raytheon Related Estate Claim under a Support Agreement or other agreement or legal theory. Except as, but only to the extent, expressly provided herein, the Raytheon Parties reserve their rights, if any, to oppose any such motion, request or action on any grounds under applicable law or procedural rules. The Parties intend and agree that nothing in this Agreement, including, without limitation, this Section 5.6, is intended to, or does, suggest the existence or validity of any rights or expand, restrict, or in any way affect or influence the nature, existence, or validity of any of the rights, if any, reserved under this Section 5.6(d).

(e) In the event that in the Claims Allowance Process in the Bankruptcy Court or an Alternative Forum, the Raytheon Parties (i) initiate, intervene or participate as a party in the determination of a Raytheon Related Estate Claim as provided in paragraph (b) above, or (ii) elect to direct the litigation, arbitration or other determination of a Raytheon Related Estate Claim as provided in paragraph (c) above, and (x) in each case, the WGI Parties and the Committee have permitted the Raytheon Parties to control the defense of the Raytheon Related Estate Claim, and (y) if, but only if, the Bankruptcy Court or the Court or panel in that

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Alternative Forum, after having afforded the Raytheon Parties a full and fair opportunity to be heard, should determine in a Final Order that one or more Raytheon Parties are liable under a Support Agreement to the Person asserting the Raytheon Related Estate Claim, then the Raytheon Parties will pay or otherwise resolve their liability to such Person, which payment shall extinguish the liability of both the Estate for such Raytheon Related Estate Claim and the Raytheon Parties for such Raytheon Related Estate Claim. Subject to the provisos contained in paragraphs (b) and (c), no settlement of any Raytheon Related Estate Claim that is referred to in paragraphs (i) or (ii) above shall be agreed to or supported by the WGI Parties or the Committee without the consent of Raytheon, if the settlement contemplates any payment by, or could have an adverse economic consequence for, any Raytheon Party.

(f) The WGI Parties agree that they will provide assistance in the Claims Allowance Process to Raytheon if Raytheon initiates, intervenes or otherwise participates as a party in a Claims Allowance Process matter, including the furnishing of documentation, information, financial data, reasonable access to personnel, and reasonable access to WGI's counsel and other professionals, and, upon the request of the Committee, with Raytheon's consent, the WGI Parties will provide all such assistance to the Committee as well. The WGI Parties shall also provide to the Committee, at the Committee's request with prior notice to Raytheon, assistance, documentation, information, financial

data, reasonable access to personnel, and reasonable access to WGI counsel and other professionals, but, without Raytheon's consent, shall not provide the Committee with any such information, financial data, access to personnel, WGI counsel and other professionals that the WGI Parties would not be obligated to provide to a third party pursuant to discovery under the Federal Rules of Bankruptcy Procedure. The Committee shall not voluntarily provide any non-public information received pursuant to this Agreement to any third party unless consented to by Raytheon and shall not use any assistance or information provided to it by WGI in a manner that is inconsistent with the terms of this Agreement. Raytheon consents to the WGI Parties providing such information to the Committee and agrees that doing so will not constitute a breach of the confidentiality provisions or other information request provisions of this Agreement (subject to any applicable protective order) and the Committee agrees to observe the confidentiality obligations as though it were a WGI Party. Such assistance will be furnished to the Committee by Reorganized WGI without charge. The reimbursement of expenses, fees, and costs of the Committee are to be borne by Reorganized WGI pursuant to the Plan. The Raytheon Parties will reimburse all accrued but unpaid reasonable fees, costs and expenses incurred by the WGI Parties in providing the Raytheon Parties with the assistance, but only to the extent such fees, costs and

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expenses exceed the amounts required to provide assistance to the Committee. Nothing contained in this Agreement shall affect or limit, or be deemed to be a waiver of, the right, if any, of any Party to seek discovery, including testimony and the production of documents in any matter, proceeding or other civil action (including arbitration).

(g) The Parties agree that, without formally participating in the resolution of a Raytheon Related Estate Claim as contemplated by paragraph (b) or (c) above, and thereby making applicable the provisions of paragraph (e) above, that (i) the Parties may consult with respect to any Raytheon Related Estate Claim, Raytheon may be consulted respecting its views and preferences and Raytheon may provide comments and suggestions with respect to the resolution of any Raytheon Related Estate Claim, and (ii) the WGI Parties and the Committee shall consult and confer with Raytheon with respect to any Raytheon Related Estate Claim related in any way to a Project Claim.

(h) The determination of the amount of an Allowed Claim in the Claims Allowance Process shall not expand, limit or alter the obligation of the Raytheon Parties, if any, to make payments under a Support Agreement with respect to such Raytheon Related Estate Claim. In no event, will the WGI Parties or the Committee consent to the entry of an order fixing the amount of an Allowed Class 7 Claim in an amount different from that with respect to which distributions under the Plan are to be made to the holder of such Allowed Class 7 Claim.

(i) Except as, but only to the extent, expressly provided herein the Raytheon Parties, the WGI Parties and the Committee agree that each Party reserves its rights under applicable law and procedural rules in connection with any specific matter, proceeding, or civil action (including arbitration) and that no Party has agreed to create or waive rights in respect of such law or rules or in favor of third parties under this Section 5.6.

(j) Without in any way limiting the generality or scope of Section 8.10, nothing in this Section 5.6 is intended to, nor does it in any way (i) benefit or create any rights or benefits for any Person that is not a signatory to this Agreement, or (ii) establish, or constitute an assumption of, any liabilities, duties, or obligations to, any Person not a signatory to this Agreement.

Section 5.7 PP9 Project. Raytheon and WGI acknowledge that both the "Consortium Agreement" and the project agreements for the so-called "PP9 Project" are between certain WGI Parties and General Electric Company and its

affiliates and are being assumed by the WGI Parties as part of the Bankruptcy Case, while the project agreements for the Ratchaburi project were also between certain WGI Parties and General Electric Company and its affiliates but were rejected by the WGI Parties as part of the Bankruptcy Case, and agree that their respective interests in the Ratchaburi project and the PP9 Project will be independent from each other, with rights and obligations remaining separate between the two projects, and benefits and burdens for each project will remain with that project and the parties involved. Accordingly, nothing in this Agreement shall be deemed to authorize Raytheon to settle or compromise any claim relating to the PP9 Project or to receive or retain any amounts payable by any third party with respect to such project, and nothing in this Agreement shall be deemed to authorize any WGI Party to settle or compromise any claim relating to the Ratchaburi project or to receive or retain any amounts payable by any third party with respect to the Ratchaburi project.

## 6. ADDITIONAL AGREEMENTS

### Section 6.1 Agreements Involving Assumed Projects Support Agreements.

(a) Certain Support Agreements. The WGI Parties agree to use commercially reasonable efforts (consistent with their capabilities and circumstances) to identify and replace Assumed Projects Support Agreements of relatively long duration and/or that involve relatively little risk. WGI shall endeavor in good faith to terminate the Support Agreements in connection with Pine Bluff. WGI may consult with Raytheon from time to time concerning the progress made with respect to any such releases, and Raytheon agrees to provide reasonable assistance in such process. For purposes of this Section 6.1 only, Gulf Chemical shall be an "Assumed Project."

(b) Reimbursement and Repayment. (i) With respect to Assumed Projects Support Agreements, the WGI Parties agree to reimburse the applicable Raytheon Party for all third-party premiums, payments and other carrying costs of those Support Agreements, within fifteen (15) days after receipt of invoices for these amounts. If a Raytheon Party is required to reimburse a letter of credit issuer for any drawing under an Assumed Projects Support Agreement, or is required to make any payment under an Assumed Projects Support Agreement that is a guaranty or surety bond (other than carrying costs as provided above or to reimburse the issuer of a surety bond under an indemnity agreement or otherwise), then the WGI Parties agree to reimburse such Raytheon Party within three (3) business days after receipt of Raytheon's demand for payment.

(ii) The WGI Parties' payment and reimbursement obligations under Sections 3.1 and 3.2 and this Section 6, as among each of the WGI Parties (but excluding WILLC), is a joint and several obligation and shall not be subject to any right of set-off or defense to payment that otherwise might be available. Each of the WGI Parties (but excluding WILLC), jointly and severally, hereby irrevocably and unconditionally accepts, not merely as a surety but also as a co-debtor, joint and several liability with all other WGI Parties, with respect to the payment and reimbursement obligations under Sections 3.1 and 3.2 and this Section 6, it being the intention of the Parties that all the obligations shall be the joint and several obligations of each of the WGI Parties (but excluding WILLC) without preferences or distinction among them. The first dollar exposure for any such amounts shall be drawable by Raytheon under the Raytheon LOC, in accordance with the terms set forth on Exhibit C hereto.

(c) Reporting. Until a particular Assumed Projects Support Agreement is completely released, the WGI Parties agree to provide Raytheon with (i) on a commercially reasonable efforts basis, monthly project reports on each

Assumed Project to the extent provided to owners and other clients with respect to such Assumed Project, (ii) copies of information actually provided to surety companies or the WGI Parties' lenders, and (iii) other mutually-agreed information (except to the extent the provision of the items set forth in (i), (ii) or (iii) is limited by contract or government regulation, in which event the WGI Parties and the Raytheon Parties shall use commercially reasonable efforts to satisfy any such limitation in order to enable the Raytheon Parties to obtain such information). All information provided by the WGI Parties under this Section 6.1 shall be subject to the confidentiality provisions set forth in Section 7.4. In connection with Assumed Projects, Raytheon shall not have access to the WGI Parties' books, records or personnel until any of the Raytheon Parties has reason to believe or any of the WGI Parties has knowledge that third parties may have rights to or have, or have threatened to assert, claims with respect to any Assumed Projects Support Agreements. In that event, the WGI Parties agree to provide diligently and in good faith all documentation, information, access, and access to personnel requested by Raytheon, as though subject to the Services Agreement and as provided in Section 8.13.

## 7. LITIGATION RELEASES AND THIRD PARTY ISSUES

### Section 7.1 Mutual Releases; Resolution of Certain Claims. (a)

(i) Raytheon and WGI agree to execute and deliver, and to cause the appropriate

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Raytheon Parties and WGI Parties, respectively, and the Persons related thereto, to execute and deliver, duly authorized releases in the form set forth in Exhibit A.

(ii) Raytheon and WGI shall not be obligated to obtain releases from subsidiaries or other affiliates that are not wholly-owned (referred to as a "Non-Releasing Entity"), but Raytheon and WGI each agree to indemnify the other party and all related parties that are the subject of the releases against all claims and causes of action ever asserted now or in the future by such Non-Releasing Entity that would have been covered had the Non-Releasing Entity delivered a release as described above; provided, however, that such indemnity shall not extend to contracts between any Raytheon Parties and any WGI Parties entered into in the ordinary course.

(b) At Raytheon's request and expense, the WGI Parties, to the extent permitted by the Bankruptcy Court, shall use commercially reasonable efforts to use the post-confirmation jurisdiction of the Bankruptcy Court to resolve disputed, contingent, or unliquidated claims being asserted by third parties that Raytheon reasonably believes relate to property of the Estate and will use commercially reasonable efforts in cooperating in other jurisdictions to resolve disputed, contingent, or unliquidated claims and claims based in any way on the Stock Purchase Agreement and the various agreements executed and delivered pursuant thereto. Notwithstanding the foregoing, to the extent the claim involved is an Estate Claim, the Estate Claim shall be the subject of the Claims Allowance Process and shall be governed by Section 5.6, and the resolution of any such Estate Claim shall be through the Claims Allowance Process. When such claims involve Rejected Projects involving outstanding Support Agreements that may be subject to such claims, the use of the post-confirmation jurisdiction of the Bankruptcy Court as described herein shall be subject to Raytheon's consent and right to direct the response to the claim and any related litigation, to control the process and to receive any resulting proceeds, in a manner consistent with Sections 5.4, 5.5 and 5.6.

Section 7.2 SPA Information. (a) The Parties agree to keep confidential (and to use their best efforts to cause their respective agents and representatives to keep confidential) any "SPA Information"; provided however that the parties may utilize SPA Information on a non-confidential basis as reasonably required in connection with conduct of their business or otherwise in furtherance of WGI's business interests (including, without limitation, existing or potential business arrangements, but excluding any business interests or arrangements involving the pursuit of claims against the Raytheon Parties). SPA



Information, for purposes of this Section 7.2 and Section 7.5 below means, collectively, (a) any information or

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documents provided to Morrison Knudsen or the WGI Parties or their agents by the Raytheon Parties or (b) any information or documents provided to the Raytheon Parties or their agents by Morrison Knudsen or the WGI Parties, in each case in connection with the negotiation or implementation of the Stock Purchase Agreement or pursuant to the Confidentiality Agreement dated as of August 4, 1999 between Raytheon Company and Morrison Knudsen Corporation. This obligation shall not apply with respect to any information that: (x) was known by the WGI Parties or the Raytheon Parties prior to receipt from the other party; (xi) was developed independently by the WGI Parties without the use of SPA Information; (xii) is in the public domain or otherwise generally available to the public; or (xiii) was received by the WGI Parties from third parties under no known confidentiality obligation to the Raytheon Parties, including those under this Agreement.

(b) Notwithstanding the foregoing, the WGI Parties and the Raytheon Parties, respectively, may disclose SPA Information (i) to the extent requested or required by any regulatory authority, government authority, or examining authority or provided to such authority to the extent such Party, in its discretion, has determined that it should do so to protect or preserve its own legal, regulatory, or commercial interests, or (ii) to the extent necessary for any Party to defend against a suit, action or proceeding to which it or any of its officers or directors is a party.

(c) The Raytheon Parties and WGI Parties agree not to waive intentionally or release any known privileges or protections with respect to non-public SPA Information and the businesses sold pursuant thereto as it relates to any third party litigation that may involve a Raytheon Party or WGI Party without first giving reasonable notice to the other Party.

Section 7.3 Discovery Materials. (a) All documents, interrogatory answers, deposition testimony, and deposition exhibits produced or obtained in the Bankruptcy Cases and the Idaho Litigation, all submissions made by Raytheon and WGI in connection with the purchase price adjustment proceedings, and all transcripts of proceedings before the Independent Accounting Firm (collectively, "Discovery Materials") shall be governed by this Section 7.3 and Section 7.5 below. A Party's own documents in the hands of such Party including, without limitation, documents it produced in connection with such cases, shall not constitute Discovery Materials.

(b) The parties may retain Discovery Materials, except for the 116 documents believed by WGI to be privileged and previously identified to Raytheon, which, to the extent held by Raytheon, shall be returned to, and retained (i.e., not

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destroyed) by WGI. The Parties shall not disclose Discovery Materials to any Person unless such Person has acknowledged in writing that s/he has read the terms of this Section 7.3 and is personally bound by it, and such Person is (i) a client representative of the Party retaining possession of such Discovery Materials, (ii) an attorney, accountant, financial advisor, expert, or other professional retained by such client, or (iii) a Person to whom disclosure of the Discovery Materials has been consented to by the Party who first provided the Discovery Materials.

(c) Notwithstanding and without limitation of the foregoing and subject to the provisions of Section 7.5, a Party may disclose Discovery Materials that have entered the public domain other than through an improper disclosure by such Party.

Section 7.4 Other Confidential Information. (a) Subject to the provisions of Section 7.5 below, the Parties agree to keep confidential (and to use their best efforts to cause their respective agents and representatives to keep confidential) the Confidential Information and all copies thereof, extracts therefrom and analyses or other materials based thereon. For the purposes of this Section 7.4 and Section 7.5 below, "Confidential Information" shall mean any confidential information that concerns the business and operations of any Party and that has been acquired by any other Party pursuant to this Agreement. This obligation shall not apply with respect to any information that: (i) was known by the WGI Parties or the Raytheon Parties prior to receipt from the other party; or (ii) is in the public domain.

(b) Notwithstanding the foregoing, and subject to Section 7.5 below, the WGI Parties and the Raytheon Parties, respectively, may disclose Confidential Information (i) to such of their respective officers, directors, employees, agents, consultants, advisors, affiliates and representatives as need to know such Confidential Information in order to carry out their normal business responsibilities, (ii) to the extent requested or required by any regulatory authority or examining authority, or (iii) in connection with any suit, action or proceeding relating to the enforcement of its rights hereunder or under the Services Agreement.

Section 7.5 Compelled Disclosure. In the event that the WGI Parties, on the one hand, or the Raytheon Parties, on the other hand, are required (including but not limited to, by questions under oath, interrogatories, requests for information or documents in legal proceedings, governmental regulatory or self-regulatory organization requests for information; or subpoena, civil demand, or other process) (collectively, a "Document Request") requesting the production of Discovery Materials or Confidential Information received from the other Party, the

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Party so served will provide the other Party with prompt written notice of any such request or requirement so that the other Party may seek a protective order or other appropriate remedy and/or waive compliance with this Agreement. Nothing herein shall require a Party served with a Document Request to violate its legal obligations thereunder or (but, subject to the foregoing notice requirements as related to Discovery Materials or Confidential Information) to withhold information from any regulatory or governmental agency if the Party reasonably determines that it is in its best interest to provide requested information to such regulatory or governmental agency. No Party shall be required to give the notice provided hereby if a regulatory or governmental agency, on its own initiative, requests that it not provide such notice to any Party. In addition, this Section 7.5 shall apply to SPA Information requested or required in connection with any third-party non-government or regulatory Document Request.

Section 7.6 Avoidance of Further Litigation Activity. The Raytheon Parties and the WGI Parties agree that they will not affirmatively assist third parties in pursuing claims against the other Party arising out of matters resolved under this Agreement.

## 8. OTHER MISCELLANEOUS MATTERS

Section 8.1 Use of Name. (a) Raytheon hereby terminates any license, whether express or implied, the WGI Parties may have been granted, or may otherwise have been assumed to exist, with respect to use of the "Raytheon" name, whether alone or in combination with other words or designs. The WGI Parties hereby acknowledge, agree and consent to the foregoing and agree immediately to commence actions to terminate use of the Raytheon name. In any and all events, the WGI Parties agree to cease use of all Raytheon names on or before March 31, 2002.

(b) The WGI Parties hereby acknowledge that Raytheon is the owner of all right, title and interest in and to the Raytheon Mark, whether

alone or in combination with other words or designs and that the WGI Parties shall not have any right to use the Raytheon Mark except as expressly authorized by this Agreement in paragraph (c) below. At the request of Raytheon, WGI will cause all of the WGI Parties to enter into a separate agreement with Raytheon covering the same matters set forth in paragraph (a) and this paragraph (b).

(c) Notwithstanding paragraph (a) above, Raytheon agrees to grant WGI and REOL as defined herein a limited license to use the name "Raytheon-Ebasco Overseas Ltd." ("REOL") on projects that are under contract on

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the date hereof only. Unless Raytheon agrees otherwise in a writing that specifically refers to this Section 8.1(c), the WGI Parties agree to make clear that REOL is no longer affiliated with Raytheon by legends to that effect on signage, stationery, directories and the like.

Section 8.2 Disaffiliation Tax Sharing Agreement. The Disaffiliation Tax Sharing Agreement shall be assumed by WGI and remain the valid obligation of WGI, Raytheon and RECI. As contemplated by Article 3 of the Disaffiliation Tax Sharing Agreement, (a) Raytheon and WGI will designate appropriate representatives to meet and confer by not later than March 15, 2002, with respect to outstanding claims for Taxes (as defined in the Disaffiliation Tax Sharing Agreement) and other items provided for under that Agreement for which either Raytheon or WGI is or may be responsible under the Disaffiliation Tax Sharing Agreement and refunds for Taxes that either of them is entitled to under that Agreement, and amounts due shall be agreed upon and paid by not later than May 31, 2002, and, if no agreement on amounts can be reached, such amounts shall be determined and paid as ordered by a court of competent jurisdiction, with all costs to be borne by the non-prevailing party as determined by that court, (b) WGI will, within thirty (30) days of the effective date of the Confirmation Order, notify Raytheon, in the manner provided in the Disaffiliation Tax Sharing Agreement, of all proofs of claim relating to Taxes and all Taxes listed in the schedules to the Plan or filed in the Bankruptcy Case or for which WGI intends to assert its indemnification rights under the Disaffiliation Tax Sharing Agreement, (c) Raytheon will have the right to object to any or all of such claims in the Bankruptcy Case or to direct WGI to make such objection, (d) Raytheon will have the right to negotiate, compromise and settle any or all of such claims (or to direct WGI to control the proceedings with respect to such claims) as and to the extent provided in Article 3 of the Disaffiliation Tax Sharing Agreement and (e) WGI's failure to perform its obligation under subsection (b) of this Section 8.2, shall excuse Raytheon from its indemnification obligations under the Disaffiliation Tax Sharing Agreement with respect to the affected Taxes to the extent that such failure affects the rights of Raytheon with respect to such Taxes. Except as specifically modified or supplemented by this Section 8.2, the Disaffiliation Tax Sharing Agreement shall remain in full force and effect and shall exclusively govern all matters that are the subject thereof.

Section 8.3 Insurance Claims. The WGI Parties agree to use commercially reasonable efforts to use rights available under the Bankruptcy Code to reduce the exposure of each or either of the WGI Parties or the Raytheon Parties under various insurance arrangements. The WGI Parties and the Raytheon Parties agree to work in good faith to resolve their respective rights and obligations under

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various insurance policies. The Plan shall not create rights in or to insurance coverage. Raytheon shall have all rights in and to insurance proceeds and insurance generally, except that with respect to CGL and professional liability policies procured by WGI under its corporate program, Raytheon shall have only such rights with respect to insurance as the Parties may mutually agree for projects and contracts that involve Rejected Projects, subject to the first

sentence of Section 5.5(b).

Section 8.4 Warrior Run. With regard to the Warrior Run Receivable, the WGI Parties agree to remit to Raytheon, from and upon the release of the proceeds by the owner of the Warrior Run project to WGI, net of actual out-of-pocket costs of collection from the date hereof, an amount equal to 32% of the aggregate of the net amount released to WGI from its share and any other recoveries obtained by WGI from CE/Alstom relating to the Warrior Run project, provided that Raytheon's net share shall not exceed \$4,160,000 (i.e. capped at 32% of \$13 million) of such recoveries. WGI will keep Raytheon reasonably informed of the status of its litigation with CE/Alstom and will permit Raytheon to monitor such litigation at its own expense.

Section 8.5 Nondisparagement. Press releases respecting the resolution of their disputes and with respect to the settlement embodied in this Agreement will be mutually agreed upon. The Raytheon Parties and the WGI Parties agree not to (and agree to cause their respective senior officers, directors and advisors not to) disparage the other party or its senior officers, directors or advisors with or to the media.

Section 8.6 Scope of Agreement. Except with respect to Rejected Projects, this Agreement does not extend to (a) matters in the insolvency proceeding of Washington International B.V. that is now pending in The Hague, Netherlands, except with respect to documents, insurance claim information and other information, if any, under the care, custody, or control of the WGI Parties, which shall be treated as if the projects involved were Rejected Projects, or (b) WGI Parties that are not Debtors but that have obligations supported by Support Agreements. The Parties acknowledge that WILLC is subject to a winding up petition filed in the United Kingdom and is deemed to be insolvent under English law, accordingly, WGI will not be able to require it to provide support on its projects and WGI agrees to provide support on Saltend and Damhead pursuant to the Services Agreement through another entity.

Section 8.7 Status and Effect of Stock Purchase Agreement, Etc. Upon the Effective Date of the Plan, the rejected Stock Purchase Agreement, the

rejected Receivables Termination Agreement and the rejected Project Completion Agreements entered into pursuant to the Stock Purchase Agreement, shall thereupon be terminated and have no further force or effect, right or obligation, among the parties thereto or otherwise. All matters arising therefrom as among the parties thereto, including but not limited to, the Raytheon Claims, the Raytheon Asserted Claims, and the Debtors' fraudulent transfer adversary action referred to herein, and any obligations, entitlements, benefits or burdens thereunder, shall be governed, superseded, or replaced, as the case may be, by this Agreement, the Plan, and the Raytheon Settlement Provisions and Documents.

Section 8.8 Order Regarding Stipulated Raytheon Issues and Stipulation and Order Regarding Confidentiality. Upon the Effective Date, the Order Regarding Stipulated Raytheon Issues and the Stipulation and Order Regarding Confidentiality entered in the Bankruptcy Case shall be vacated.

Section 8.9 Certain Contract Changes. Unless consented to in writing by Raytheon, the Debtors may not at any time after November 20, 2001, assume and assign, reject, amend or modify any executory contract or unexpired lease to which Raytheon is a party or with respect to which there is a related Support Agreement, other than with respect to ordinary course change orders or as set forth in the Plan or any Motion filed with the Bankruptcy Court on or prior to November 20, 2001.

Section 8.10 No Third Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to confer, nor does it confer, upon any third party any rights, remedies, benefits, obligations, or liabilities under or by reason of this Agreement, except as expressly provided herein. For

the avoidance of doubt, no Raytheon Party by virtue of this Agreement is assuming or creating any obligations or duties to parties not signatory hereto.

Section 8.11 Roche Carolina. With regard to the Roche Carolina litigation, Raytheon and WGI agree that such litigation and all related claims constitute both a Raytheon Controllable Claim and a Rejected Project Claim and, accordingly, Raytheon has the right to settle the case or pursue the current appeal, in each case at Raytheon's cost, and Raytheon has the right to retain any and all proceeds should the appeal be successful. In addition, Raytheon agrees that it will pay on behalf of WGI any settlement or non-appealable final judgment.

Section 8.12 No Admission of Liability. Each of the Parties understands and agrees that this Agreement constitutes a compromise and settlement of

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claims that at all times have been disputed and denied. Nothing contained herein, or otherwise related to this compromise and settlement of these disputed claims, shall ever constitute or be construed to be an admission of liability or damages on the part of any Person or Persons released hereunder. This settlement represents a compromise among the Parties reflecting their mutual desire to terminate all disputes among them and to avoid the substantial burden of continued litigation.

Section 8.13 Access; Records, Etc.. (a) Raytheon Access. During normal business hours and upon reasonable notice, the WGI Parties will permit Raytheon to have reasonable access to and examine and make copies of all records, contracts, subcontractor and vendor-related documentation, claims evaluations, lists, payment records, project correspondence, bids and documents relating to the Rejected Projects, receivables being collected by Raytheon or litigation involving Support Agreements or other alleged liability against the Raytheon Parties. Photocopying will, at Raytheon's option, but after consultation with WGI and giving consideration to any undue disruption to WGI's business, be conducted on-site at WGI's offices or offsite using a third party vendor, in accordance with procedures reasonably satisfactory to WGI. With regard to access to WGI's Princeton, New Jersey offices, (i) access shall be given during normal business hours, and (ii) Raytheon's personnel shall be subject to WGI's prior approval, such approval not to be unreasonably withheld or delayed. In addition to those personnel subject to the foregoing approval process, WGI expressly will pre-approve and permit the persons listed on Schedule 1 hereto to have access to the Princeton facilities. All requests for books, access, personnel or otherwise will be made of the Person designated by WGI to receive such requests, who shall be accessible and available.

(b) Turnover of Records. The WGI Parties will not destroy any files or records related to matters of concern to Raytheon, and identified to WGI within sixty (60) days after the date of this Agreement, without giving at least thirty (30) days' prior notice to Raytheon. Upon receipt of notice, Raytheon may require that the records involved be delivered to it (subject to attorney client privileges or work product doctrines, which materials shall be retained and not destroyed by the WGI Parties and otherwise shall be treated as provided in Section 7.3), at its expense, or notify WGI that it will pay the cost of storing and maintaining those books and records (including costs of moving the books and records to a location under Raytheon's control), but Raytheon will be required to pay such costs only to the extent that WGI is not required by applicable law or its own internal policies or practices to retain such files or records.

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(c) Personnel. Each of the WGI Parties will provide the Raytheon Parties with reasonable access to their personnel, to the extent it

still employs them, necessary or helpful for matters with respect to which WGI is obligated to assist Raytheon. Each of the WGI Parties also will cooperate with Raytheon in locating personnel who are no longer employed by it.

(d) Reimbursement of Costs. Raytheon will reimburse WGI for its Allowable Costs incurred and for the actual time spent by WGI's employees, for the matters referred to in (a)-(c) above, including without limitation, the reasonable Allowable Costs of inside counsel and administrative personnel, plus a fee of 7.5% of such Allowable Costs (but without duplication of other payments); provided, however, in no event will WGI be required to provide legal services to Raytheon. To the extent practicable this support will be funded in advance against a budget pursuant to procedures similar to those described in Section 5.4(e). To the extent advance funding is not practicable, amounts shall be paid within thirty days after submissions of monthly invoices in reasonable detail. To the extent possible, the payment by Raytheon of any amounts shall not prejudice its rights to contest the invoice amount against the ultimate third party payee.

Section 8.14 Legal Advice. Each of the Parties has received independent legal advice from its attorneys with respect to this Agreement. Each of the Parties agrees that it will never deny the validity of this Agreement on the ground that it did not have the advice of counsel generally or advice of counsel in the aforementioned litigation.

Section 8.15 Agreement Binding. (a) Signatories. Each of Raytheon and RECI represents and warrants to the WGI Parties and each of WGI, WGI Ohio and the other WGI Parties that are signatories hereto represents and warrants to the Raytheon Parties as follows: the execution and delivery of this Agreement have been duly and validly authorized by all necessary corporate, partnership or similar action on behalf of such Party, and this Agreement constitutes the legal, valid and binding obligation of such Party, enforceable against such Party in accordance with their terms, subject as to enforcement to bankruptcy, insolvency or similar laws affecting creditors' rights generally or by equitable principles relating to the availability of remedies.

(b) Raytheon Parties. Raytheon represents and warrants that it is duly authorized and empowered by each of the other Raytheon Parties (other than RECI) to execute and deliver this Agreement on behalf of each such Raytheon Party and that this Agreement constitutes the legal, valid, binding and enforceable obligation

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of each such Raytheon Party to the same extent as if such Raytheon Party executed and delivered this Agreement on its own behalf. In the event of any breach of the foregoing representation and warranty, Raytheon and RECI jointly and severally agree to indemnify and hold harmless the WGI Parties from and against any and all liabilities, losses, damages and expenses of every nature and character arising out such breach.

(c) WGI Parties. WGI represents and warrants that it is duly authorized and empowered by each of the other WGI Parties (other than WGI Ohio and the other WGI Parties that are signatories hereto) to execute and deliver this Agreement on behalf of each such WGI Party and that this Agreement constitutes the legal, valid, binding and enforceable obligation of each such WGI Party to the same extent as if such WGI Party executed and delivered this Agreement on its own behalf. In the event of any breach of the foregoing representation and warranty, WGI and WGI Ohio jointly and severally agree to indemnify and hold harmless the Raytheon Parties from and against any and all liabilities, losses, damages and expenses of every nature and character arising out such breach.

Section 8.16 Governing Law; Jurisdiction and Consent to Suit.

(a) This Agreement shall be subject to and construed in accordance with the laws of the State of New York notwithstanding any conflict of laws provision in the State of New York or elsewhere that would dictate the application of the law of

any other jurisdiction.

(b) The Raytheon Parties, the WGI Parties, and the Committee agree that the United States Bankruptcy Court for the District of Nevada shall have exclusive jurisdiction over all disputes relating to the Plan and the exhibits to the Plan to the fullest extent provided under applicable law, including, without limitation, issues under this Agreement and the Raytheon Settlement Provisions and Documents, until the closing of the Bankruptcy Case, except that all disputes relating solely to the Services Agreement shall be resolved as provided in Section 18 of the Services Agreement.

(c) To the extent that the United States Bankruptcy Court for the District of Nevada no longer has jurisdiction over the Plan or any related matter, the Parties agree that any proceeding to enforce this Agreement shall be brought in the courts of the State of New York or any federal court sitting therein.

(d) Each of the Parties hereby waives any present or future objection to such venue, and irrevocably consents and submits unconditionally to the

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exclusive jurisdiction for itself and in respect of any of its property of any such court. Each of the Parties further irrevocably waives any claim that such court is not a convenient forum for any such proceeding. Each of the Parties agrees that any service of process, writ, judgment or other notice of legal process shall be deemed and held in every respect to be effectively served up on it if sent to such Party in the manner and at the address specified in Section 8.19. Nothing herein shall affect the right of any Party to serve process in any manner permitted by applicable law.

(e) EACH OF THE PARTIES HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT OR UNDER ANY AMENDMENT, INSTRUMENT OR DOCUMENT DELIVERED OR WHICH MAY BE IN THE FUTURE BE DELIVERED IN CONNECTION HERewith OR ARISING FROM ANY RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT AND AGREES THAT THE FINDER OF FACT IN ANY SUCH ACTION OR PROCEEDING SHALL BE THE TRIAL JUDGE AND NOT A JURY.

(f) Each Party hereby irrevocably and unconditionally waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section 8.16 any special, exemplary, punitive or consequential damages.

Section 8.17 Entire Agreement. This Agreement, the Services Agreement, the Mutual Release and other documents and agreements expressly referred to herein represent the entire agreement between the Parties hereto relating to the subject matter hereof, except to the extent express reference is made herein to any other agreement or writing, and may be amended or varied only in writing by duly authorized representatives of the Parties. Notwithstanding the foregoing, except as modified by and to the extent provided in Section 8.2, the Disaffiliation Tax Sharing Agreement shall exclusively govern all matters that are the subject thereof. The Parties expressly waive all provisions contained in any past agreement, including, without limitation, the Stock Purchase Agreement, or correspondence that negates, limits, modifies, supplements, extends or conflicts with the provisions hereof. The language used in this Agreement will be deemed to be the language chosen by the Parties to express their mutual intent, and no rule of strict construction will be applied against any Party.

Section 8.18 Assignment. Subject to Section 9-406 of the Uniform Commercial Code (as revised), no Party shall be entitled to transfer or assign its

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rights and liabilities provided for herein to any third Person without the written approval from all other Parties, except that any Raytheon Parties may assign to a Support Agreement Surety some or all of its rights under this Agreement, the Separate Agreements or the Services Agreement, as applicable, with respect to a project covered by or subject to a Support Agreement.

Section 8.19 Notices. Any and all notices pursuant to this Agreement can be validly given by (a) hand or courier, (b) telefax (with confirming hard copy to be send by internationally recognized overnight or expedited delivery service) or (c) internationally recognized overnight or expedited delivery service that can produce evidence of delivery, in each case to Parties at the addresses provided below or at any other address specified by the Party involved. Alterations to any address must be conveyed to the other Parties in writing to become effective.

If to RAYTHEON COMPANY or any other Raytheon Party, to:

General Counsel  
141 Spring Street  
Lexington, Massachusetts 02421-9107  
Telephone: (781) 860-2681  
Telefax: (781)860-2924

with a copy to:

Peter D. Schellie, Esq.  
Bingham Dana LLP  
1120 20th St., N.W.  
Suite 800  
Washington, DC 20036-3406  
Telephone: (202)778-6150  
Telefax: (202) 778-6155

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If to WASHINGTON GROUP INTERNATIONAL, INC. or any other WGI Party, to:

Richard D. Parry, Esq.  
Washington Group International, Inc.  
Morrison Knudsen Plaza  
720 Park Blvd.  
Boise, Idaho 83712  
Telephone: (208)386-5199  
Telefax: (208)386-6421

with a copy to:

David S. Kurtz, Esq.  
Timothy R. Pohl, Esq.  
Skadden, Arps, Slate, Meagher & Flom  
333 West Wacker Drive  
Chicago, Illinois 60606  
Telephone: (312)407-0700  
Telefax: (312)407-0411

If to OFFICIAL UNSECURED CREDITORS' COMMITTEE, to:

Patrick A. Murphy, Esq.  
Randy Rogers, Esq.  
Murphy Sheneman Julian & Rogers  
101 California Street, Suite 3900  
San Francisco, California 94111  
Telephone: (415) 398-4700



Telefax: (415)421-7879

Section 8.20 Headings and Captions. The headings and captions of the various Articles and Sections of this Agreement are for convenience of reference only and shall not modify, define or limit any of the terms or provisions thereof.

Section 8.21 Counterparts. This Agreement may be signed in multiple originals and/or using counterpart signature pages. All such multiple originals shall constitute but one and the same document.

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IN WITNESS WHEREOF, the Parties hereto have caused their duly authorized representatives to execute this Agreement on the day and year first written above.

RAYTHEON COMPANY, a Delaware corporation, on its own behalf and on behalf of all Raytheon Parties (except RECI)

By: /s/ Neal E. Minehan

-----  
Name: Neal E. Minehan  
Title: Senior Vice Pres.  
& General Counsel

RAYTHEON ENGINEERS & CONSTRUCTORS INTERNATIONAL, INC., a Delaware corporation

By: /s/ William J. Ferguson Jr.

-----  
Name: William J. Ferguson Jr.  
Title: Senior Vice President,  
Secretary and General Counsel

MIDDLE EAST HOLDINGS LIMITED (F/K/A RAYTHEON ENGINEERS & CONSTRUCTORS MIDDLE EAST LIMITED)

By: /s/ Richard D. Parry

-----  
Name: Richard D. Parry  
Title: Assistant Secretary

RAYTHEON-EBASCO PAKISTAN LTD.

By: /s/ Richard D. Parry

-----  
Name: Richard D. Parry  
Title: Vice President and  
General Counsel

STEARNS CATALYTIC CORPORATION

By: /s/ Richard D. Parry

-----  
Name: Richard D. Parry  
Title: Vice President and  
Assistant Secretary

WASHINGTON-CATALYTIC, INC. (F/K/A RAYTHEON-CATALYTIC, INC.)

WASHINGTON GROUP INTERNATIONAL, INC., a Delaware corporation, on its own behalf and on behalf of all WGI Parties (to the extent they are not signatories hereto)

By: /s/ Richard D. Parry

-----  
Name: Richard D. Parry  
Title: Senior Vice President  
and General Counsel

WASHINGTON GROUP INTERNATIONAL, INC., an Ohio corporation

By: /s/ Richard D. Parry

-----  
Name: Richard D. Parry  
Title: Senior Vice President  
and General Counsel

RAYTHEON ARCHITECTS, LTD.

By: /s/ Richard D. Parry

-----  
Name: Richard D. Parry  
Title: Assistant Secretary

RAYTHEON ENGINEERS & CONSTRUCTORS (IRELAND) LTD.

By: /s/ Richard D. Parry

-----  
Name: Richard D. Parry  
Title: Vice President and  
General Counsel

WASHINGTON INTERNATIONAL LLC (F/K/A RAYTHEON ENGINEERS & CONSTRUCTORS UK LTD.)

By: /s/ Richard D. Parry

-----  
Name: Richard D. Parry  
Title: Vice President and  
General Counsel

WASHINGTON DEMILITARIZATION COMPANY (F/K/A RAYTHEON DEMILITARIZATION COMPANY)

By: /s/ Richard D. Parry

-----  
Name: Richard D. Parry  
Title: Vice President and  
Assistant Secretary

By: /s/ Richard D. Parry

-----  
Name: Richard D. Parry  
Title: Assistant Secretary

WASHINGTON ENGINEERING QUALITY  
SERVICES CORPORATION (F/K/A  
RAYTHEON ENGINEERING QUALITY  
SERVICES CORPORATION

By: /s/ Richard D. Parry

-----  
Name: Richard D. Parry  
Title: Vice President and  
General Counsel

WASHINGTON QUALITY PROGRAMS  
COMPANY (F/K/A RAYTHEON  
QUALITY PROGRAMS COMPANY)

By: /s/ Richard D. Parry

-----  
Name: Richard D. Parry  
Title: Vice President and  
General Counsel

WGCI, INC. (F/K/A RAYTHEON CONSTRUCTORS  
INTERNATIONAL, INC.)

By: /s/ Richard D. Parry

-----  
Name: Richard D. Parry  
Title: Vice President and  
General Counsel

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SEEN AND CONSENTED TO AND  
AGREED AS TO SECTIONS 1.3, 1.4, 2, 5, 7.1(b) and 8.16(b):

OFFICIAL UNSECURED CREDITORS' COMMITTEE

By: /s/ [ILLEGIBLE]

-----  
Title: COUNSEL

#### LIST OF EXHIBITS AND SCHEDULES

EXHIBIT A	Mutual Releases (see Sections 1.2(c), 7.1)
Schedule A1	Exceptions to Release (see Exhibit A)
Schedule A2	Outstanding Support Agreements (see Exhibit A)
EXHIBIT B	Raytheon LOC (see Section 3.2)
EXHIBIT C	Conditions to Draws under Letters of Credit (see Section 3.2)
EXHIBIT D	Services Agreement (see definition of Services Agreement)
Schedule 1	Client Parties with Access (see Section 8.13(a))
Schedule 2	Assigned Claims (see definition of Assigned Claims)
Schedule 3	Non-Debtor Subsidiaries (see definition of Non-Debtor Subsidiaries)
Schedule 4	Subsidiary Debtors (see definition of Subsidiary Debtors)

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## APPENDIX I

### DEFINITIONS

This is Appendix I to the Settlement Agreement (the "Agreement") dated as of the 23rd day of January, 2002, by and among Raytheon Company, a company incorporated under the laws of the state of Delaware ("Raytheon"), Raytheon Engineers & Constructors International, Inc., a company incorporated under the laws of the state of Delaware ("RECI," and, together with Raytheon and its wholly-owned or controlled subsidiaries and affiliates, the "Raytheon Parties"). Washington Group International, Inc., a company incorporated under the laws of the state of Delaware, a debtor in the Bankruptcy Case, and effective on the date hereof, the Reorganized WGI ("WGI"), Washington Group International, Inc., a company incorporated under the laws of the state of Ohio ("WGI Ohio," and together with WGI, and its wholly-owned or controlled subsidiaries and affiliates, and including the Reorganized Debtors, "the WGI Parties") and the Official Committee of Unsecured Creditors and the Plan Committee, for so long as each is constituted and acting in the Bankruptcy Case as defined below (the "Committee"). Unless otherwise indicated, all Section and Exhibit References in this Appendix are to Sections of and Exhibits to the Agreement.

A. Defined Terms. As used in the Agreement, various projects are referred to using their common and conventional names (usually an owner name or project location), and unless the context requires a different meaning, the following terms have meanings indicated below:

"Administrative Claims" means a Claim for payment of an administrative expense of a kind specified section 503(b) or 1114(e)(2) of the Bankruptcy Code and entitled to priority pursuant to section 507(a)(1) of the Bankruptcy Code, including, but not limited to, (a) the actual, necessary costs and expenses, incurred after the Petition Date, of preserving the Estates and operating the businesses of the Debtors, including wages, salaries, or commissions for services rendered after the commencement of the Bankruptcy Case, (b) Professional Fee Claims, (c) all fees and charges assessed against the Estates under 28 U.S.C. Section 1930 and (d) all Allowed Claims that are entitled to be treated as Administrative Claims pursuant to a Final Order of the Bankruptcy Court under section 546(c)(2)(A) of the Bankruptcy Code.

"Allowable Costs" means any current Labor Costs, Out-of-Pocket Costs, and Taxes, that are required to be paid to WGI under this Agreement for Reimbursable Services.

"Allowed Claim" means an Estate Claim or any portion thereof (a) that has been allowed by a Final Order, or (b) as to which, on or by the Effective Date, (i) no proof of claim has been filed with the Bankruptcy Court and (ii) the liquidated and noncontingent amount of which is scheduled, other than an Estate Claim that is scheduled at zero, in an unknown amount, or as disputed, or (c) for which a proof of claim in a liquidated amount has been timely filed with the Bankruptcy Court pursuant to the Bankruptcy Code, any Final Order of the Bankruptcy Court or other applicable bankruptcy law, and as to which either (i) no objection to its allowance has been filed within the periods of limitation fixed by the Plan, the Bankruptcy Code or by any order of the Bankruptcy Court or (ii) any objection to its allowance has been settled or withdrawn, or has been denied by a Final Order, or (d) that is expressly allowed in a liquidated amount in the Plan.

"Allowed Class 7 Claim" means a Class 7 Claim that becomes, but only to the extent that it is, an Allowed Claim.

"Assigned Claims" means those certain Estate Claims transferred or assigned to any Raytheon Party by third parties as set forth on Schedule 2 hereto and any Estate Claims acquired from Mitsubishi, provided that with respect to any such Estate Claims acquired from Mitsubishi, Raytheon agrees to limit such Estate Claims to \$100 million.

"Assumed Projects" has the meaning set forth in Section 1.2(b), and, for certain limited purposes, in Section 6.1(a).

"Assumed Projects Support Agreements" has the meaning set forth in Section 3.1.

"Bankruptcy Case" means the jointly administered Chapter 11 cases of the Debtors related to those certain voluntary bankruptcy petitions filed on May 14, 2001, by WGI and certain of its affiliates in the Bankruptcy Court.

"Bankruptcy Code" means the Bankruptcy Reform Act of 1978, as amended, codified at 11 U.S.C. Sections 101-1330.

"Bankruptcy Court" means the United States Bankruptcy Court for the District of Nevada or such other court as may have jurisdiction over the Bankruptcy Case.

"CGL" means comprehensive general liability insurance policies.

"CE/Alstom" means ALSTOM Power, Inc., a corporation organized under the laws of the state of Delaware, successor to Combustion Engineering, Inc.

"Claims Allowance Process" has the meaning set forth in Section 5.6(a).

"Class 7 Claim" means an Estate Claim classified under the Plan in Class 7.

"Committee" means the Official Unsecured Creditors' Committee and the Plan Committee, as successor thereto (as provided under the Plan), for so long as such committee is constituted and acting in the Bankruptcy Case.

"Completion Services" has the meaning set forth in the Services Agreement.

"Confidential Information" has the meaning set forth in Section 7.4(a).

"Confirmation Order" means the order dated December 21, 2001, entered by the Bankruptcy Court confirming the Plan.

"Debtor WGI" means WGI as debtor-in-possession in the Bankruptcy Case.

"Debtors" means, individually, Debtor WGI and each of the Subsidiary Debtors, and collectively, Debtor WGI and the Subsidiary Debtors, including in their capacity as debtors-in-possession pursuant to sections 1107 and 1108 of the Bankruptcy Code, and as reorganized hereunder.

"Designated Projects" means the Jindal, Posven, Ratchaburi and Saltend projects described in Annex A-1 to the Services Agreement.

"Disaffiliation Tax Sharing Agreement" means the Disaffiliation Tax Sharing Agreement, dated as of April 14, 2000, by and among Raytheon, RECI and WGI f/k/a Morrison Knudsen Corp.

"Discovery Materials" has the meaning set forth in Section 7.3(a).

"Effective Date" means the business day on which all conditions to the consummation of the Plan have been satisfied or waived as provided by the Plan and is the effective date of the Plan.

"Estate(s)" means, individually, the estate of each Debtor in the Bankruptcy Case, and, collectively, the estates of all Debtors in the Bankruptcy Case, created pursuant to section 541 of the Bankruptcy Code.

"Estate Claim" has the meaning set forth in the preamble.

"Excluded Matters" means matters arising under the Ilijan or Red Oak Project Completion Agreements, the preceding interim arrangements for those projects, the Sithe Services Agreement and the Puerto Plata Agreement.

"Final Order" means an order or judgment of the Bankruptcy Court, or other court of competent jurisdiction, as entered on the docket in the Bankruptcy Case, the operation or effect of which has not been stayed, reversed, or amended and as to which order or judgment (or any revision, modification or amendment thereof) the time to appeal or seek review or rehearing has expired and as to which no appeal or petition for review or rehearing was filed or, if filed, remains pending.

"Idaho Litigation" means any litigation pending in the state and federal courts of the state of Idaho involving the Parties.

"Ilijan Project Completion Agreements" means, collectively, the Project Completion Agreement (Construction) dated as of November 16, 2001, by and among Raytheon, Mitsubishi Corporation and REOL, and the Project Completion Agreement (Supply) dated as of November 16, 2001, by and among Raytheon, Mitsubishi Corporation and United Engineers International, Inc.

"Independent Accounting Firm" means William J. Palmer and Associates.

"Labor Costs" means the labor costs, including general and administrative costs, incurred by WGI with respect to any Reimbursable Services pursuant hereto, and calculated in accordance with the rates and charges referred to in the Services Agreement.

"Lien" means a charge against or interest in property to secure payment of a debt or performance of an obligation.

"Mitsubishi" has the meaning set forth in Section 2.2.

"Mutual Release" means the mutual release in the form attached hereto as Exhibit A.

"Net Proceeds" means, with respect to any Rejected Project (other than a Designated Project), proceeds remaining, if any, after the Raytheon Parties have been reimbursed from any recoveries with respect to such Rejected Project for (i) all costs incurred by the Raytheon Parties in defending or prosecuting claims, including all costs paid by the Raytheon Parties to any of the WGI Parties pursuant to this Agreement, the Services Agreement, or the Separate Agreements, with respect to such Rejected Project, (ii) any amounts paid or drawn under or in connection with Raytheon Support Agreements, with respect to such Rejected Project, (iii) outside counsel and consultant costs and other out of pocket expenses incurred with respect to such Rejected Project, and (iv) reasonably allocated internal Raytheon costs including, without limitation, the reasonable costs of inside counsel and administrative personnel incurred with respect to such Rejected Project.

"Non-Debtor Subsidiaries" means, collectively, the direct and indirect subsidiaries of WGI listed on Schedule 3 hereto, which are not parties to the Bankruptcy Case and thus are not Debtors.

"Non-Releasing Entity" has the meaning set forth in Section 7.1(a).

"Out-of-Pocket Costs" means the out-of-pocket costs, including payments to vendors and subcontractors, incurred by WGI with respect to any Reimbursable Services pursuant hereto, and calculated in accordance with the rates and charges referred to in the Services Agreement, but excluding costs of vendors and subcontractors that the Raytheon Parties will retain directly and pay directly, as set forth in any agreement relating to scope, budget and related matters as provided in Section 5.4(e).

"Person" means any individual, corporation, partnership, limited liability company, association, joint-stock company, trust, unincorporated organization, joint venture, government or political subdivision or agency thereof, or any other entity.

"Petition Date" means May 14, 2001, the date on which the Debtors filed their petitions for relief commencing the Bankruptcy Case.

"Plan" means the Second Amended Joint Plan of Reorganization of Washington Group International, Inc., et al., as amended and modified, and having been confirmed under and in accordance with the Confirmation Order, and all exhibits and schedules annexed thereto or referenced therein.

"Possible Project Claims" has the meaning set forth in Section 5.4(c).

"Project Claims" has the meaning set forth in Section 5.4(a).

"Project Claims Litigation" has the meaning set forth in Section 5.4(b)(i).

"Project Claims Matter" has the meaning set forth in Section 5.4(b)(i).

"Professional" means any professional employed in the Bankruptcy Case pursuant to section 327 or 1103 of the Bankruptcy Code or otherwise and any professionals seeking compensation or reimbursement of expenses in connection with the Bankruptcy Case pursuant to section 503(b)(4) of the Bankruptcy Code.

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"Professional Fee Claim" means a claim of a Professional for compensation or reimbursement of costs and expenses relating to services incurred after the Petition Date and prior to and including the Effective Date.

"Puerto Plata Agreement" means that certain letter agreement, dated as of January 9, 2001, among WGI, Raytheon and Lexington Insurance relating to the Puerto Plata Project.

"Raytheon" has the meaning set forth in the preamble.

"Raytheon Actions" means case no. CV OC 0101422D brought in the District Court of the Fourth Judicial District of the State of Idaho, in and for the County of Ada, captioned Washington Group International, Inc. v. Raytheon Company and Raytheon Engineers & Constructors International, Inc., and any related actions, suits, countersuits or otherwise.

"Raytheon Asserted Claims" means any Estate Claims arising out of the Raytheon Actions, or otherwise, asserted by the Raytheon Parties against any of the Debtors or any of the Subsidiary Debtors as reflected in the proofs of claim filed by Raytheon, including, but not limited to, claims for contribution, indemnification or subrogation. The term shall not include any Assigned Claims.

"Raytheon Claims" means all claims or causes of action of the Debtors or the Non-Debtor Subsidiaries against the Raytheon Parties, whether arising out of the Raytheon Actions or otherwise, whether asserted directly or derivatively, including any claims and causes of action arising under sections 542, 544, 547, 548, 550 or any other section of the Bankruptcy Code (including, without limitation, the Debtors' pending fraudulent transfer adversary proceeding in the Bankruptcy Case), except for any claims relating to asbestos liabilities.

"Raytheon Disputes" has the meaning set forth in the preamble.

"Raytheon LOC" has the meaning set forth in Section 3.2.

"Raytheon Mark" means the name "Raytheon" and all tradename, trademark and/or service mark rights therein.

"Raytheon Parties" has the meaning set forth in the preamble.

"Raytheon Settlement Provisions and Documents" means this Agreement, the Mutual Release, the form and issuer of the Raytheon LOC, the Services Agreement, and the provisions of the Plan and Confirmation Order relating to this settlement.

"RECI" has the meaning set forth in the preamble.

"Red Oak Project Completion Agreements" means the Red Oak Project Completion Agreement dated as of November 16, 2001, by and between Raytheon and WGI Ohio.

"Reimbursable Services" means any services provided by the WGI Parties pursuant to Sections 5.4(b), 5.4(d) and 8.13.

"Rejected Projects" has the meaning set forth in Section 5.4(a).

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"Rejected Project Claims" has the meaning set forth in Section 5.5(a).

"REOL" means Raytheon-Ebasco Overseas Ltd., a company incorporated under the laws of the state of Delaware.

"Reorganized Debtors" means, individually, Reorganized WGI and any Reorganized Debtor, as defined in the Plan, and, collectively, all Reorganized Debtors, on or after the Effective Date.

"Reorganized WGI" means reorganized WGI or its successor, on and after the Effective Date.

"Separate Agreements" means the Sithe Services Agreement, the Red Oak Project Completion Agreement, the Ilijan Project Completion Agreements and the Puerto Plata Agreement.

"Separate Projects" has the meaning set forth in Section 5.2.

"Services Agreement" means the Services Agreement for Consulting and Professional Services attached hereto as Exhibit D.

"Sithe Services Agreement" means the Agreement for Consulting and Professional Services, dated as of March 20, 2001, by and between, Raytheon and WGI Ohio.

"SPA Information" has the meaning set forth in Section 7.2(a).

"Stock Purchase Agreement" has the meaning set forth in the preamble.

"Subsidiary Debtors" means the direct and indirect subsidiaries of WGI set forth on Schedule 4 hereto, each of which is a Debtor.

"Support Agreement" has the meaning set forth in the preamble.

"Support Agreement Surety" means any corporate surety that has issued a bond that is a Support Agreement or any other Person providing support for, or to which any Raytheon Party is liable under, a Support Agreement.

"Taxes" means any taxes estimated to be levied, collected, assessed or imposed by any government or government agency in connection with WGI's performance of the Reimbursable Services, including, without limitation, any VAT, levies, imposts, duties, charges, fees, deductions or withholdings of whatever nature, including, unless otherwise specified in any agreement regarding scope, budget and related matters as provided in Section 5.4(d), the cost of tax equalization of WGI's employees (but not including the income taxes of WGI or its employees) payable by WGI in connection with the performance of Reimbursable Services hereunder.

"Warrior Run Receivable" means the accounts receivable from AES Warrior Run with the meaning as set forth in Section 8.4.

"WGI" has the meaning set forth in the preamble.

"WGI Ohio" has the meaning set forth in the preamble.

"WGI Parties" has the meaning set forth in the preamble.

"WILLC" means Washington International LLC, a Delaware limited liability company, which was the subject of a winding up proceeding under English law.

B. Interpretation. In this Agreement, unless a clear contrary intention appears:

(i) the singular number includes the plural number and vice versa;

(ii) reference to any Person includes such Person's successors and assigns, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually;

(iii) reference to any gender includes each other gender;

(iv) reference to any agreement, document or instrument means such agreement, document or instrument as amended, supplemented or modified and in effect from time to time in accordance with the terms thereof; and

(v) reference to any applicable law means such applicable law as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect from time to time, including rules and regulations promulgated thereunder and reference to any section or other provision of any applicable law means that provision of such applicable law from time to time in effect and constituting the substantive amendment, modification, codification, replacement or reenactment of such section or other provision.

## EXHIBIT A

### MUTUAL RELEASES/1/

#### A. THE DEBTORS' RELEASE

1. For good and adequate consideration, the receipt of which is hereby acknowledged, except as provided below in subparagraphs 2 and 3, the Debtors and the Reorganized Debtors and each of their undersigned subsidiaries (but expressly excluding any non-Debtor entity whose obligations are supported by a Support Agreement), affiliates, officers and directors (the "Debtor Releasing Parties"), on behalf of themselves, the Estates, and any other person or entity that could assert a claim through them or a claim that is in any way derivative of their interests, hereby release and forever discharge Raytheon Company and each of its subsidiaries and affiliated entities (collectively, "Raytheon"), together with each of their present and former officers, directors, employees, agents, and professionals (collectively, the "Raytheon Releasees") from any and all claims, demands, obligations, damages, controversies, suits, liabilities, actions, causes of action, judgments, executions, garnishments, or debts of any kind whatsoever, whether known or unknown, accrued or not accrued, direct or indirect, liquidated or unliquidated, in law or in equity, which any Debtor Releasing Party had, now has or can have based upon any act or omission occurring prior to the Effective Date (collectively "Claims"), including without limitation those Claims described in the Raytheon Actions and in the adversary proceeding bearing Docket No. 01-3084 in the United States Bankruptcy Court for the District of Nevada. Without limiting the foregoing in any way, this Release includes any and all a) Claims or claims that have been or could be or could have been asserted by or



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/1/ Terms not defined herein have the meaning given to them in the Settlement Agreement dated as of January 23, 2002, among Raytheon Company, Washington Group International, Inc., the Official Unsecured Creditors' Committee, and the other Parties as defined therein.

on behalf of the Debtor Releasing Parties or by or on behalf of any Estate or that are in any way derivative of their interests and b) Claims that are the property of any Estate.

2. This Release does not in any way impair or apply to any Claims or claims that have arisen or may arise in the future under the agreements listed in Schedule A1./2/

3. This Release does not in any way impair or apply to any past, current or future claims of the Debtor Releasing Parties against parties other than the Raytheon Releasees.

4. Each of the Debtor Releasing Parties, for, and on behalf of, itself, himself or herself (as applicable), represents and warrants that (i) no promise or inducement not expressed herein has been made, (ii) this Release is executed without reliance upon any statement or representation of any party released hereunder or anyone acting on its or their behalf, not expressed herein and (iii) the Release is duly authorized and the Releasing Party accepts full responsibility therefor.

#### B. RAYTHEON RELEASE

1. For good and adequate consideration, the receipt of which is hereby acknowledged, except as provided in subparagraphs 2 and 3, Raytheon Company ("Raytheon") and each of the undersigned subsidiaries, affiliates, officers and directors (the "Raytheon Releasing Parties"), on behalf of themselves and any other person or entity that could assert a claim through them or in any way derivative of their interests, hereby release and forever discharge the Debtors and the Reorganized Debtors together with each of their subsidiaries and affiliated entities (but expressly excluding any non-Debtor entity whose obligations are supported by a Support Agreement), and each of their present or former officers, directors, employees, agents, and professionals (collectively, the

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/2/ This Schedule is intended only to list Separate Agreements, Tax Agreement, Settlement Agreement, Services Agreement and any commercial arrangements currently in place unrelated to the Stock Purchase Agreement that are not being rejected by WGI.

"Debtor Releasees") from any and all claims, demands, obligations, damages, controversies, suits, liabilities, actions, causes of action, judgments, executions, garnishments, or debts of any kind whatsoever, whether known or unknown, direct or indirect, accrued or not accrued, liquidated or unliquidated, in law or in equity, which any Raytheon Releasing Party had, now has or can have based upon any act or omission occurring prior to the Effective Date.

2. This Release does not in any way impair or apply to a) any Claims or claims that have arisen or may arise in the future under the agreements listed on Schedule A1 and b) rights of contribution, reimbursement, subrogation against the Reorganized Debtors under outstanding Assumed Projects Support Agreements, listed for the convenience of the Parties on Schedule A2, or any letters of credit, bonds or guarantees provided by Raytheon or its

subsidiaries in substitution for such Assumed Projects Support Agreements.

3. This Release does not in any way impair or apply to any past, current or future claims of the Raytheon Releasing Parties against parties other than the Debtor Releasees.

4. Each of the Raytheon Releasing Parties for, and on behalf of, itself, himself or herself (as applicable), represents and warrants that (i) no promise or inducement not expressed herein has been made, (ii) this Release is executed without reliance upon any statement or representation of any party released hereunder or anyone acting on its or their behalf, not expressed herein and (iii) the Release is duly authorized and the Releasing Party accepts full responsibility therefor.

This Release shall be construed and enforced in accordance with the laws of the State of New York.

WHEREFORE, the undersigned parties or, in the case of corporations, their duly authorized representatives, have executed this Mutual Release on this the \_\_\_\_\_ day of \_\_\_\_\_, 2001.

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[signature pages]

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#### Agreement Regarding Releases From Individuals

Set forth below for each of WGI and Raytheon are lists of individuals that are or were officers or directors of such respective entities or their affiliates (WGI's officers, directors or employees being referred to as "WGI Persons" and Raytheon officers, directors or employees being referred to as "Raytheon Persons") that will execute releases coextensive with the company releases to be granted; provided that the WGI Persons' and Raytheon Persons' releases shall explicitly exclude non-derivative claims they may have against any present or former professionals of WGI or Raytheon, respectively; provided further that such claims against such professionals may only be pursued if the WGI Person or Raytheon Person is pursuing such claims in response to a suit brought against him or her by a third party. In addition, set forth below are lists of persons that Raytheon and WGI, respectively, shall use reasonable best efforts to have become Raytheon Persons and WGI Persons, respectively. Notwithstanding anything herein to the contrary, WGI Persons Mr. Myers, Mr. Shimota and Mr. Wiesel shall not be required to release any claims arising out of their employment by Raytheon or its affiliates in such capacity, including arising under their retention/severance agreements with Raytheon, and the releases granted by Raytheon pursuant to the Settlement Agreement shall exclude any defenses or counterclaims with respect to such claims.

#### WGI Persons

Stephen G. Hanks  
Richard D. Parry  
James P. O'Donnell  
Reed N. Brimhall  
Frank S. Finlayson  
Thomas H. Zarges  
Dennis Washington  
David Batchelder  
David L. Myers  
Robert C. Wiesel  
Richard Shimota

#### Raytheon Persons

Daniel Burnham  
Frank Caine  
Neal Minehan  
Ed Planer  
Rich Goglia  
Joe Wolfe  
William Ferguson  
Richard K. Kinsella  
Charles F. Mueller  
Jim Sanders  
John Nahill  
Toby O'Brien

David Dickman  
Shay Assad

Persons that WGI should use  
reasonable Best Efforts to become  
WGI Persons

Persons that Raytheon should use  
reasonable Best Efforts to become  
Raytheon Persons

Anthony Cleberg

Tom Hyde  
David Duelley

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Both WGI and Raytheon hereby agree that any disputes related to the subject matter hereof that cannot be resolved by the parties shall be resolved by the Bankruptcy Court and may be heard on an expedited basis, such that the WGI Plan Effective Date shall not be delayed, and both parties shall abide by the Bankruptcy Court's determination of the appropriate resolution of any such dispute.

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SCHEDULE A1

EXCEPTIONS TO RELEASE

I. Settlement Documents

1. Settlement Agreement, dated as of January 23, 2002, by and among Raytheon Company ("Raytheon"), Raytheon Engineers & Constructors International, Inc. ("RECI"), Washington Group International, Inc., a Delaware corporation ("WGI-Delaware"), Washington Group International, Inc., an Ohio corporation ("WGI-Ohio") and the Committee (as such term is defined therein).
2. Agreement for Consulting and Professional Services, dated as of January 23, 2002, by and among Raytheon, RECI and WGI-Ohio.
3. Mutual Release
4. Disaffiliation Tax Sharing Agreement

II. WGI Executory Contracts with Raytheon Company (As listed In Schedule G to WGI Plan) that Are Being Assumed

CONTRACT PARTY	CONTRACT	DATE
RAYTHEON COMPANY	EGYPTIAL SPARROW SUPPORT	10/26/1998
RAYTHEON COMPANY	FRD PREPARATION - X BAND RADAR (XBR) PROGRAM	10/5/1998
RAYTHEON COMPANY	CONTRACT NO. 23298 GIST BROCADES NOBLA PHARMACEUTICAL PLANT	
RAYTHEON COMPANY	CONTRACT NO. 23550 23550 HOLMES & NARVER/RAYTHEON JV	
RAYTHEON SERVICE COMPANY	ROTHER-O&M SUPPORT SERVICES SECONDED SERVICES	
RAYTHEON SUPPORT SERVICES COMPANY	ENVIRONMENTAL SUPPORT FOR TSSC PROGRAM	10/19/1998
RAYTHEON SYSTEMS COMPANY	SITE SURVEY LOGISTICS SUPT FACIL	4/10/2000

RUSSIAN SRDP

RAYTHEON SYSTEMS COMPANY	UEWR - PROPOSAL EFFORT	3/8/1999
RAYTHEON SYSTEMS COMPANY	TACTICAL WEATHER RADAR SITE SURVEY	2/7/2000

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RAYTHEON SYSTEMS COMPANY RTSC POLAR SERVICES

III. PROJECT COMPLETION RELATED AGREEMENT THAT ARE NOT BEING RELEASED

Red OaK:

1. Red Oak Interim Payment Agreement dated as of June 20, 2001, by and among Raytheon, WGI-Ohio, and AES Red Oak, LLC, as amended [Last amendment, Amendment No. 13 dated as of November 9, 2001]
2. Red Oak Project Completion Agreement dated as of November 16, 2001, by and among Raytheon and WGI-Ohio
3. WGI-Delaware Guaranty - Guaranty dated as of November 16, 2001, made by WGI-Delaware in favor of Raytheon.

Ilijan:

1. Ilijan - Letter Agreement (Construction) dated as of May 22, 2001, by and among Raytheon, Mitsubishi Corporation ("Mitsubishi"), Raytheon Ebasco Overseas, Ltd. ("Contractor") and WGI-Ohio. [Last amendment, Amendment No. 14 dated as of November 9, 2001]
2. Ilijan - Letter Agreement (Supply) dated as of May 22, 2001, by and among Raytheon, Mitsubishi, United Engineers International, Inc. ("Supplier") and WGI-Ohio. [Last amendment, Amendment No. 14 dated as of November 9, 2001]
3. Ilijan - Letter Agreement (Supplemental) dated as of May 22, 2001, by and among Raytheon, Mitsubishi, Contractor and WGI-Ohio.
4. Ilijan - Project Completion Agreement (Construction) dated as of November 16, 2001, by and among Raytheon, Mitsubishi and Contractor.
5. WGI-Delaware Guaranty - Guaranty dated as of November 16, 2001, made by WGI-Delaware in favor of Raytheon and Mitsubishi.
6. WGI - Ohio Guaranty - Guaranty dated as of November 16, 2001, made by WGI-Delaware in favor of Raytheon, Mitsubishi.
7. Ilijan - Project Completion Agreement (Supply) dated as of November 16, 2001, by and among Raytheon, Mitsubishi and Supplier.
8. WGI-Delaware Guaranty - Guaranty dated as of November 16, 2001, made by WGI-Delaware in favor of Raytheon and Mitsubishi.
9. WGI-Ohio Guaranty - Guaranty dated as of November 16, 2001, made by WGI-Delaware in favor of Raytheon and Mitsubishi.
10. Daelim Agreement, dated as of November 16, 2001, by and among, Raytheon, Mitsubishi, Contractor and Daelim Philippines, Inc.

Sithe Fore River/Mystic

1. Agreement for Consulting and Professional Services, dated as of March

20, 2001, by and between, Raytheon and WGI-Ohio.

Puerta Plata

1. Letter agreement, dated January 9, 2001 among WGI-Delaware, Raytheon and Lexington Insurance Company.

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SCHEDULE A2

OUTSTANDING PROJECT SUPPORT AGREEMENTS\*

PROJECT	TYPE	SUPPORT AGREEMENT	BENEFICIARY/OBLIGEE	NOTES
AMPCO	Guarantee	RECI-117	Atlantic Methanol Production Company LLC	Assumed
AMPCO	L/C	Bank of America-970839	Atlantic Methanol Production Company LLC	Assumed
AMPCO	L/C	Bank of America-970840	Atlantic Methanol Production Company LLC	Assumed
DTE Sparrows Point	Guarantee	RECI-122-I	DTE Sparrows Point, LLC	Assumed
AES Warrior Run	Guarantee	RTN-1516	AES Warrior Run, Inc.	Assumed
AES Warrior Run	Guarantee	RTN-1518	Combustion Engineering Inc.	Assumed
SAN ROQUE	Guarantee	RTN-2260	San Roque Power Corporation	Assumed
SAN ROQUE	L/C	Commerzbank-98300132	San Roque Power Corporation	Assumed; In the process of being replaced
SAN ROQUE	L/C	Commerzbank-98300133	San Roque Power Corporation	Assumed; In the process of being replaced
PINE BLUFF	Surety Bond	Liberty-12003237	United States of America	Assumed
UMATILLA	Guarantee	RTN-2209	State of Oregon	Assumed
UMATILLA	Surety Bond	Liberty-012-001-931	United States of America	Assumed
F.E. WARREN AFB	Surety Bond	Liberty-12001794	United States of America	Assumed
FORT BRAGG	Surety Bond	Liberty-12003737	United States of America	Assumed
FORT JACKSON	Surety Bond	Liberty-120018404	United States of America	Assumed
FORT WORTH TX	Surety Bond	Liberty-12003232	United States of America	Assumed
FT. SAM HOUSTON	Surety Bond	Liberty-12001888	United States of America	Assumed
VICKSBURG DO 0038	Surety Bond	Liberty-12003782	United States of America	Assumed
VICKSBURG DO 0039	Surety Bond	Liberty-12003783	United States of America	Assumed
VICKSBURG DO 0040	Surety Bond	Liberty-12003788	United States of America	Assumed
VICKSBURG DO 0043	Surety Bond	Liberty-12003687	United States of America	Assumed
WHITEMAN AFB	Surety Bond	Liberty-12001764	United States of America	Assumed

ANNISTAN, ALA	Surety Bond	Liberty-12003763	United States of America	Assumed
ANNISTON DEPOT	Surety Bond	Liberty-12001749	United States of America	Assumed
CABARRUS CTY	Surety Bond	Liberty-12003742	United States of America	Assumed

PROJECT	TYPE	SUPPORT AGREEMENT	BENEFICIARY/OBLIGEE	NOTES
FORT BRAGG	Surety Bond	Liberty-12003739	United States of America	Assumed
FORT BRAGG DO 0084	Surety Bond	Liberty-12003755	United States of America	Assumed
FORT LEONARD WOOD	Surety Bond	Liberty-12003789	United States of America	Assumed
FT. RILEY KANSAS	Surety Bond	Liberty?- T002573940203	United States of America	Assumed
LOUISVILLE, KY	Surety Bond	Liberty?-9100004	United States of America	Assumed
REDSTONE-ALA	Surety Bond	Liberty-12003733	United States of America	Assumed
VICKSBURG DO 002	Surety Bond	Liberty-12003188	United States of America	Assumed
VICKSBURG DO 013	Surety Bond	Liberty-12003735	United States of America	Assumed
VICKSBURG DO 019	Surety Bond	Liberty-12003750	United States of America	Assumed
VICKSBURG DO 017	Surety Bond	Liberty-12003741	United States of America	Assumed
VICKSBURG DO 018	Surety Bond	Liberty-12003743	United States of America	Assumed
VICKSBURG DO 020	Surety Bond	Liberty-12003751	United States of America	Assumed
VICKSBURG DO 0024	Surety Bond	Liberty-12003756	United States of America	Assumed
VICKSBURG DO 0027	Surety Bond	Liberty-12003760	United States of America	Assumed
VICKSBURG DO 0029	Surety Bond	Liberty-12003758	United States of America	Assumed
VICKSBURG DO 0030	Surety Bond	Liberty-12003757	United States of America	Assumed
VICKSBURG DO 0031	Surety Bond	Liberty-12003759	United States of America	Assumed
VICKSBURG DO 0034	Surety Bond	Liberty-12003779	United States of America	Assumed
VICKSBURG DO 0036	Surety Bond	Liberty-12003780	United States of America	Assumed
VICKSBURG DO 0037	Surety Bond	Liberty-12003781	United States of America	Assumed
ADECCO ALFRED MARKS	L/C	Nat'l Westminster-207722	Adecco Alfred Marks Limited	Assumed?
Princeton, NJ Leases	Guarantee	RTN-2151	Carnegic 506 Associates, Carnegie 508 Associates and Carnegie 510 Associates LLC	Assumed in part, rejected in part

PROJECT	TYPE	SUPPORT AGREEMENT	BENEFICIARY/OBLIGEE	NOTES
BIRMINGHAM SUBLEASE	Guarantee	RECI-108	Rust International Inc.	Assumed in

				part, rejected in part
HUNDSON BERGEN IOS/NCS	Guarantee	RECI-111-I	ITOCHU International Inc., ITOCHU Rail Car Incorporated and Kinkisharyo (USA) Inc.	Non-debtor contract being treated as assumed
HUDSON BERGEN IOS/NCS	Guarantee	RTN-2041A	New Jersey Transit Corporation	Non-debtor contract being treated as assumed
HUNDSON BERGEN IOS/NCS	Guarantee	RTN-2042	New Jersey Transit Corporation	Non-debtor contract being treated as assumed
HUNDSON BERGEN IOS/NCS	Surety Bond	Liberty-12001901	New Jersey Transit Corporation	Non-debtor contract being treated as assumed
HUDSON BERGEN IOS/NCS	Surety Bond	Liberty-12001902	New Jersey Transit Corporation	Non-debtor contract being treated as assumed
HUNDSON BERGEN O&M	Guarantee	RTN-2409	New Jersey Transit Corporation	Non-debtor contract being treated as assumed
ALABAMA	Surety Bond	Liberty (RE&C)- 12003219	State of Alabama	Notary bond
ALABAMA - Glenda Brock	Surety Bond	Liberty (Rust)- 12003746	State of Alabama	Notary bond
CHARLENE GREEN AL	Surety Bond	Liberty (RE&C)- 12001869	State of Alabama	Notary bond
KAELYN CAMP-BELL	Surety Bond	Liberty(RE&C)- 12003180	State of Washington	Notary bond
State of Utah	Guarantee	RTN-2399	State of Utah	Rust contractors guar-antee
WYOMING	Surety Bond	CAN Reclamation- 5233734	State of Wyoming, Department of Environmental Quality	Wyoming no longer requires surety. However, CAN still waiting for confirmation from State - open
JOB CARLON	Surety Bond	Liberty - 12003769	Joe Carlton	Litigation- related appeal bond.
CHAMPION INTL	Surety Bond	Liberty (Rust)- 12001768	1	May no longer be active Bond in lieu of retainage.
COCA COLA FEMSA	Surety Bond	Liberty - 12002477		May no longer be active Performance bond

PROJECT	TYPE	SUPPORT AGREEMENT	BENEFICIARY/OBLIGEE	NOTES
COCA COLA FEMSA	Surety Bond	Liberty-12002478		May no longer be active Advance payment bond
COCA COLA FEMSA	Surety Bond	Liberty-12002479		May no longer be

			active Social Sec bond
PETROQUIMICA-MEX	Surety Bond	Liberty- (RE&C) - 012-001-943	May no longer be active Warranty bond
WESTINGHOUSE ELEC	Surety Bond	Liberty (RE&C)-12001845	May no longer be active Performance and payment bond

\*This schedule lists certain guarantees, letters of credit and surely bonds previously issued or obtained by Raytheon Company ("Raytheon") or Raytheon Engineers & Constructors International, Inc. ("RECI"). Nothing on this schedule constitutes an acknowledgement or admission by Raytheon or RECI that it is obligated under any of the listed support agreements. This schedule also may not list all of the applicable support agreements. A support agreement's absence from this schedule does not constitute an acknowledgment or admission by Raytheon or RECI that such support agreement should not be treated in the same manner as the other items included herein. In addition, WGI to confirm that surety bonds and guarantees relate to an Assumed Project. If not, to be deleted from schedule. The two letters of credit associated with the San Roque Project are currently in the process of being replaced with letters of credit from a different financial institution.

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#### EXHIBIT C

##### CONDITIONS TO DRAWS UNDER LETTERS OF CREDIT

(a) Raytheon shall not submit a draw under the Raytheon LOC in connection with its making a payment unless and until:

1. Raytheon or RECI shall have made payment under, for the reimbursement of or in connection with an Assumed Project Support Agreement;
2. Raytheon shall have made commercially reasonable efforts to provide WGI with notice of such payment (in advance of any payment, if practicable) and, unless in Raytheon's judgment doing so could in any way prejudice Raytheon or RECI, permit WGI a period of three(3) business days to reimburse Raytheon in full for such payment, however, that its failure to comply with this paragraph 2 shall not constitute a basis for preventing a drawing under the Raytheon LOC; and
3. Raytheon or RECI shall not have received payment, in full, for such payment, from WGI.

Notwithstanding the foregoing conditions, Raytheon may make draws under the Raytheon LOC if, as and when WGI, (i) fails to pay its debts generally as they come due, (ii) files a voluntary petition in bankruptcy or has an involuntary petition in bankruptcy filed against it (not withdrawn or dismissed with thirty (30) days) under the U.S. Bankruptcy Code or any similar provision of foreign law, (iii) undertakes an assignment for the benefit of creditors or (iv) fails to extend the expiry date of the Raytheon LOC for not less than six (6) months by the twentieth (20th) day prior to its scheduled expiry date.

(b) In addition, Raytheon shall be permitted to draw under the Raytheon LOC for amounts paid by it or RECI for the fees and expenses related to maintaining an Assumed Project Support Agreement, provided, however, that Raytheon shall have provided WGI with an invoice setting forth in reasonable detail the amounts to be paid and WGI shall not have reimbursed Raytheon for such amount within fifteen (15) days of receipt of such invoice.



SERVICES AGREEMENT

AGREEMENT FOR CONSULTING AND  
PROFESSIONAL SERVICES  
AMONG  
RAYTHEON COMPANY,  
RAYTHEON ENGINEERS & CONSTRUCTORS  
INTERNATIONAL, INC.  
AND  
WASHINGTON GROUP INTERNATIONAL, INC.

THIS AGREEMENT ("Agreement") for Consulting and Professional Services (together with the Attachments hereto) is dated and effective as of January 23, 2002 (the "Effective Date"), and is hereby made and entered into by and among Raytheon Company, a Delaware corporation ("Raytheon"), Raytheon Engineers & Constructors International, INC., a Delaware corporation ("RECI" and collectively with Raytheon, "Client"), each having a place of business located at 141 Spring Street, Lexington, Massachusetts 02421, and Washington Group International, INC., an Ohio corporation (hereinafter "Consultant" or "Washington") having a place of business located at 510 Carnegie Center, Princeton, New Jersey 08540.

WHEREAS, on May 14, 2001, Consultant and its ultimate corporate parent, Washington Group International, Inc., a Delaware corporation ("WGI Delaware"), filed voluntary bankruptcy petitions (the "Bankruptcy Filing") in the United States Bankruptcy Court (the "Bankruptcy Court") for the District of Nevada;

WHEREAS, Client and WGI Delaware and certain of their subsidiaries have entered into that certain Settlement Agreement dated as a January 23, 2002 (the "Settlement Agreement"), pursuant to which the parties thereto have agreed to resolve certain outstanding claims;

WHEREAS, pursuant to the Settlement Agreement, the parties hereto agreed to enter into this Agreement;

WHEREAS, pursuant to that certain Agreement For Consulting And Professional Services between Raytheon and Consultant, dated as of March 20, 2001 (as amended to date, the "Sithe Services Agreement"), Raytheon and Consultant entered into certain arrangements with respect to which Consultant has provided and will continue to provide certain services relating to two projects located in Massachusetts, known as the "Sithe Mystic" and Sithe Fore River" projects;

WHEREAS, pursuant to that certain Project Completion Agreement, dated as of November 16, 2001 (the "Red Oak PCA"), between Raytheon and the Consultant, Consultant agreed to provide certain services in connection with the Red Oak project located in Red Oak, New Jersey;

WHEREAS, pursuant to (i) that certain Project Completion Agreement, dated as of November 16, 2001 (the "Ilijan Supply PCA", between Raytheon, Mitsubishi Corporation and a subsidiary of Consultant, United Engineers International, Inc. ("UEI"), and (ii) that certain Project Completion Agreement, dated as of November 16, 2001 (the "Ilijan Construction PCA" and together with the Ilijan Supply PCA, the "Ilijan PCAs"), between Raytheon, Mitsubishi Corporation and a subsidiary of Consultant, Raytheon Ebasco Overseas Limited ("REOL"), UEI and REOL agreed to provide certain services to Raytheon in connection with the Ilijan project located in the Philippines;

WHEREAS, pursuant to a letter agreement, dated January 9, 2001 ("Puerto

Plata Agreement"), among WGI Delaware, Raytheon and Lexington Insurance relating to the Puerto Plata project, WGI Delaware and certain of its Affiliates are performing certain work relating to the SD boiler;

WHEREAS, Client or its affiliates have provided letters of credit, corporate guarantees, or surety bonds (collectively, "Support Agreements") in connection with a number of projects, including the Saltend, Damhead, Jindal, Posven, Ratchaburi, Tallahassee, Acme, Ezhou, Egypt Electric, NACIC and Clear Alaska projects described in Annex A-1; these projects and any other project with respect to which (i) Client has provided Support Agreements and (ii) Consultant or WGI Delaware or another one of their respective subsidiaries (collectively referred to as "Affiliates" of Consultant) has rejected contracts as part of the Bankruptcy Filing, is referred to herein as a "Project"; however, the term "Project" as used in this Agreement does not include the Ilijan, Red Oak, Sithe Mystic, Sithe Fore River or Puerto Plata projects, as those are the subject of separate arrangements between Consultant and its Affiliates and Client, and does not include any project that was being performed by Washington International B.V., including those described in Annex A-2 hereto;

WHEREAS, Client wishes to retain Consultant to perform certain services from time to time as requested by Client;

WHEREAS, Washington is willing to undertake the performance of such services only as provided for in the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein set forth, the parties agree as follows:

1. DEFINED TERMS

Capitalized terms used without definition in this Agreement have the meanings given to such terms in the Settlement Agreement.

In addition, as used in this Agreement, the following terms have the following meanings:

"Accrued Costs" means any Labor Costs, Out-of-Pocket Costs or Taxes payable to Consultant pursuant hereto which have not been paid by Client.

"Allowable Costs" means any current Labor Costs, Out-of-Pocket Costs, and Taxes, and any Accrued Costs, that are required to be paid to Consultant hereunder. Unless otherwise specified in any applicable Work Order, for purposes of determining Allowable Costs, any personnel assigned to overseas Projects will charge for all of their time spent during their overseas deployment to the applicable Project, unless they actually work on the matters not subject to this Agreement.

"Labor Costs" means the labor costs including general and administrative costs, incurred by Consultant with respect to any Completion Services pursuant hereto, and calculated in accordance with the rates and charges referred to in Section 12(a).

"Out-of-Pocket Costs" means the out-of-pocket costs, including payments to vendors and subcontractors, incurred by Consultant with respect to any Completion Services pursuant hereto, and calculated in accordance with the rates and charges referred to in Section 12(a), but excluding costs of

vendors and subcontractors that Client will retain directly and pay directly, as set forth in the applicable Work Order.

"Parties" means the Client and the Consultant.

"Raytheon Parties" means the Client and their subsidiaries and affiliates.

"Separate Agreements" means the Sithe Services Agreement, the Red Oak PCA, the Ilijan PCAs and the Puerto Plata Agreement.

"Separate Projects" means the Sithe Mystic, Sithe Fore River, Red Oak, Ilijan and Puerto Plata projects.

"Tax Agreement" means the Disaffiliation Tax Sharing Agreement, dated as of April 14, 2000, between Raytheon and WGI Delaware.

"Taxes" means any taxes estimated to be levied, collected, assessed or imposed by any government or government agency in connection with Consultant's performance of the Completion Services, including, without limitation, any gross receipts, franchise, sales, use, registration, excise, stamp, occupation, license and other taxes, levies, imposts, duties, charges, fees, deductions or withholdings of whatever nature (including, interest, penalties, or additions to tax in respect of the foregoing, where (i) Client has failed to pay any of the foregoing or (ii) Client has failed to timely provide advance funding requested by Consultant, and Consultant is required to pay the foregoing, in accordance with the terms of this Agreement), and including, unless otherwise specified in an applicable Work Order, the cost of tax equalization of Consultant's employees (but not including the income taxes of Consultant or its employees) payable by Consultant in connection with the performance of its obligations hereunder.

"WGI Parties" means the Consultant and its subsidiaries and affiliates.

"Work Order" has the meaning set forth in Section 2(d) of this Agreement.

In addition, the following terms as used in this Agreement are defined elsewhere in this Agreement in the sections noted below:

Defined Terms	Section Where Defined
AAA	18(b) (i)
Affiliates	Preamble
Bankruptcy Court	Preamble
Bankruptcy Filing	Preamble
Client	Preamble
Completion Services	2(a)
Consultant	Preamble
Effective Date	Preamble
Fee	12(a)
Ilijan Construction PCA	Preamble
Ilijan PCAs	Preamble
Ilijan Supply PCAs	Preamble
Indemnitees	6(b)
Losses	4(a)

Partial Termination	15(c)
Project	Preamble
Project Agreements	2(a)
Project Liaisons	17(a)
Puerto Plata Agreement	Preamble
Raytheon	Preamble
RECI	Preamble
Red Oak PCA	Preamble
REOL	Preamble
Replacement Contractor	2(g)
Routine Close-Out Services	2(a)
Settlement Agreement	Preamble
Sithe Services Agreement	Preamble
Specified Obligations	3(a)
Support Agreements	Preamble

UEI	Preamble
Washington	Preamble
WGI Delaware	Preamble
WGI Guaranty	19
Work Order	2(d)
Work Order Liaisons	2(d)

## 2. SERVICES TO BE RENDERED

- a) Consultant agrees to provide personnel under the direction of Client to undertake and perform certain services as and to the extent requested by Client from time to time in accordance with the terms and conditions herein. The services will generally include services to complete all or some of the former obligations of Consultant and its Affiliates to third parties under the rejected contracts relating to the Projects ("Completion Services"), including (i) completion of physical work required and (ii) any routine project close-out activities such as obtaining final payments, resolving commercial issues and disputes with clients, subcontractors and vendors, confirming warranty completion, closing out contracts and subcontracts and obtaining final releases, and making foreign statutory filings, but excluding providing any support in connection with any litigation or arbitration except as provided in Section 4(b) (with the Completion Services referred to in clause (ii) sometimes referred to as "Routine Close-Out Services"). For the avoidance of doubt, Consultant shall not be responsible under this Agreement for any performance guarantees, emissions guarantees, schedule guarantees, and any other guarantee or warranty set forth in the engineering, procurement and/or construction or other agreements relating to the applicable Project (the "Project Agreements").
- b) The Completion Services to be performed shall be generally as described in Schedule 2(b) attached hereto. From time to time, Client and Consultant may modify or expand the Completion Services by a mutually agreed upon written amendment to this Agreement. Consultant will perform the Completion Services under Client's direction and control as more fully described in a Work Order (defined below) for each Project.
- c) The Completion Services will be performed by the employees of Consultant and its Affiliates selected by Consultant and approved by Client in advance. To the extent commercially

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practicable Consultant will furnish employees to provide Completion Services that have prior experience and knowledge with respect to the applicable Project. Notwithstanding the provisions of this Section 2, Consultant personnel shall not be required to provide any Completion Services in Pakistan or other foreign country in connection with any Project unless (i) Consultant is reasonably satisfied regarding safety and security in Pakistan or such other foreign country, and (ii) in the case of Pakistan only, Consultant is satisfied, in its sole and absolute discretion, regarding its exposure to legal liability to judgments or other legal process. In the event that Consultant is not reasonably satisfied regarding safety and security in Pakistan or such other foreign country, Consultant shall notify Client of such concerns, and the parties shall meet to discuss such concerns, and to, in good faith, enter into an alternative arrangements.

- d) In the event that Client requests Consultant to provide Completion Services with respect to a Project, Client will

notify Consultant of the initial scope of Completion Services requested and the parties will meet (either in person or by conference call) to discuss the Completion Services to be provided and the appropriate staffing for the Completion Services. Within one week after such meeting, Client and Consultant will prepare and agree upon a work order that refers to this Agreement and describes the initial scope of Completion Services to be provided with respect to the Project and the initial staffing (a "Work Order"). The Work Order for any Project will also designate the principal contacts for either party with respect to such Project (the "Work Order Liaisons"). Unless otherwise agreed by the Client and the Consultant, each Work Order shall generally be in the form of Schedule 2(d). On any Project the applicable Work Order shall set forth all budget requirements (including the requirement for any periodic estimates), staffing plans, schedule estimates, payment terms, funding mechanics and reconciliation procedures to be applied on such Project, in the event the budget, payment and reconciliation procedures will be different from those set forth in Section 12(b). In the case of any conflict between the terms of any Work Order and the general terms contained herein, the terms of any Work Order shall control.

- e) The Completion Services also shall include provision of craft labor for each Project from time to time as requested by Client and as agreed to by the Parties in a Work Order. Such craft labor is excluded from the requirements of Section 2(c) above but any hiring of craft labor is subject to the prior approval of Client. Craft labor will be reimbursed at cost including all applicable fringe benefits, payroll taxes and insurance.
- f) Notwithstanding anything else to the contrary in this Agreement, Consultant shall recommend to Client, and the applicable Work Order shall reflect, the employees and number and type of craft labor necessary to perform Completion Services. Client shall be solely responsible for determining such level of effort necessary to perform the Completion Services in accordance with the related Work Order.
- g) In the event that Client terminates Consultant's services with respect to any Project, Client shall not solicit for employment any of the employees identified in the applicable Work Order as providing Completion Services for such Project, and Client shall use commercially reasonable efforts to cause any proposed contractor retained to replace Consultant (a "Replacement Contractor") to similarly not solicit such employees for the period beginning upon the date of this Agreement and, (i) in the case of a termination where such termination follows Consultant's receipt of a notice of and failure to timely cure or commence and continue reasonable efforts to timely cure any condition or event which in the reasonable

judgment of Client is likely to cause a material delay in the applicable Project schedule or cause any category of costs in the applicable Project budget to be materially exceeded or materially adversely affect the execution of the Completion Services, ending upon the date five (5) days from such notice, and (ii) in the case of any other termination, ending upon the date 120 days from the notice of such termination.

- h) In the event that because a particular Project had been previously performed by an Affiliate of Consultant or for any other reason, in order to effectuate the intent of this Agreement performance of any obligations of Consultant under

this Agreement are required to be performed by any of Consultant's Affiliates, the Consultant will cause such Affiliate to perform the applicable obligations under this Agreement, and the Client will accept performance by such Affiliate. The Parties will describe in the applicable Work Order whether or not performance by an Affiliate of Consultant is anticipated to be required.

3. RESPONSIBILITY FOR COMPLETION SERVICES

- a) Consultant warrants to perform the Completion Services in accordance with that degree of care and skill ordinarily exercised by members of the engineering and construction profession existing as of the date this Agreement became effective and in accordance with the performance standards that previously applied to the performance by Consultant and its Affiliates of their obligations under the applicable Project Agreements, which shall be set forth in each Work Order (in each case the "Specified Obligations"); provided, however, that the only remedy hereunder and Consultant's only liability, unless Consultant or one of its Affiliates has performed with willful misconduct or gross negligence, for the failure by Consultant or one of its Affiliates to perform in accordance with the Specified Obligations shall be, at Client's option, (i) termination pursuant to this Agreement or (ii) Consultant or one of its Affiliates shall re-perform all non-complying work on a cost-reimbursable basis, in accordance with the terms and conditions hereof; provided, however, no Fee or profit of any kind shall be payable by Client with respect to such re-performance work. Notwithstanding the foregoing, Consultant or one of its Affiliates shall not be responsible under this Agreement for any performance guarantees, emissions guarantees, schedule guarantees, and any other guarantee or warranty set forth in any Project Agreements.
- b) Because Consultant and its Affiliates and their employees are under Client's direction and control, Consultant and its directors, officers, employees, agents and Affiliates shall have no liability to Client or to third parties for injuries or alleged injuries to persons (including death), or for damages or alleged damages to property, including Client's property and any Project owner's property, arising out of or in connection with these Completion Services, except to the extent arising out of Consultant's or one of its Affiliate's gross negligence or willful misconduct.

4. CONSULTANT'S ADDITIONAL OBLIGATIONS.

- a) Consultant's Indemnity. In performing its obligations under this Agreement, Consultant shall be responsible for, and shall indemnify, defend and hold Client and its subsidiaries and all directors, officers, employees and/or agents of the foregoing harmless against, any and all claims, liabilities, expenses, damages, losses, costs, judgments, demands and suits (including reasonable attorneys' fees) ("Losses") arising from the gross negligence or willful misconduct of Consultant or its Affiliates in the performance or nonperformance of

Consultant's obligations under this Agreement; provided, however, that in any case in which Consultant uses commercially reasonable efforts to perform and comply with its obligations hereunder and takes all reasonable steps to abide by the directions of Client and the terms of this Agreement, Consultant and its Affiliates shall be deemed not to have breached such

obligations.

- b) Claims Support. To the extent requested by Client for a particular Project, as part of the Completion Services, Consultant shall use commercially reasonable efforts to diligently pursue, settle, investigate, negotiate (or, as necessary, defend) change orders and claims for equitable adjustment and other claims relating to the performance of Completion Services pursuant to this Agreement with respect to that Project, including any claims for warranty or for non-complying work or delivery, against the Project owner, customers, suppliers, subcontractors, vendors and non-contract parties (collectively, "Project Completion Claims"), other than those Project Completion Claims that Consultant reasonably believes are not commercially reasonable (and in the case of defending Project Completion Claims, that Consultant reasonably believes are not commercially reasonable to defend); provided that Consultant shall not be required to litigate, arbitrate or assume the defense of any Project Completion Claim in its own name, although the Consultant acknowledges that it may be sued in its own name and will be required to litigate such claim, in its own name, subject to Client's obligations to indemnify Consultant as provided in Section 6 hereof. For the avoidance of doubt, the Consultant and Client acknowledge that any claims relating to the Projects but not relating to the performance of Completion Services pursuant to this Agreement or not constituting part of the Routine Close-Out Services, including without limitation the resolution in the Bankruptcy Court of claims asserted by third parties as unsecured claims in connection with the Bankruptcy Filing, shall not be pursued or defended pursuant to the terms of this Agreement, but shall be subject to the terms set forth in the Settlement Agreement. Consultant's pursuit or defense, if any, of Project Completion Claims shall be at the direction and under the control of Client. Consultant shall use commercially reasonable efforts to assist Client in pursuing, litigating, arbitrating or defending against any Project Completion Claims, and Client shall take the lead role in such process. In the event that Consultant reasonably believes such Project Completion Claims are not commercially reasonable, or that the defense of such Project Completion Claims is not commercially reasonable, and Client wishes to pursue or defend such Project Completion Claim, Consultant agrees to provide, diligently and in good faith, all documentation, information, access, and access to (but not use of) personnel requested by Client. Without limiting the generality of the foregoing, it shall be deemed reasonable for Client to request to meet with witnesses in advance of any testimony they may be asked or required to give at a deposition or hearing of any sort relating to Project Completion Claims and to have the witnesses furnished by Consultant travel to the location of any hearing
- c) Good Standing. Consultant shall maintain its existence and good standing and the existence and good standing of any Affiliate performing Completion Services, until performance is completed.
- d) Permits and Licenses. Consultant shall maintain the existence and effectiveness of all permits necessary for performance by Consultant or its Affiliates of any Completion Services hereunder, and such maintenance shall constitute part of the Completion Services to be performed by Consultant under this Agreement.

- a) Consultant's sole liability to Client for any Completion Services that fail to meet the standard set forth in Section 3(a) or set forth in any Work Order and that do not constitute gross negligence or willful misconduct, shall be to reperform the non-conforming Completion Services, written notice of which must be promptly given after discovery by Client to Consultant. Consultant's obligation for reperformance of non-conforming Completion Services shall begin at Work Order completion, and extend for a term of one (1) year thereafter. Any costs of reperformance will be an Allowable Cost under this Agreement, but Consultant will not be entitled to any Fee for such reperformance. The Consultant's liability for gross negligence or willful misconduct is set forth in Section 4(a).
- b) The only warranties made by Consultant are those expressly enumerated in Section 3 above. Any other statements of fact or descriptions expressed in this Agreement or any attachments hereto shall not be deemed to constitute a warranty of the Completion Services or any part thereof. THE WARRANTIES SET FORTH IN SECTION 3 A) above ARE EXCLUSIVE AND IN LIEU OF ANY AND ALL OTHER WARRANTIES, WHETHER STATUTORY, EXPRESS, OR IMPLIED (INCLUDING BUT NOT LIMITED TO ANY AND ALL WARRANTIES OF MERCHANTABILITY AND/OR FITNESS FOR ANY PARTICULAR PURPOSE(S) AND ANY AND ALL WARRANTIES ARISING FROM COURSE OF DEALING AND/OR USAGE OF TRADE). The remedies provided in Section 5(a) above are Client's sole and exclusive remedies for any failure of Consultant to comply with the warranties in Section (3a) and are expressly in lieu of any and all other warranties of any kind whatsoever, as stated above. Except as provided in Section 4(a) with respect to gross negligence or willful misconduct, correction of any nonconformity in Completion Services in the manner and for the period of time provided above shall constitute complete fulfillment of all the liabilities and warranties of Consultant for any and all defective or nonconforming Completion Services whether the claims of Client are based upon contract, tort (including but not limited to negligence and strict liability), errors or omissions, warranties, indemnity or otherwise with respect to or arising out of any Completion Services performed hereunder.

6. QUALITY ASSURANCE; INDEMNITY BY CLIENT

- a) Performance by Consultant of any quality assurance, vendor assurance, project management, construction management, or other third party oversight or advisory services shall in no way constitute an assumption by Consultant, or by any of its suppliers or subcontractors of any tier, of, or relieve a Client or its consultants or suppliers from, any responsibility for delivery of any services, materials, equipment and documentation in strict accordance with the requirements of the consultant, manufacturer, or supplier/Client contract.
- b) Client agrees to indemnify, defend and hold harmless Consultant and its Affiliates and any and all directors, officers, employees and/or agents of the foregoing (collectively, the "Indemnitees") from and against any and all Losses of any kind and nature whatsoever, arising from the Consultant's performance of this Agreement.
- c) Notwithstanding paragraph (b) above, or any provision to the contrary contained herein, Client shall not indemnify, hold harmless, or defend the Indemnitees with regard to Losses of any kind or nature whatsoever to the proportionate extent that such Losses:



- (i) arise from any Indemnatee's breach of this Agreement, other than any breach of the Specified Obligations or other failure to perform any Completion Services in the manner required by this Agreement that does not arise from any Indemnatee's gross negligence or willful misconduct;
  - (ii) arise from any Indemnatee's gross negligence or willful misconduct;
  - (iii) are covered by the collected proceeds of any insurance policy covering the applicable Project, to the extent of such proceeds;
  - (iv) are the responsibility of WGI Delaware under the WGI Guaranty; or
  - (v) arise under or relate to the prior performance of any of the Project Agreements or any other subcontract, vendor contract or other contract relating to any Project that were rejected by Consultant or any Affiliates and that was asserted or could have been asserted as a claim (as defined in Section 101(5) of the Bankruptcy Code) against the Debtors, or any of them, as part of the Bankruptcy Case.
- d) Solely with respect to the Ratchaburi project, the Client shall also indemnify Consultant and its affiliates for valid claims of General Electric Company and its affiliates (collectively, "GE") for payments made and liabilities incurred to vendors and subcontractors of Consultant and its affiliates after May 14, 2001 and prior to the date of this Agreement as a result of the non-performance by Consultant and its affiliates during this period.

## 7. FORCE MAJEURE

Any delay or failure of Consultant in performing its required obligations hereunder shall be excused if and to the extent it is caused by a Force Majeure event. A "Force Majeure" event shall mean an event due to any cause or causes beyond the reasonable control of Consultant and shall include, but not be limited to, acts or orders of any governmental body or changes in laws or government regulations or interpretations or application thereof, acts or omissions of Client or its other consultants, acts of God, war, riot, fire, flood, explosion, hurricane, tornado, epidemic, earthquake, transportation accidents, terrorism, sabotage or strikes. In such event, the time for performance hereunder shall be extended for a period of time sufficient to overcome the effects of such delay, and Consultant's compensation shall be equitably adjusted to reflect any increased costs of performance of the Completion Services.

## 8. INSURANCE

- a) Upon Client's written request, Consultant shall effect and maintain insurance with the following limits:
  - (i) Workers' compensation for statutory limits in compliance with the applicable state and federal laws and employers' liability with a limit of \$2,000,000.
  - (ii) Comprehensive general liability including products/completed operations, contractual coverage for the indemnification provisions set forth in Section 4(a) and

broad form property damage with the limits of \$5,000,000 any occurrence and in the aggregate, combined for bodily and personal injury and property damage.

- (iii) Automobile liability including owned, non-owned, and leased automobiles with the limits of \$5,000,000 any one occurrence and in the aggregate, combined single limit for bodily injury and property damage.
- (iv) Professional liability with a limit of \$10,000,000 and a deductible or self insured retention of \$2,000,000 for any one occurrence and in the aggregate.
- b) If requested by Client, Consultant shall furnish to Client certificates of insurance signed by the insurers, indicating that policies with respect to the aforementioned insurance have been issued and that such policies contain provisions regarding prior notification of cancellation.
- c) Consultant and Client each waive all rights of recovery against a loss occurring to property of the other, to the extent that such waivers do not invalidate the property insurance of either.
- d) In the event Client makes a claim against Consultant covered by the professional liability insurance coverage, Client shall receive any proceeds resulting from such claim net of the deductible or self insured retention by Consultant or its Affiliates.
- e) To the extent permitted under the applicable Project Agreements, Client and Consultant agree that any insurance coverage provided by the project owners under the Project Agreements shall be primary, and that insurance provided by Consultant shall be excess and non-contributory.
- f) Client and Consultant also agree to review any insurance coverage provided by project owners under the applicable Project Agreements so that the coverages required to be maintained in Section 8(a) may be reduced and the resultant cost can be reduced, each at the mutual agreement of Client and Consultant.

#### 9. WAIVER OF CONSEQUENTIAL DAMAGES

As it relates to performance of Completion Services under this Agreement, neither Consultant nor Client nor their respective employees, officers, directors, affiliates, consultants, agents and subcontractors or suppliers of any tier, if any, shall be liable for any special, indirect, punitive, exemplary, incidental, or consequential damages of any nature, including, without limitation, any loss of actual or anticipated profits or revenues, loss by reason of shutdown, operation, non-operation, or increased expense of operation, loss of use, cost of capital, cost of replacement power and any other loss due to power outages, damage to or loss of property or equipment of Client or project owners, or claims of customers of Client or project owners, regardless of whether due to or based upon delay, contract, warranty, tort, negligence, strict liability, error or omission, indemnity or otherwise.

#### 10. HAZARDOUS SUBSTANCE

- a) Consultant shall not be liable or responsible for any hazardous waste, toxic substance, pollution or contamination that (i) Consultant does not introduce into or onto a Project site in a manner that violates this Agreement or the applicable Work Order; and (ii) that is not used,

generated, treated or handled by Consultant, at any time, on the Project site(s) in a manner that violates this Agreement or the applicable Work Order.

- b) Consultant shall not introduce any hazardous waste, toxic substance, pollution or contamination into any Project site without the prior authorization of Client, other than materials, fuels or substances used in the ordinary course of performing Client's obligations under this Agreement and the applicable Work Order.
- c) Client shall indemnify Consultant for any direct loss or liability sustained by Consultant to the proportionate extent such loss or liability is associated with any such hazardous waste, toxic substance, pollution or contamination that does not fall within the scope of (a)(i) or (a)(ii) above.

#### 11. CHANGES

Client may from time to time seek to modify, extend or enlarge the Completion Services being performed with respect to a particular Project by written instructions to Consultant to perform additional Completion Services, modify the schedule or direct the omission of work previously ordered. In the event Client requests that Consultant perform additional Completion Services, or make other modifications to the Completion Services, the existing Work Order will be revised to reflect such changes. In no event, however, shall Consultant be obligated to perform such additional services or modify or extend such services without prior written amendment to an existing Work Order signed by Client and accepted in writing by Consultant. In addition, Client may from time to time direct Consultant to cease performing one or more of the Completion Services that Consultant had been previously performing. Costs associated with the Completion Services contemplated prior to the change that had been incurred prior to the time the change could reasonably take effect, any field demobilization costs required as a result of the termination of work or change in scope, and any additional Completion Services requested by Client to be performed in connection with such termination of work or change in scope, shall all constitute Allowable Costs hereunder to the extent incurred in accordance with the rates and charges referred to in Schedule 12(a).

#### 12. PAYMENT TERMS

- a) Work Orders. All payment terms shall be as specified in the applicable Work Order for any Project. In general, and unless specifically set forth and agreed by Client and Consultant to the contrary in this Agreement or such Work Order, Consultant shall be paid, in advance, for all Allowable Costs, plus a fee in the amount of 7.50% of such Allowable Costs (the "Fee"). Unless otherwise provided in the applicable Work Order, Allowable Costs will be calculated in accordance with the terms and conditions set forth on Schedule 12(a).
- b) Default Budget; Funding; Reconciliation. Unless otherwise agreed to by the Parties in a Work Order, for any Project for which Consultant shall perform any Completion Services:
  - (i) Consultant shall prepare a budget, and semi-monthly updates, containing Consultant's reasonable estimate of the anticipated costs of performing such services through completion of such services, broken down by cost element;
  - (ii) Consultant shall notify Client no less than

fourteen (14) days in advance of the start of any two week period in which services are to be performed of the anticipated Allowable Costs to be expended by Consultant for such two week period, and at the request

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of Client, Consultant shall meet and confer with Client regarding the amounts to be funded thereby;

(iii) no less than (3) business days in advance of such two-week period, Client shall wire funds to Consultant for such two week period, in an amount not less than the amount requested by Client, or the amount agreed to by the Parties after having met and conferred, taking into account any credits or debits from any prior period; and

(iv) Consultant shall provide a monthly reconciliation to Client, no later than twenty one (21) days following the end of any month in which services were performed, of the costs actually incurred during such month, and the Parties shall make such debits or credits as are appropriate.

- c) In House Costs. Consultant may include as Labor Costs the costs of in-house counsel and other administrative personnel performing any of the Completion Services, provided the costs of such personnel are incurred in connection with, and budgeted or otherwise approved in compliance with, the applicable Work Order and provided further that any use of in-house tax personnel must be approved in advance by Client.
- d) No Prior Amounts. No amounts spent by Consultant or its Affiliates on a Project that were spent prior to, or not in connection with this Agreement, shall constitute an Allowable Cost (or an Accrued Cost), unless such amounts are approved by Client, in writing, in a Work Order for such Project pursuant to the terms hereof. Client has previously approved the Allowable Costs relating to certain Projects listed on Schedule 12(c) hereto, and such Allowable Costs shall be paid within five (5) business days after the date of this Agreement. Certain other costs listed on Schedule 12(c) are subject to review and mutual agreement as described in Schedule 12(c).
- e) No Duplication. No amount payable by Client under this Agreement, for Allowable Costs, for indemnity, or otherwise, shall be payable, or paid, to Consultant more than once. Consultant shall not include any item in any request for payment or reimbursement for which Consultant has already been paid by Client under any other agreement or arrangement with respect to the Project.
- f) Audit Rights. Client shall have reasonable access during normal business hours to Consultant's books and records as necessary to verify the number of manhours actually charged in a given work week, all Out-of-Pocket costs, including subcontractor and vendor payments, any Taxes, and the application of the appropriate rates and multipliers to the man- hours charged. Client shall not have audit rights with respect to the agreed upon multiplier rates set forth in Schedule 12(a) for Labor Costs and certain Out-of-Pocket Costs.
- g) Tax Cooperation. Consultant shall cooperate with Client, prior to or following the expiration or earlier termination of this Agreement, to obtain Tax refunds from any applicable taxing authorities for the benefit of Client, for any Taxes paid by Client, or reimbursed to Consultant, pursuant to this Agreement,

or any other prior arrangement between the Parties. Client shall compensate Consultant (at rates and fees substantially similar to the rates and fees for work or services performed hereunder) for any work performed under this paragraph (f) following the termination or expiration of this Agreement. The parties shall endeavor to minimize Taxes payable in connection with the Completion Services, to the extent permitted

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by law. Any refunds for Taxes that are governed by the Tax Agreement will be pursued and remitted as provided in the Tax Agreement.

- h) Set off. Client agrees to fund its obligations to make payments pursuant to the applicable Work Order notwithstanding any right of set-off or recoupment that Client may have or allege against any sums due under this Agreement.

13. INDEPENDENT CONSULTANT

Consultant is an independent contractor. Neither Consultant, nor any of its employees, are or shall be deemed to be agents or employees of Client. Notwithstanding anything else to the contrary in this Agreement, Consultant may at its sole discretion, discharge any of its employees for cause.

14. OWNERSHIP OF DOCUMENTS

All right, title and interest in all (without limitation) data, analyses, drafts, reports, drawings, prints, records, notebooks, manuals, computer printouts or intellectual property delivered to Client under this Agreement or generated solely in the performance of the Completion Services shall become the property of Client and such documents shall be delivered to Client upon Client's full and complete payment for such Completion Services. Client agrees to hold harmless and indemnify Consultant against any and all damages, claims, causes of action, expenses, liabilities, costs and losses, including, but not limited to, defense costs and attorneys' fees, arising out of any reuse by Client or others of the materials, data, or reports for any other projects or matters unrelated to the Projects without the written authorization of Consultant. Client expressly agrees that it shall not and is not authorized to so use any such documents without such authorization. Client hereby grants to Consultant the unrestricted, royalty free right to retain copies of these materials and to use these materials and the information contained therein, on a world wide basis, in the normal course of Consultant's business for any and all lawful purposes subject to the confidentiality provisions hereof.

In the course of performance of its Completion Services Consultant may rely upon information supplied by Client or Client's partners, contractors, or consultants, or information available from generally accepted reputable sources without independent verification. Consultant shall have no liability for defects in its Completion Services attributable to Consultant's reliance upon or use of data, design criteria, drawings, specifications or other information furnished by Client.

15. TERMINATION AND SUSPENSION

- a) Client shall have the right to terminate this Agreement prior to completion of the Completion Services after delivery of ten (10) days written notice to Consultant, in which event Client shall pay Consultant all amounts due up to the effective date of termination plus all Allowable Costs incurred in connection with field demobilization required as a result of such termination.

To the extent that Client requests that Consultant perform services post-termination, Consultant shall be paid its actual costs, based upon Allowable Costs, plus Fees.

- b) Consultant may suspend performance on a Work Order for non-payment of amounts due on a Work Order after five (5) days notice. In addition, Consultant may terminate performance under such Work Order after thirty (30) days cumulative suspension for non-payment.

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- c) In the event that Client or Consultant terminates the Completion Services with respect to a particular Work Order (a "Partial Termination") or this Agreement is terminated pursuant to paragraph a) above, any and all amounts previously paid to Consultant and not disbursed to pay Allowable Costs or Fee pursuant to the applicable Work Order, in the case of a Partial Termination only insofar as it relates to the applicable Work Order, shall be immediately disbursed to Client, inclusive of all interest thereon or credits owing thereto, without any set-off or deduction of any kind other than Allowable Costs to be reimbursed pursuant to this Agreement, including Consultant's field demobilization costs that are reimbursable pursuant to this Agreement, plus the portion of any Fee earned prior to the date of termination. Consultant will also remit directly back to Client any and all amounts received under this Agreement that remain unspent as of the termination date, in the case if a Partial Termination only insofar as it relates to the applicable Project.

#### 16. TERM

Unless otherwise specified, the term of this Agreement shall be no more than five (5) years from the Effective Date, subject to earlier termination as herein provided. In addition, provided that Consultant provides ninety (90) days' prior written notice, Consultant will not be required to provide Completion Services after the second anniversary of the date of this Agreement and at any time thereafter, Consultant shall be permitted to terminate this Agreement or any Work Order, insofar as it relates to any Completion Services, upon ninety (90) days written notice to Client. Consultant and Client may mutually agree upon an extension of this Agreement. Such extension must be in writing and signed by both Consultant and Client.

#### 17. CLIENT ACCESS

- a) For purposes of the overall administration of this Agreement, Client and Consultant shall each appoint a single representative (the "Project Liaisons"), who shall coordinate all matters relating to this Agreement. If and to the extent that the Consultant's Project Liaison performs services for Consultant that are related to this Agreement, the costs related to such services shall constitute Allowable Costs related to this Agreement.
- b) Work Order Liaisons. As noted in Section 2, the applicable Work Order will designate the "Work Order Liaisons" for the Projects. For purposes of administering this Agreement each party shall be entitled to rely upon the direction of the other party's Work Order Liaison.
- c) Client Access. Client will be entitled to place a reasonable number of employees, consultants or representatives on-site at the applicable Project and, during regular business hours, at the Consultant's Princeton offices to observe and supervise the

performance by the Consultant of its obligations under this Agreement, and Client and its representatives, including any third party consultant retained by Client, will be permitted to have access to and examine and take copies of any documents, books, records, materials and other information, whether in tangible or electronic form, relating to the applicable Project, including any and all engineering, procurement and construction documents, purchase orders, invoices, specifications, progress reports, plans and designs. With regards to access to Consultant's Princeton, New Jersey, offices, (i) access shall be given during normal business hours, and (ii) Client's personnel shall be subject to Consultant's prior approval, such approval not to be unreasonably withheld or delayed. In addition to those personnel subject to the foregoing approval process, Consultant expressly will pre-approve and permit

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the persons listed on Schedule 17 to have access to the Princeton facilities. The Consultant shall provide Client with copies of all internal and external project reports and correspondence as generated or received relating to the applicable Project. The Project Liaisons will conduct periodic Project reviews and progress meetings as requested by Client. The Consultant shall not designate a replacement Project Liaison without the consent of Client, which consent shall not be unreasonably withheld or delayed. Consultant's costs in complying with the obligations contained in this Section 17 shall constitute Allowable Costs.

#### 18. DISPUTE RESOLUTION

- a) All disputes or claims arising in respect of a particular Project shall be referred to the Project Liaisons for settlement. In the event no settlement can be reached pursuant to the preceding sentence within one (1) week, then senior management of Client and Consultant shall attempt to resolve such dispute or claim within ten (10) business days. In the event the senior management cannot settle such disputes or claims, such disputes or claims shall be settled pursuant to the arbitration procedures set forth in Section 18(b) hereof.
- b)
  - (i) Subject to the other provisions of this Section 18, any party hereto may commence arbitration in conformity with and under the rules of the American Arbitration Association ("AAA"), and, notwithstanding anything to the contrary contained herein, such arbitration shall be governed by and construed in accordance with the laws of the State of New York, USA.
  - (ii) The arbitral tribunal shall consist of three arbitrators. Each party hereto shall appoint one arbitrator with, in the case of a dispute of a technical nature, knowledge and experience in such technical matters. The two arbitrators so appointed shall appoint the third arbitrator who shall serve as the chairman of the arbitral tribunal. If a party fails to appoint its arbitrator within a period of ten (10) days after receiving notice of the arbitration, or if the two arbitrators appointed cannot agree on the third arbitrator within a period of ten (10) days after appointment of the second arbitrator, then such third arbitrator shall be appointed pursuant to the procedures of the AAA Rules.
  - (iii) In the event an arbitrator is appointed pursuant to the

last sentence of the foregoing subsection (ii), such arbitrator shall be a person with experience in commercial agreements and, in particular, the implementation and interpretation of contracts relating to the design, engineering, construction, operation and maintenance of international electrical power generating facilities which have been financed on a limited recourse basis (and if the dispute concerns a technical issue, a person who has knowledge and experience in technical matters). No arbitrator shall be a present or former employee or agent of, or consultant or counsel to, either party hereto or any affiliate thereof.

- (iv) The arbitration shall be conducted in New York, New York, U.S.A., and shall apply English as the language of the arbitration proceedings. All documents or evidence presented at such arbitration in a language other than in English shall be accompanied by a certified English translation thereof. The arbitrators shall apply, and shall be bound by, the applicable rules of law and the terms of this Agreement. Unless the Parties hereto agree otherwise in writing, the arbitrators shall be permitted to order the parties to an arbitration to engage in discovery (including the

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taking of depositions). The arbitrators shall decide the dispute by majority of the arbitral tribunal and shall state in writing the reasons for its decision. Any monetary award of the arbitral tribunal shall be denominated in U.S. dollars and shall be paid by the earlier of (i) the time period specified by the arbitral tribunal and (ii) thirty (30) days after the arbitral tribunal notifies the parties of receiving such award. The parties agree to direct the arbitral tribunal to complete the arbitration proceeding, and issue a decision, within sixty (60) days after the submission of the request for arbitration.

- (v) The parties hereby waive any rights to appeal or to review such award by any court or tribunal, and such award shall be final and binding. The parties hereto further undertake to carry out without delay the provisions of any arbitral award or order, and each agrees that any such award or order shall be conclusive and may be enforced in any jurisdiction (and the parties shall submit to any such jurisdiction) by suit on the arbitral award or by any other manner provided by law. A party may disclose the contents of an award of the arbitral tribunal on to affiliates, governmental authorities or other persons as required by applicable law.
- (vi) The costs of such arbitration shall be determined by and allocated between the parties by the arbitral tribunal in its award.
- (vii) Unless the parties hereto otherwise agree, no dispute, controversy or claim hereunder shall be consolidated with any other arbitrable proceeding involving any third party.

19. GUARANTEES

- a) WGI Guaranty. WGI Delaware shall unconditionally and irrevocably



guaranty to Client and its designees hereunder, the due and prompt performance and payment when due of each and every obligation, responsibility, undertaking, representation, warranty, covenant and agreement of Consultant under this Agreement, in the form of Schedule 19 attached hereto (the "WGI Guaranty").

20. GENERAL

- a) Client and Consultant each represent and warrant that this Agreement has been duly authorized, executed and delivered and constitutes its binding agreement enforceable against it subject to the application of bankruptcy and other laws affecting creditor's rights and to the application of equitable principles.
- b) This Agreement (including all Work Orders) together with the Settlement Agreement supersedes all prior written and/or oral contracts and agreements that may have been made or entered into between Client and Consultant regarding the subject matter hereof, including but not limited to any and all proposals, oral or written, and all communications between the parties relating to this Agreement, and constitutes the entire agreement between the parties hereto with respect to the subject matter hereof. No amendment to this Agreement shall be enforceable unless in writing and signed by both parties hereto. The language used in this Agreement will be deemed to be the language chosen by the Parties to express their mutual intent, and no rule of strict construction will be applied against any Party.

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- c) Subject to Section 9.406 of the Uniform Commercial Code (as revised), this Agreement may not be assigned by Consultant or Client in any way, including by operation of law, unless mutually agreed to in writing.
- d) All notices, demands and other communications hereunder regarding any breach, consent, waiver, termination, indemnification, or any proposed amendment to, or modification of, this Agreement, shall be in writing or by facsimile, and shall be deemed to have been duly given, (i) on the day such notice is delivered personally, (ii) on the business day such notice is sent by facsimile, provided such notice is sent during the normal business hours of the recipient (and if sent after such hours, on the following business day), with a confirmation copy sent by overnight courier or certified mail, (iii) one business day after being sent by overnight courier, or (iv) four business days after being mailed by certified mail, return receipt requested, postage prepaid, as follows:

If to Client, to:

Raytheon Company  
141 Spring Street  
Lexington, MA 02173  
Attention: General Counsel  
Telephone: (781) 860-2681  
Facsimile: (781) 860-2924

Raytheon Engineers & Constructors  
International, Inc.  
141 Spring Street  
Lexington, MA 02173  
Attention: General Counsel  
Telephone: (781) 860-2681

Facsimile: (781) 860-2924

with a copy sent contemporaneously to:

Bingham Dana LLP  
150 Federal Street  
Boston, MA 02110  
Attention: John R. Utzschneider, Esq.  
Telephone: (617) 951-8852  
Facsimile: (617) 951-9736

If to Washington to:  
720 Park Boulevard  
Boise, Idaho 83712  
Attention: Richard D. Parry, Esq.  
General Counsel  
Telephone: (208) 386-5199  
Facsimile: (208) 386-5220

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With a copy sent contemporaneously to:

Kevin T. Colby  
Vice President - Contracts  
Washington Group International, Inc.  
510 Carnegie Center  
Princeton, New Jersey 08543  
Telephone: (609) 720-2913  
Facsimile: (609) 720-2675

- e) This Agreement shall not provide for and Consultant will not be considered to have rendered any legal or financial opinions regarding the feasibility for generating or selling electrical power or thermal energy.
- f) Governing Law; Exclusive Venue: Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, United States of America, without regard to the conflict of law rules thereof other than Section 5-1401 of the General Obligations Law of the State of New York. Any action or other proceeding brought under or in connection with this Agreement and the transactions contemplated hereby shall be brought and heard only in an appropriate state or federal court located in the State of New York, U.S.A. Each of Consultant and Client acknowledge and agree that such courts shall have exclusive jurisdiction to interpret and enforce the provisions of this Agreement, and each of them hereby waives any and all objections that they might have as to personal jurisdiction or venue in any of the above courts. Nothing contained in this Section 20(f) is intended to limit the applicability of Section 18 hereof. In the event of any conflict between the second and third sentences of this Section 20(f) and the terms and provisions of Section 18, the terms of Section 18 shall control.
- g) Headings. The headings in this Agreement are for convenience only, and shall not affect the interpretation hereof.
- h) No Third Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to confer upon any third party any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided herein. For the avoidance of doubt, no Raytheon Party by virtue of this Agreement is assuming or creating any obligation or duties to parties not signatory hereto.

- i) Waiver of Jury Trial. Each party hereto waives its rights to a jury trial with respect to any action or claim arising out of any dispute in connection with this Agreement or other document or subcontract executed in connection with performance of the services under this Agreement.
- j) Public Statements. Any press release or other public statement regarding the subject matter of this Agreement shall be subject to the prior review and approval of the other party hereto, with such approval not to be unreasonably withheld or delayed.
- k) Survival. The provisions of Sections 1, 2(g), 2(h), 3, 4(a), 4(b), 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19 and 20 and any other provisions of this Agreement providing for limitation

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of or protection against liabilities between the parties hereto shall survive termination of the Agreement and/or completion of the Completion Services hereunder.

- 1) Counterparts. This Agreement may be executed by Client and Consultant each on separate counterparts and by facsimile, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same document.

[Signature Page to Follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement for Consulting and Professional Services to be duly executed by their duly authorized representatives as of the day and year first above mentioned.

RAYTHEON COMPANY

By: /s/ Neal E. Minehan

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Name: Neal E. Minehan

Title: Senior Vice President and  
General Counsel

RAYTHEON ENGINEERS & CONSTRUCTORS  
INTERNATIONAL, INC.

By: /s/ William J. Ferguson Jr.

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Name: William J. Ferguson Jr.

Title: Senior Vice President, Secretary  
and General Counsel

WASHINGTON GROUP INTERNATIONAL,  
INC.,  
an Ohio corporation

By: /s/ Richard D. Parry

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Name: Richard D. Parry

Title: Senior Vice President  
and General Counsel

SEEN AND CONSENTED TO:

OFFICIAL UNSECURED CREDITORS'  
COMMITTEE

By: /s/ Patrick A. Murphy

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Name: PATRICK A. MURPHY

Title: COUNSEL

ANNEX A-1

DESCRIPTION OF CERTAIN PROJECTS

Saltend: 1,200 MW combined cycle power plant in Hull, England.  
Damhead: 800 MW combined cycle power plant in Kingsnorth, England.  
Jindal: 2 x 130 MW thermal power plant in Toranagallu, India.  
Posven: Hot briquetted iron facility in Venezuela.  
Ratchaburi: 2,100 MW combined cycle power plant in Thailand.  
Tallahassee: 225 MW power plant in Tallahassee, Florida.  
Acme: Mini-mill in Riverdale, IL.  
Ezhou: 600 MW anthracite coal power plant project located in Ezhou,  
near Wuhan, Hubei Province, China.  
Egypt Electric: 1,200 MW thermal plant in El Kureimat, Egypt  
NACIC: Sulfur derivatives plant in Bahrain.  
Clear Alaska: Radar upgrade project in Alaska.

ANNEX A-2

DESCRIPTION OF CERTAIN WASHINGTON INTERNATIONAL B.V. PROJECTS

In addition to the Ilijan, Red Oak, Sithe Mystic, Sithe Fore River and Puerto Plata projects, all projects that are or were being performed by Washington International B.V., including the following projects, are not considered "Projects" for purposes of this Agreement:

1. Norsk Hydro - Oslo, Norway
2. Anwill
3. National Industrial Comp. (NIC) - Riyadh
4. Alex. Min. Oil Co. (AMCO)
5. BASF Antwerpen
6. BASF Ludwigshafen
7. Statoil
8. HCG Industriesservice
9. Start Emloyab Ser.
10. Ciech Stomil
11. Borsodchem

SCHEDULE 2(b)

Consultant agrees to provide personnel to assist Client in the performance of

the following services:

I. Home Office Services

H.O. Engineering and Design Services  
H.O. Project Management Services/Construction Management Services  
H.O. Project Control Services  
H.O. Procurement of Components, Equipment, Materials and Services  
H.O. Contract Services  
H.O. Tax Services/1/

II. Field Services

Field Project Management Services/Construction Management Services  
Field Project Control Services  
Field Procurement of Components, Equipment, Materials and Services  
Provision and Direction of Craft Labor  
Management of Suppliers and Subcontractors  
Start-up and Testing Services  
Obtain/Maintain Necessary Licenses and Permits  
Safety and Medical Services  
Quality Assurance and Testing Services

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/1/ To the extent that any tax related services or other obligations are required under the Tax Agreement, such services or other obligations shall be provided thereunder and not this Agreement.

SCHEDULE 2(d)

FORM OF WORK ORDER

This is a Work Order delivered pursuant to the Agreement For Consulting And Professional Services between Raytheon Company, Raytheon Engineers & Constructors International, Inc. and Washington Group International, Inc. (the "Services Agreement"). Defined terms used in this Work Order without definition have the meanings given them in the Services Agreement.

Work Order Number:

Project Name:

Principal Project Agreements:

Scope of Services to be Provided:

Applicable Performance Standard (pursuant to Section 3(a) of the Services Agreement):

Schedule for Services to be Performed:

Personnel Authorized to Perform Services:

Staffing Plans:

Not to Exceed Funding Authorization for Services:

Budgeting, Estimating, Approval, Funding, Payment and Reconciliation Procedure:

Payment Procedures:

Staffing:

Work Order Liaison for Consultant:

Work Order Liaison for Client:

SCHEDULE 12(a)

RATES AND CHARGES

Rates and Charges for Calculating Labor Costs and Out-of-Pocket Costs  
For Domestic U.S. Project Costs:

ENGINEERING AND HOME OFFICE SERVICES

- . Home Office Overhead Multiplier at 1.88 applied against W-2 wages of employees, contract services and consultants, including all overtime and overtime premiums.(1)
- . 2D CADD at \$10.10 applied against all 2D CADD hours.
- . 3D CADD at \$15.10 applied against all 3D CADD hours.
- . ODC surcharge for casual copying and prints, postage, phone long distance, and courier at \$2.00 applied against all Engineering & Home Office labor hours. Large volume in-house copying/printing charges to be addressed in specific work order.
- . Travel and all other expenses and costs will be reimbursed at cost.
- . Insurance charge at current rate times total invoice value including G&A and Fee (current rate is \$1.214/100 valid through 10/01/02).
- . G&A at 5.5% applied against total invoice value less G&A and Fee.(2)
- . Fee at 7.50% total invoice value of costs including G&A.

Note: Above rates for Engineering and Home Office services are also applicable for Offshore - Non-U.S. Domestic projects.

FIELD CONSTRUCTION OFFICE SERVICES

- . Field Office Multiplier at 1.49 applied against W-2 wages of employees, contract services and consultants, including all overtime and overtime premiums.(3)
- . Travel, per diem, and relocation costs per current policy and reimbursed at cost.
- . Craft labor will be reimbursed at cost including all applicable fringe benefits, payroll taxes and insurances.
- . All subcontractors, vendors and any and all other costs and expenses will be reimbursed at cost
- . Insurance charge at current rate times total invoice value including G&A and Fee (current rate is \$1.214/100 valid through 10/01/02).
- . G&A at 5.5% applied against total invoice value of costs less G&A and Fee.(4)
- . Fee at 7.50% total invoice value of costs including G&A.

Note: Short term field assignments by Engineering & Home Office personnel are considered Engineering and Home Office Services.

Notes (1) (2) (3) and (4): As of the effective date of this Agreement, the rates specified above reflect Washington's estimate of its actual costs to be submitted in order to establish U.S. Government provisional rates and are to be applied until the U.S. Government provisional rates are approved. Upon the approval of provisional rates by the U.S. Government, the rates specified above will be adjusted to reflect the

Government approved provisional rate and the adjusted approved provisional rates will be applied prospectively.

Rates and Charges for Calculating Labor Costs and Out-of-Pocket Costs  
For Offshore - Non-U.S. Domestic Project Costs:

## FIELD CONSTRUCTION OFFICE SERVICES

- . Field Office Overhead Multiplier at 1.49 applied against W-2 wages including uplifts and service bonus for employees, local hires, and Third Country Nationals (TCNs) including all overtime and overtime premiums. Overtime shall be applied in accordance with corporate procedures and U.S. labor law for U.S. expatriates and TCNs. Overtime shall be applied in accordance with local labor law for local hires.(1)
- . Foreign income and any excess US income taxes for expatriates as a result of tax equalization shall be reimbursed at cost.
- . Travel, per diem, relocation, home and emergency leave, and repatriation costs shall be per current project policy and reimbursed at cost.
- . Local housing costs and assignment benefits will be applied in accordance with site policy. These costs shall be reimbursed at cost.
- . Invoices from subcontracts, consultants, and purchased or rented equipment/materials/supplies/services shall be reimbursed at cost.
- . Contractor company owned equipment/supplies/tools shall be reimbursed at agreed to or established rates.
- . Bank charges and currency exchange variance expenses shall be reimbursed at cost.
- . Costs to receive, unload, and transship imported equipment including customs fees, duties, taxes, penalties, storage and handling costs and freight forwarding costs shall be reimbursed at cost.
- . Costs associated with obtaining permits, licenses, and building permits including legal fees shall be reimbursed at cost.
- . Costs associated with community relations, security, client-approved ceremonies, waste disposal, facilities, utilities and furniture (including those furnished to other organizations by Contractor) shall be reimbursed at cost.
- . VAT will be applied to the total invoiced value for equipment and material invoices and corporate withholding will also be applied to these invoices if applicable. Corporate withholding will also be applied to services invoices. VAT and corporate withholding will be reimbursed at actual cost.
- . All permanent plant equipment and material purchased under this contract shall remain the property of the Project owner. Any Project owner purchased permanent plant equipment that is not installed (i.e. spares or overages) will be returned to the Project owner for storage or salvage at the end of its use in completing the project.
- . Any and all other expenses and costs (e.g. mail, courier, telephone, vehicle maintenance, fuel, etc.) shall be reimbursed at cost.
- . Insurance charge at current rate times total invoice value including G&A and Fee (current rate is \$1.214/100 valid through 10/01/02).
- . G&A at 5.5% applied against total invoice value of costs less G&A and Fee.(2)
- . Fee at 7.50% total invoice value of costs including G&A.

Note: Short term international field assignments less than 30 days by Engineering and Home Office personnel are considered domestic services and will be invoiced per the Engineering and Home Office Service rates for domestic projects.

Notes (1) (2): As of the effective date of this Agreement, the rates specified above reflect Washington's estimate of its actual costs to be submitted in order to establish U.S. Government provisional rates and are to be applied until the U.S. Government provisional rates are approved. Upon the approval of provisional rates by the U.S. Government, the rates specified above will be adjusted to reflect the Government approved provisional rate and the adjusted approved provisional rates will be applied prospectively.

Raytheon Services Agreement  
Outstanding Costs

Ratchaburi

Invoice Number	Invoice Date	Amount Invoiced
01-800-01	01/09/02	82,249.36
01-900-01	01/09/02	44,291.22
01-800-02	01/16/02	88,347.57
01-900-03	01/16/02	158,301.28
Subtotal		373,189.43

Jindal

Invoice Number	Invoice Date	Amount Invoiced
11-100-01	11/21/01	134,042.05
12-300-02	12/12/01	13,058.41
01-300-01	1/9/02	9,249.98
01-200-01	1/9/02	4,096.24
01-100-01	1/9/02	14,520.76
01-100-02	1/16/02	10,201.15
Subtotal		185,168.59

Posven

Note: The following invoices have been presented to Raytheon for payment. Raytheon has not yet agreed to pay such amounts. WGI and Raytheon will meet (in person or by phone) to review these invoices and mutually agree within 45 days which invoices should be paid by Raytheon.

Invoice Number	Invoice Date	Amount Invoiced
10-700-04	10/17/01	233,045.26
10-500-03	10/17/01	13,235.68
10-400-03	10/17/01	76,758.22
10-700-05	10/24/01	74,702.42
10-500-04	10/24/01	16,704.10
10-400-04	10/24/01	786.79
10-700-06	10/31/01	(23,979.68)
10-600-01	10/31/01	43,284.10
10-500-05	10/31/01	12,629.23
11-700-01	11/7/01	4,630.17
11-400-01	11/7/01	18,620.93
11-700-02	11/14/01	8,751.89
11-700-03	11/21/01	13,434.70
11-700-04	11/28/01	5,749.95
11-500-05	11/28/01	40,650.08

12-700-02	12/12/01	224,655.84
12-500-01	12/12/01	25,171.72
12-700-02	12/26/01	3,979.42
12-500-02	12/26/01	18,317.41
01-700-02	1/7/02	5,804.06
01-600-02	1/7/02	165,246.13



01-500-01	1/3/02	6,480.69
01-500-02	1/16/02	19,516.03
01-700-03	1/16/02	53,862.63
Subtotal		1,062,037.77

SALTEND US\$

Invoice Number	Invoice Date	Amount Invoiced
01-110-01	1/9/02	95,893.21
01-110-02	1/9/02	9,176.90
01-110-03	1/17/02	4,978.92
01-110-04	1/21/02	30,491.40
Subtotal		140,540.43

Puerto Plata

1046333	30,241.25
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Damhead	67,339.00
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For continuing warranty work

Invoice to be prepared and parties will then review and mutually agree

Total US\$	1,858,516.47
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Saltend Pound Sterling

Invoice Number	Invoice Date	Amount Invoiced
22819-0039	1/8/02	96,657.66
22819-0040	1/8/02	61,910.12
22819-0041	1/8/02	24,528.70
22819-0042	1/8/02	16,542.30
22819-0043	1/8/02	61,597.96

Total Pound Sterling	261,236.74
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Daniel Liberman - Kmart Info

Page 1

From: Daniel Liberman  
 To: Chow, Pauline; Durrer, Van; Fenwick, R. Scott; Jones, Michael;  
 McDermott, Mark; Negron, Angeline; Pieper, Laura; Rooney, Kristin E.;  
 Thompson, Brian; Welch, Shea; Wharton, Joseph  
 Subject: Kmart Info

The attachments contain pdf versions of all of the first day motions and orders filed with the court. Tab 1 is the agenda. If it is necessary to forward a filing to someone, please use these pdfs and not the WordPerfect files on the system as they may differ. These pdfs will be loaded onto DocsOpen in the near future.

If someone contacts you asking simply for a copy of the filings, direct them to Landmark Document Services at 312-845-1000.

If someone contacts you regarding a general Kmart inquiry, the company has set up the following 800 number: cccccccccccccc

Finally, for your reference, the general number for legal inquiries that has been set up at Skadden is 312-407-0501.

Daniel

R. Marshall  
T. Montgomery  
D. Dickman  
K. Hughes  
M. Welch  
D. Burke  
P. Pezza  
L. Siedler  
R. Kinsella  
R. Smith  
C. Vilandre

Ernst & Young and S&W Representative(s) to be named

SCHEDULE 19  
FORM OF WGI (DELAWARE) GUARANTY

AGREEMENT FOR CONSULTING  
AND PROFESSIONAL SERVICES

WGI GUARANTY

This GUARANTY (this "Guaranty") is made as of January\_\_\_\_\_, 2002, by Washington Group International, Inc, a corporation organized and existing under the laws of Delaware, U.S.A. (the "Guarantor"), in favor of Raytheon Engineers & Constructors International, Inc., a corporation organized and existing under the laws of Delaware, U.S.A. ("RECI"), and Raytheon Company, a corporation organized and existing under the laws of Delaware, U.S.A. ("Parent", and together with RECI, "Raytheon").

WITNESSETH:

WHEREAS, Washington Group International, Inc., a corporation organized and existing under the laws of Ohio, U.S.A. ("Consultant") and Raytheon entered into that certain Agreement for Consulting and Professional Services dated as of January\_\_\_\_\_, 2002 (the "Services Agreement") whereby Consultant agreed to provide certain services and personnel to assist Raytheon in performing its obligations under the Support Agreements (as that term is defined in the Services Agreement);

WHEREAS, on May 14, 2001, Consultant and Guarantor each filed voluntary bankruptcy petitions (the "Original Bankruptcy Filing") in the United States Bankruptcy Court (the "Bankruptcy Court") for the District of Nevada;

WHEREAS, Consultant is a wholly-owned subsidiary of the Guarantor; and

WHEREAS, pursuant to Section 19(a) of the Services Agreement, Guarantor is required to unconditionally and irrevocably guaranty to Raytheon and its designees, the due and prompt performance and payment when due of each and every obligation, responsibility, undertaking, representation, warranty, covenant and agreement of Consultant under the Services Agreement;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Guarantor hereby agrees as follows:

ARTICLE I

DEFINITIONS

All capitalized terms not defined herein shall have the meanings ascribed to them in the Services Agreement.

## ARTICLE II

### GUARANTY

#### Section 2.1 Guaranty

(a) The Guarantor hereby unconditionally and irrevocably guarantees, as primary obligor, to Raytheon, the due and punctual payment and performance as and when due of the obligations, responsibilities, undertakings, representations, warranties, payment covenants, obligations and agreements of Consultant under the Services Agreement, including, without limitation, all damages provided for in the Services Agreement (other than damages expressly excluded therein) payable as a result of a default thereunder by Consultant. The Guarantor agrees, as the principal obligor and not as a guarantor only, to pay Raytheon, on demand, all costs and expenses (including court costs and reasonable attorneys' fees) incurred by Raytheon in the enforcement of any of its rights under this Guaranty, without setoff, counterclaim, recoupment or any other item of reduction.

(b) If, for any reason, Consultant shall fail duly and punctually to pay any such sum, or perform any such obligation, as provided in the Services Agreement, the Guarantor, subject to the terms of this Guaranty, shall (i) pay any such sum together with interest thereon, if any, as provided in the Services Agreement, and (ii) commence performance of such obligations as provided therein, in each case not later than five (5) days after the date of written notice from Raytheon, and thereafter diligently pursue completion of the same. In the event that the Consultant rejects or otherwise abandons its obligations under the Services Agreement, at the election of Raytheon, in its sole and absolute discretion, Guarantor shall, in performance of its obligations under this Guaranty, assume, and become primarily liable for all of Consultant's obligations under, the Services Agreement.

(c) This Guaranty shall be binding upon and enforceable against the Guarantor without regard to the genuineness, validity or enforceability of the Services Agreement or any term thereof or lack of power or authority of any party to enter into the Services Agreement or any amendments thereto, including any assignment or termination. This Guaranty is not, and shall not in any way be, conditioned or contingent upon any attempt to collect payment from or proceed against Consultant, any security held by or for the benefit of Raytheon in respect of Consultant or any other event or contingency.

#### Section 2.2 Court Approval.

Guarantor hereby represents and warrants, that it has obtained an order of the Bankruptcy Court authorizing Guarantor to enter into, deliver and perform this Guaranty and each and every obligation hereunder, including without limitation, each and every obligation of Consultant under the Services Agreement.

#### Section 2.3 Bankruptcy or Insolvency.

In the event that the Services Agreement shall be terminated as a result of the rejection or disaffirmance thereof by any trustee, receiver or liquidating agency of Consultant, or in the event of any rejection of any properties of Consultant in any assignment for the benefit of creditors or

any bankruptcy, insolvency, reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar proceeding (each, an "Insolvency Event"), the Guarantor's obligations hereunder shall continue to the same extent as if the Services Agreement had not been so rejected or disaffirmed. The Guarantor shall, and does hereby, waive all rights and benefits which might relieve, in whole or in part, the Guarantor from the performance of its duties and obligations hereunder by reason of any such proceeding, and the Guarantor agrees that it shall be liable for all sums, including all damages

owed by Consultant under the Services Agreement, and all obligations guaranteed by this Guaranty irrespective of, and without regard to, any modification, limitation or discharge of the liability of Consultant that may result from any such proceeding.

### ARTICLE III

#### ACKNOWLEDGMENT AND AGREEMENTS

##### Section 3.1 Obligations of Guarantor Absolute, etc.

(a) The obligations of the Guarantor hereunder shall be primary, original, absolute, unconditional, continuing and irrevocable, and shall not be subject to any counterclaim, setoff, deduction, abatement or defense based upon any claim the Guarantor may have against Consultant.

(b) The obligations of the Guarantor hereunder shall not be waived, modified or deemed to be excused or satisfied as the result of Guarantor's inability to perform its obligations hereunder due to any physical or legal impediments whatsoever. Without limiting the generality of the foregoing, Guarantor's obligations hereunder shall not be waived, modified, or deemed excused or satisfied, other than to the extent that Consultant's corresponding obligations are waived, modified, or deemed excused or satisfied, as the result of (i) force majeure, acts of god, or claims of impossibility or impracticality, (ii) the inability of Guarantor to obtain or maintain any necessary permits, licenses or qualifications, or (iii) the existence of any applicable law, ruling, judgment, decree or order which would otherwise prohibit or prevent Guarantor from performing its obligations hereunder. In the event that Guarantor does not perform any or all of its obligations under this Guaranty (and the Services Agreement), the Guarantor shall indemnify Raytheon for all costs and expenses (including reasonable attorneys' fees) arising from or in connection with such non-performance.

(c) The obligations of the Guarantor hereunder shall remain in full force and effect without regard to, and shall not be released, discharged or in any way impaired or affected by, any circumstance or condition (whether or not the Guarantor shall have any knowledge or notice thereof), including but not limited to:

(i) any amendment or modification of or supplement to the Services Agreement or any part thereof, or any assignment or transfer of any part thereof, or any furnishing or acceptance of additional security, or any release of any security or any failure or inability to perfect any security;

(ii) any failure on the part of Consultant to perform or comply with any term of the Services Agreement;

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(iii) the occurrence or continuance of any default by Consultant under the Services Agreement;

(iv) any waiver, consent, change, extension, indulgence, release or other action or inaction under or in respect of the Services Agreement or any exercise or nonexercise of any right, remedy, power or privilege under or in respect thereof;

(v) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or similar proceeding with respect to Consultant, any affiliate thereof, or any of its respective properties or creditors, or any action taken by any court, trustee, receiver or liquidating agent in any such proceeding, including, without limitation, any termination or rejection of the Services Agreement, or any assignment thereof by any court, trustee, receiver or liquidating agent of Consultant or the Guarantor or of any of their respective properties in any such proceeding or any other Insolvency Event;

(vi) any act, omission, misrepresentation or breach on the part of Consultant under the Services Agreement; or

(vii) any change in the direct or indirect ownership of Consultant or any other party to the Services Agreement or any change, whether direct or indirect, in the Guarantor's relationship to Consultant, including, without limitation, any change by reason of any merger or any sale, transfer, issuance, or other disposition of any stock of Consultant, the Guarantor or any other entity;

provided that the Guarantor shall be entitled to assert as a defense to performance under this Guaranty, to the extent Consultant would have the right to assert such defense under the Services Agreement, any defense which is available to Consultant under the Services Agreement, other than any defenses arising out of the matters described in clause (v) above, and it being understood, however, that the Guarantor shall be entitled to the benefits of any waiver by Raytheon with respect to, or any consent by Raytheon to departure from, the Services Agreement by Consultant.

### Section 3.2 Waiver

With respect to the obligations of the Guarantor under this Guaranty, the Guarantor irrevocably and unconditionally waives:

(a) Other than the notice required under Section 2.1(b) hereof, all notices which may be required by statute, rule of law or otherwise to preserve any rights against the Guarantor hereunder, including, without limitation, any demand, protest, presentment, proof of notice of non-payment of all sums, including damages, payable under the Services Agreement or any notice to the Guarantor of any failure on the part of Consultant to perform or comply with any covenant, term or obligation of the Services Agreement;

(b) any requirement for the enforcement, assertion or exercise of any right, remedy, power or privilege under or in respect of the Services Agreement;

(c) any requirement that Consultant be joined as a party to any proceedings for the enforcement of any provision of this Guaranty;

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(d) any other common law or statutory defense of a secondary obligor, guarantor or surety, including, without limitation, any defense based upon the impairment of any collateral securing any of Consultant's obligations under the Services Agreement; and

(e) any and all rights of subrogation to any of the rights of Raytheon or any other party, of any kind or nature whatsoever, arising from or in connection with the Services Agreement or this Guaranty.

### Section 3.3 Currency and Manner of Payment

All payments of collection and enforcement expenses owed under Section 2.1 above by the Guarantor under this Guaranty shall be made in U.S. dollars by wire transfer in immediately available funds to such accounts as Raytheon shall designate in writing.

### Section 3.4 Obligations Not Expanded

Except as specifically set forth in this Guaranty, the Guarantor shall under no circumstances whatsoever have any greater liability, obligation or duty under this Guaranty than if the Guarantor had been originally named as the Consultant under the Services Agreement.

## REPRESENTATIONS AND WARRANTIES

The Guarantor hereby represents and warrants as follows:

### Section 4.1 Authority

The Guarantor is a corporation duly organized and validly existing under the laws of the State of Delaware, U.S.A., and has all requisite power and authority to execute, deliver and perform this Guaranty in accordance with the terms hereof, to own and operate its properties and to carry on its business. All necessary actions to authorize the Guarantor's execution, delivery, and performance of this Guaranty have been taken. This Guaranty has been duly executed and delivered by the Guarantor and constitutes its legal, valid, and binding obligation enforceable against it in accordance with the terms hereof, except as the enforceability hereof may be limited by bankruptcy, insolvency, reorganization, or other similar laws affecting the enforcement of creditors' rights generally or general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law).

### Section 4.2 No Consent

All authorizations, licenses, permits and other governmental approvals that are necessary for the execution and delivery by the Guarantor of this Guaranty and the performance of its obligations hereunder have been duly obtained and are in full force and effect.

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### Section 4.3 No Violation or Conflict

The execution, delivery, and performance by the Guarantor of this Guaranty do not require the consent or approval of any of its creditors and will not conflict with or constitute a breach or default under or violate any provision of the charter documents of the Guarantor or constitute a material breach or default under any agreement to which the Guarantor is a party.

## ARTICLE V

### MISCELLANEOUS

### Section 5.1 Benefit of Guaranty

Nothing in this Guaranty, or implied herein, shall give or be construed to give to any person other than Raytheon, and its successors and permitted assigns hereunder, any legal or equitable right, remedy or claim under this Guaranty, or under any covenant or provision herein contained, all such covenants and provisions being for the sole benefit of Raytheon.

### Section 5.2 Successors or Assigns

(a) This Guaranty shall bind the successors and assigns of the Guarantor and shall inure to the benefit of Raytheon and its successors and assigns.

(b) The Guarantor hereby consents to any assignment of this Guaranty in whole or in part by Raytheon, after Guarantor receives reasonable written notice thereof. No assignment of this Guaranty, nor any delegation of Guarantor's duties hereunder, may be made by the Guarantor without the prior written consent of Raytheon.

### Section 5.3 Notices

Each notice, demand, report, or communication relating to this Guaranty shall be in writing, shall be hand-delivered or sent by registered mail (postage prepaid, return receipt requested) or by facsimile transmission (with a copy sent by registered mail, postage prepaid, return receipt requested, which copy

shall not be required to effect notice), and shall be deemed duly given when sent to the following addresses, or to such other address or number as each party shall have last specified by notice to the other parties.

If to Raytheon, to:

Raytheon Engineers & Constructors International, Inc.  
141 Spring Street  
Lexington, MA 02173  
Attention: General Counsel  
Telephone: (781) 860-2681  
Facsimile: (781) 860-2924

with a copy sent contemporaneously to Raytheon's counsel at:

Bingham Dana LLP  
150 Federal Street  
Boston, MA 02110

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Attention: John R. Utzschneider, Esq.  
Telephone: (617) 951-8852  
Facsimile: (617) 951-8736

If to Guarantor, to:

Washington Group International  
Attn: Louis E. Pardi  
Executive Vice President  
510 Carnegie Center Blvd  
Post Office Box 5287  
Princeton, NJ 08543-5287  
Telephone: (609) 720-3337  
Facsimile: (609) 720-3101

#### Section 5.4 Counterparts

This Guaranty may be executed in separate counterparts, each of which when so executed and delivered, shall be deemed an original and shall together constitute but one and the same instrument.

#### Section 5.5 Governing Law

This Guaranty shall be governed by and construed in accordance with the laws of the State of New York, United States of America, without regard to the conflict of law rules thereof other than Section 5-1401 of the General Obligations Law of the State of New York. Any action or other proceeding brought under or in connection with this Guaranty and the transactions contemplated hereby shall be brought and heard only in an appropriate state or federal court located in the State of New York, U.S.A. Each of Guarantor and Raytheon acknowledges and agrees that such courts shall have exclusive jurisdiction to interpret and enforce the provisions of this Guaranty, and each of them hereby waives any and all objections that they might have as to personal jurisdiction or venue in any of the above courts.

#### Section 5.6 Termination

The obligations of the Guarantor hereunder shall terminate upon the date on which all of the obligations of Consultant under the Services Agreement have been discharged; provided that this Guaranty shall be reinstated if at any time any payment made prior to termination of this Guaranty in accordance with its terms is rescinded or must otherwise be returned upon the bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or similar proceeding with respect to Consultant or its properties, all as though such payment had not been made.

Section 5.7 Entire Agreement

This Guaranty constitutes the entire agreement between the Guarantor and Raytheon with respect to the subject matter hereof and supersedes all prior agreements, whether written or oral, with respect to the subject matter contained in this Guaranty.

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Section 5.8 Amendments

No amendment or modification of all or any part of this Guaranty shall be effective unless in writing and signed by the Guarantor and Raytheon.

Section 5.9 Severability

If any provision of this Guaranty is prohibited or held to be invalid, illegal or unenforceable in any jurisdiction, the parties hereto agree to the fullest extent permitted by law that the validity, legality and enforceability of the other provisions in such jurisdiction shall not be affected or impaired thereby.

[Signature Page to Follow]

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IN WITNESS WHEREOF, the Guarantor has executed this WGI Dealware Guaranty (Services Agreement) and each of RECI and Parent acknowledged and accepted the same as of the day and year first set forth above.

GUARANTOR

Washington Group International, Inc.,  
a Delaware Corporation

By: /s/ Richard D. Parry

-----  
Name: Richard D. Parry  
Title: Sr. Vice President & General  
Counsel

Acknowledged and Accepted:

Raytheon Company,  
a Delaware Corporation

By: /s/ Neal E. Minahan

-----  
Name : Neal E. Minahan  
Title: Sr. Vice President and General Counsel

Raytheon Engineers & Constructions  
International, Inc.,  
a Delaware corporation

By: /s/ William J. Ferguson, Jr.

-----  
Name : William J. Ferguson, Jr.  
Title: Sr. Vice President, Secretary and General Counsel



CLIENT PARTIES WITH ACCESS

B.Marshall  
T.Montgomery  
D.Dickman  
K.Hughes  
M.Welch  
D.Burke  
P.Pezza  
L.Sielder  
R.Kinsella  
R.Smith  
C.Vilandre

E&Y and S&W Representative(s) to be named

Schedule 2

Assigned Claims

CLAIMS FILED BY RAYTHEON COMPANY AS ASSIGNEE OF CLAIMS

NO.	CREDITOR (ASSIGNEE)	ASSIGNOR	DEBTOR NAME	CASE NO.	AMOUNT
1.	Raytheon Company	R. Subramanian & Co.	Badger Energy, Inc.	BK-N-01-31639	\$ 3,726.00
2.	Raytheon Company	Thelen Reid & Priest LLP	Badger Energy, Inc.	BK-N-01-31639	\$ 151,116.14
3.	Raytheon Company	Titus & Co.	Badger Energy, Inc.	BK-N-01-31639	\$ 83,813.75
4.	Raytheon Company	Baker & McKenzie	Energy Overseas International, Inc.	BK-N-01-31645	\$ 151,840.48
5.	Raytheon Company	Thelen Reid & Priest LLP	Energy Overseas International, Inc.	BK-N-01-31645	See #s 2,9 and 14
6.	Raytheon Company	Bendinger, Crockett, Petterson & Casey, A Professional Corporation	Harbert-Yeargin, Inc.	BK-N-01-31663	\$ 8,337.27
7.	Raytheon Company	Stumpf Craddock Massey & Pulman, A Professional Corporation	McBride-Ratcliff & Associates, Inc.	BK-N-01-31649	\$ 2,404.60
8.	Raytheon Company	Boies Schiller & Flexner LLP	Raytheon-Ebasco Overseas, Ltd.	BK-N-01-31665	\$ 74,603.00
9.	Raytheon Company	Thelen Reid & Priest LLP	Raytheon-Ebasco Overseas, Ltd.	BK-N-01-31665	See#2
10.	Raytheon Company	Titus & Co.	Raytheon-Ebasco Overseas, Ltd.	BK-N-01-31665	See#3
11.	Raytheon Company	R. Subramanian	Raytheon-Ebasco Overseas, Ltd.	BK-N-01-31665	See#1
12.	Raytheon Company	Baker & McKenzie	United Engineers International, Inc.	BK-N-01-31681	See#4
13.	Raytheon Company	Gadsby Hannah	United	BK-N-01-31681	\$ 25,422.00

		LLP	Engineers International, Inc.			
14.	Raytheon Company	Thelen Reid & Priest LLP	United Engineers International, Inc.	BK-N-01-31681	\$	202,874.44
15.	Raytheon Company	Law Firm of Salah Al Hejailan	United Mid-East, Inc.	BK-N-01-31682	\$	5,398.00
16.	Raytheon Company	Thelen Reid & Priest LLP	United Mid-East, Inc.	BK-N-01-31682	\$	172.00
17.	Raytheon Company	Bingham Dana LLP	Washington Catalytic Inc.	BK-N-01-31660	\$	262,810.69
18.	Raytheon Company	O'Neill Fernandez Gilmore & Perez-Ochao, P.S.C.	Washington Catalytic Inc.	BK-N-01-31660	\$	23,685.69
19.	Raytheon Company	Beckman Kelly & Smith	Washington Group International, Inc. (Ohio)	BK-N-01-31628	\$	196.60
20.	Raytheon Company	Conway & Mrowniec	Washington Group International, Inc. (Ohio)	BK-N-01-31628	\$	60,922.89
21.	Raytheon Company	Eichleay Engineers Inc.	Washington Group International, Inc. (Ohio)	BK-N-01-31628	\$	4,081.07
22.	Raytheon Company	Gadsby Hannah LLP	Washington Group International, Inc. (Ohio)	BK-N-01-31628		See#13
23.	Raytheon Company	Smith Pachter McWhorter & Allen, P.L.C.	Washington Group International, Inc. (Ohio)	BK-N-01-31628	\$	160,947.11
24.	Raytheon Company	Thelen Reid & Priest LLP	Washington Group International, Inc. (Ohio)	BK-N-01-31628	\$	46,516.05
25.	Raytheon Company	Tucker Alan	Washington Group International, Inc. (Ohio)	BK-N-01-31628	\$	4,158.00
26.	Raytheon Company	Venable, Baetjer and Howard, LLP	Washington Group International, Inc. (Ohio)	BK-N-01-31628	\$	1,860.00
27.	Raytheon Company	Voller & Associates	Washington Group International, Inc. (Ohio)	BK-N-01-31628	\$	1,260.00
28.	Raytheon Company	HDH Construction Consultants, Inc.	Washington International Inc.	BK-N-01-31690	\$	138,923.22
29.	Raytheon Company	Arent Fox Kintner Plotkin & Kahn PLLC	Washing Group International, Inc. (Ohio)	BK-N-01-31628	\$	96,458.99
30.	Raytheon Company	Arent Fox	United	BK-N-01-31681		See 329

Subtotal: \$ 1,511,528.22

CLAIMS FILED BY FIRMS; THEN ASSIGNED; RAYTHEON TO FILE TRANSFER NOTICES

NO.	FIRM	DEBTOR	CASE NO.	AMOUNT
31.	Hicks Boyd Chandler and Falcone LLP	Washington Group International, Inc. (Del)	BK-N-01-31627	\$ 7,460.53
32.	Ashby & Geddes, P.A.	Washington Group International Inc. (Del)	BK-N-01-31627	\$ 8,588.59
33.	Watt, Tieder, Hoffar & Fitzgerald, L.L.P.	Washington Group International Inc. (Del)	BK-N-01-31627	\$ 4,971.54
34.	Watt, Tieder, Hoffar & Fitzgerald, L.L.P.	Washington Group International Inc. (Del)	BK-N-01-31627	\$ 642,879.37
35.	Seyfarth Shaw	Washington Group International Inc. (Del)	BK-N-01-31627	\$ 105,709.46
36.	Seyfarth Shaw	Washington Group International Inc. (Del)	BK-N-01-31627	\$ 14,471.46
Subtotal:				\$ 784,080.95
Total:				\$ 2,295,609.17

CLAIMS ASSERTED IN PROCEEDINGS IN THE HAGUE (WBV)

NO.	FIRM	AMOUNT
37.	Venable, Baetjer and Howard LLP	\$ 17,422.32
38.	Kennedy Van der Laan	\$ 36,299.75 EURO
39.	Bieten	-no response-
40.	Trett Consulting	-no response-

NON-DEBTOR SUBSIDIARIES

. Albany Cogeneration Associates, L.P.  
. Badger-SMAS Ltd.

- . Broadway Insurance Company, Ltd.
- . Canadian Badger Company, Ltd.
- . Catalytic Servicios, C.A.
- . Constructora MK de Mexico, S.A. de C.V.
- . Cosa-United, C.A.
- . data-Cache Corporation
- . Denver West Remediation & Construction, LLC
- . DISA-Raytheon Ingeniera y Construction, S. de R.L. de V.V.
- . Dulles Transit Partners, LLC
- . Emkay Canada Natural Resources, Ltd.
- . FD/MK Limited Liability Company
- . Gibsin Engineers, Ltd.
- . Gramatages & Associates
- . Grupo Internacional Coahuila, S.A. de C.V.
- . Hampton Roads Public/Private Development, LLC
- . Honeychild Direct Limited
- . International Refinery Contractors (IRC) B.V.
- . International Refinery Contractors C.V.
- . International Refinery Contractors C.V.
- . Johnson Controls Northern New Mexico, LLC
- . Jordan Rail W.L.L.
- . Meralco Industrial Engineering Services Corporation
- . Mibrag B.V.
- . Minerva Maraycasa, S.A.
- . Mitteldeutsche Braunkohlengesellschaft GmbH
- . MK Engineers and Contractors, S.A. de C.V.
- . MK/BNFL Commercial Nuclear Services LLC
- . MKF Facilities Managements, Ltd.
- . MKF Leasing L.P.
- . Morrison Knudsen B.V.
- . Morrison Knudsen Deutschland GmbH
- . Morrison Knudsen do Brasil Ltda.
- . Morrison Knudsen Engenharia, S.A.
- . Morrison-Knudsen Engineering Consulting (Shanghai) Company, Ltd.
- . Morrison Knudsen Fort Knox Project Ltd., L.L.C.
- . Morrison Knudsen Industrial GmbH
- . Morrison Knudsen International Trading (Shanghai) Company, Ltd.
- . Morrison Knudsen Leasing Corporation
- . Morrison Knudsen MISR LLC
- . Morrison Knudsen Overseas PTE Ltd.
- . Morrison Knudsen Peru Services, S.A.
- . Morrison Knudsen Peru Sociedad de Responsabilidad Limitada
- . Morrison Knudsen Polska Sp.zo.o
- . Morrison Knudsen Thailand Limited
- . Morrison Knudsen Umwelt GmbH
- . Morrison Knudsen Venezuela S.A.
- . MYA Badger SNC
- . Northern Construction Company, Ltd.
- . Oak Ridge Site Maintenance Services, LLC
- . Platte River Constructors, Ltd. LLC
- . Posven C.A.
- . PT Morrison Knudsen Indonesia
- . PT Power Jawa Barat
- . Raytheon Constructors do Brasil, Ltd.
- . Raytheon Engineers & Constructors (Bermuda) Ltd.
- . Raytheon Engineers & Constructors (Canada) Ltd.
- . Raytheon Engineers & Constructors France S.a.r.l.
- . Raytheon Engineers & Constructors Germany GmbH
- . Raytheon Engineers & Constructors Italy S.r.l.
- . Raytheon Engineers & Constructors Mauritius, Ltd.
- . Raytheon Engineers & Constructors Pty, Ltd.
- . Raytheon Infrastructure Inc.
- . Raytheon UAE Enterprises, LLC
- . Rocky Mountain Remediation Services, LLC
- . Safe Sites of Colorado, LLC(Rocky Flats)
- . Secore, LLC
- . SGT Ltd.
- . Shanghai Ebasco-ECEPDI Engineering Corporation

- . Stearns Catalytic Ingenieria y Construccion Chile Limitada
- . Thai Refinery Constructors
- . Triptych International, LLC
- . Twenty-First Century Rail Corporation
- . UME/SMAS, Ltd.
- . Washington Engineers PSC
- . Washington Group (Malaysia) Sdn. Bhd.
- . Washington Group International Hungary Kft
- . Washington Group Romania S.R.L.
- . Washington International B.V.
- . Washington International Holding Limited
- . Washington Senggara Sdn. Bhd.
- . Washington Transportation Partners, LLC
- . West Valley Nuclear Services Company, LLC
- . Westinghouse Government Environmental Services Company LLC
- . Westinghouse Government Services Company, LLC
- . Westinghouse KAPL, LLC
- . Westinghouse Safety Management Solutions, LLC
- . Westinghouse Savannah River Company, LLC
- . Westinghouse TRU Solutions, LLC (WID GOCO)
- . Westinghouse Y-12 Company, LLC
- . Westmoreland Resources, Inc.
- . WGNH Acquisition, LLC
- . WSMS Mid-America, LLC
- . WSMS-MK, LLC

#### JOINT VENTURES

- . Alberici/MK New Venture Gear JV
- . Atkinson - Washington - Zachry, A Joint Venture (West Dam)
- . Brown & Root Raytheon Joint Venture
- . Consortium Agreement (Washington Infrastructure Services, Inc.)
- . Consortium Agreement (Siemens/Westinghouse Power Corp.)  
(Harqughalaa)
- . Consortium Agreement (Washington Group International, Inc. (OH) &  
BNFL USA Group Inc.)
- . Consortium Agreement (Washington Group International, Inc. (OH) & ABB)
- . Consortium Agreement (Washington Group International, Inc. (OH) &  
Mitsubishi)
- . Consortium Agreement (Washington Group International, Inc. (OH) &  
Mitsubishi)
- . Consortium Agreement (Washington Group International, Inc. (OH) &  
Foster Wheeler Ingr.)
- . Consortium Agreement (Washington Group International, Inc. (OH) &  
Bharat Heavy Electricals Limited (BHEL))
- . Consortium Agreement (Washington Group International, Inc. (OH) &  
General Electric)
- . Consortium Agreement (Washington Group International, Inc. (OH) &  
General Electric)
- . Consortim Agreement (United Engineers International, Inc. & Mitsubishi  
Heavy Industries)
- . Consortim Agreement (United Engineers International, Inc. & Mitsubishi  
Corporation)
- . Eight Mile Construction Managers
- . Florida Toll Services
- . G/UB/MK Constructors
- . Hill/MK Joint Venture
- . HNTB/UE&C Joint Venture
- . Holmes & Narver Raytheon
- . ICC (International Consortium Chernobyl) Joint Venture
- . ICC (MK) Joint Venture
- . International Technical Team, Kosovo Consortium, Ltd.
- . kali Gandaki "A" Associates
- . Kiewit/Washington, a Joint Venture
- . Kiewit/Kasler, a Joint Venture
- . LMK Joint Venture (British Airways)

- . LMK Joint Venture (Knowledge Center)
- . MK/Contract Payer Forge JV
- . MK/IDC
- . MK/Lane
- . MK/MC Joint Venture
- . MK/MW
- . MK-Alberici Brazil Joint Venture
- . MKC/PB
- . MKC/PTG
- . MK-HAS
- . MKK Constructors
- . MKK Leasing
- . Morrison Knudsen/Traylor Brothers/Weeks Marine dba MKTW-JV
- . National Missile Defense Constructors
- . NYC DOT
- . PB/MK Tasman Team
- . Raytheon Engineers & Constructors
- . Tang/Eng/MK
- . TMI
- . Tri-County Rail Constructors, A Joint Venture
- . Sunland Remediations
- . Unnamed (Client is Altabani General Contractor)
- . Unnamed (Client USAID)
- . Unnamed (Client USAID)
- . Unnamed (Client USAID)
- . unnamed (Client is U.S. Army) (Pueblo Chemical Agent Disposal)
- . Upper Egypt Constructors
- . Utah Transit Constructors
- . Wasatch Constructors
- . Washington - Odebrecht Joint Venture
- . Washington Staubach Addison Airport Venture
- . Washington/Granite Joint Venture
- . UE & C Urban Services, Joint Venture

#### SCHEDULE 4

##### SUBSIDIARY DEBTORS

- . Asia Badger, Inc.
- . Badger America, Inc.
- . Badger Energy, Inc.
- . Badger Middle East, Inc.
- . Catalytic Industrial Maintenance Co., Inc.
- . CF Environmental Corporation
- . Cia International de Ingenieria, S.A.
- . Ebasco International Corporation
- . Emkay Capital Investments, Inc.
- . Gulf Design Corporation
- . Herbert-Yeargin, Inc.
- . HCC Holding, Inc.
- . Industrial Constructors Corp.
- . Jackson & Moreland International, Inc.
- . McBride-Ratcliff & Associates, Inc.
- . MK Aviation Services, Inc.
- . MK Capital Company
- . MK Construction, Inc.
- . MK Nevada, LLC
- . MK Train Control, Inc.
- . MK-Ferguson Engineering Company
- . MK-Ferguson of Idaho Company
- . MK-Ferguson of Oak Ridge Company
- . Morrison Knudsen Corporation of Viet Nam
- . Morrison Knudsen Company, Inc.
- . Morrison Knudsen Engineers, Inc.

. Morrison Knudsen Leasing Corporation  
. Morrison Knudsen Services, Inc.  
. National Projects Southwest, Inc.  
. National Projects, Inc.  
. Pomeroy Corporation  
. Raytheon Architects, Ltd.  
. Raytheon Constructors International, Inc.  
. Raytheon Engineering Quality Services Corporation  
. Raytheon Engineering & Constructors (Aruba) Ltd.  
. Raytheon Engineering & Constructors (Ireland) Ltd.  
. Raytheon Engineering & Constructors (Panama) Ltd.  
. Raytheon Engineering & Constructors (Russia) Ltd.  
. Raytheon Engineering & Constructors (Trinidad & Tobago) Ltd.  
. Raytheon Engineering & Constructors Latin America Inc.  
. Raytheon Engineering & Constructors Middle East, Ltd.  
. Raytheon Engineering & Constructors Midwest Inc.  
. Raytheon Engineering & Constructors Midwest, LLC  
. Raytheon Nuclear, Inc.  
. Raytheon-Ebasco Indonesia, Ltd.  
. Raytheon-Ebasco Overseas, Ltd.  
. Raytheon-Ebasco Pakistan, Ltd.  
. Raytheon Quality Inspection Company  
. Rust Constructors Inc.  
. Rust Constructors Puerto Rico, Inc.  
. Speciality Technical Services, Inc.  
. Steams Catalytic Corporation  
. United Engineers Far East, Ltd.  
. United Engineers International, Inc.  
. United Mid-East, Inc.  
. Washington Architects, LLC  
. Washington Construction Corporation  
. Washington Demilitarization Company  
. Washington Electrical, Inc.  
. Washington Group International, Inc.(DE)  
. Washington Group International, Inc.(OH)  
. Washington Infrastructure Services, Inc.  
. Washington International, Inc.  
. Washington International, L.L.C.  
. Washington Ohio Services, LLC  
. Washington Quality Programs Company  
. Washington-Catalytic Inc.  
. WCG Holdings, Inc.  
. WCG Leasing, Inc.  
. Yampa Mining Co.

RAYTHEON COMPANY  
 STATEMENT REGARDING COMPUTATION OF  
 RATIO OF EARNINGS TO COMBINED FIXED CHARGES  
 AND PREFERRED STOCK DIVIDENDS  
 (dollar amounts in millions except for ratio)  
 (excludes RE&C and AIS for all periods  
 except for interest, which includes RE&C and AIS)

	1998	1999	2000	2001	2002
Income (loss) from continuing operations before taxes per statements of income	\$ 1,573	\$ 953	\$ 832	\$ 124	\$ 1,074
Add:					
Fixed charges	813	859	876	807	668
Amortization of capitalized interest	2	2	2	2	2
Less:					
Capitalized interest	2	2	2	1	--
Income as adjusted	\$ 2,386	\$ 1,812	\$ 1,708	\$ 932	\$ 1,744
Fixed charges:					
Portion of rents representative of interest factor	\$ 72	\$ 117	\$ 95	\$ 92	\$ 92
Interest costs	739	740	779	714	576
Capitalized interest	2	2	2	1	--
Fixed charges	813	859	876	807	668
Equity security distributions	--	--	--	48 / (1) /	15
Combined fixed charges and preferred stock dividends	\$ 813	\$ 859	\$ 876	\$ 855	\$ 683
Ratio of earnings to combined fixed charges and preferred stock dividends	2.9	2.1	1.9	1.1	2.6

- (1) Earnings of \$48 million were required to cover \$7 million of equity security distributions because the Company's effective tax rate for the year ended December 31, 2001 was 85.5 percent.



## Raytheon Company Organizational Chart

Raytheon Company		
	Amber Engineering, Inc.	100.000000% California
(P)	HRL Laboratories, LLC	33.333333% Delaware
	HRL Research Analytics, Inc.	100.000000% Delaware
	Thornwood Trust	100.000000% Massachusetts
	Constellation Communications, Inc.	31.900000% Delaware
	Data Logic, Inc.	100.000000% Delaware
	Electronica Nayarit, S.A.	100.000000% Mexico
(P)	ERAPSCO	50.000000% Delaware
	ESY Export Company, Inc.	100.000000% Delaware
	E-Systems Technologies Holding, Inc.	100.000000% Delaware
	E-Systems Technologies International, Inc.	100.000000% Virgin Islands
	EverythingAircraft LLC	100.000000% Delaware
(I,P)	H & R Company	100.000000% Delaware
(P)	HE Microwave LLC	50.000000% Delaware
	Holwood Realty Company	100.000000% Delaware
(I)	Hughes Airport Development Corporation Sdn Bhd	100.000000% Malaysia
(I)	Hughes Asia Pacific Hong Kong Limited	0.100000% Hong Kong
(I)	Hughes Europe N.V.	99.900000% Belgium
(I)	Hughes Training Italia Srl	100.000000% Italy
(JV)	Indra ATM S.L.	49.000000% Spain
	International Electronics Systems, Inc.	100.000000% California
(JV)	HKV	50.000000% Delaware
	Marshall Insurance Group, Ltd.	100.000000% Bermuda
	Patriot Overseas Support Company	100.000000% Delaware
(JV)	RAYCOM, INC.	51.000000%

## Korea

Raytag Limited		100.000000% Delaware
	TAG Halbleiter GmbH	100.000000% Germany
	Raytheon Advanced Systems Company	100.000000% Delaware
	Raytheon Air Control Company	100.000000% Delaware
	Raytheon Aircraft Holdings, Inc.	100.000000% Delaware
	Raytheon Aircraft Charter & Management, Inc.	100.000000% Kansas
	Raytheon Aircraft Company	100.000000% Kansas
	Arkansas Aerospace, Inc.	100.000000% Arkansas
	Raytheon Aircraft (Bermuda) Ltd.	100.000000% Bermuda
	Raytheon Aircraft Parts Inventory & Distribution Company	100.000000% Kansas
	Raytheon Aircraft Quality Support Company	100.000000% Kansas
	Raytheon Aircraft Credit Corporation	100.000000% Kansas
	Beech Aircraft Leasing, Inc.	100.000000% Kansas
	Beech Airliner Lease Corporation	100.000000% Kansas
	Beechcraft BB-209 Leasing, Inc.	100.000000% Kansas
	Beechcraft Lease Corporation	100.000000% Kansas
	Beechcraft Lease Special Purpose Company	100.000000% Kansas
	Beechcraft UC-131 Leasing, Inc.	100.000000% Kansas
	Beechcraft UC-134 Leasing, Inc.	100.000000% Kansas
	Beechcraft UC-163 Leasing, Inc.	100.000000% Kansas
	Beechcraft UC-58 Leasing, Inc.	100.000000% Kansas
	Beechcraft UC-74 Leasing, Inc.	100.000000% Kansas
	Beechcraft UE-106 Leasing, Inc.	100.000000% Kansas
	Beechcraft UE-305 Leasing, Inc.	100.000000% Kansas
	Beechcraft UE-307 Leasing, Inc.	100.000000% Kansas
	Beechcraft UE-308 Leasing, Inc.	100.000000% Kansas
	Beechcraft UE-311 Leasing, Inc.	100.000000% Kansas
	Beechcraft UE-322 Leasing, Inc.	100.000000% Kansas
	Beechcraft UE-331 Leasing, Inc.	100.000000% Kansas
	Beechcraft UE-348 Leasing, Inc.	100.000000% Kansas

## Raytheon Company Organizational Chart

	Beechcraft UE-349 Leasing, Inc.	100.000000% Kansas
	Beechcraft UE-50 Leasing, Inc.	100.000000% Kansas
	Beechcraft UE-54 Leasing, Inc.	100.000000% Kansas
	Franco-American Lease Corporation	100.000000% Kansas
	Franco-Kansas Lease Corporation	100.000000% Kansas
	Great Lakes Aviation, Ltd.	46.225253% Iowa
	International Lease Corporation	100.000000% Kansas
	Kansas Beechcraft Leasing, Inc.	100.000000% Kansas
	Raytheon Aircraft Credit Lease Corporation	100.000000% Kansas
	Raytheon Aircraft Credit Special Purpose Company	100.000000% Kansas
	Raytheon Aircraft Lease Corporation	100.000000% Kansas
	Raytheon Aircraft Lease Special Purpose Company	100.000000% Kansas
	Raytheon Aircraft Leasing, Inc.	100.000000% Kansas
	Raytheon Aircraft Receivables Corporation	100.000000% Kansas
	Raytheon Aircraft Special Purpose Company	100.000000% Kansas
	Raytheon Airline Aviation Services LLC	100.000000% Kansas
	Raytheon Airliner Lease Corporation	100.000000% Kansas
	Raytheon-Kansas Lease Corporation	100.000000% Kansas
	UE-311 Leasing Corporation	100.000000% Kansas
	Raytheon Aircraft Regional Offices, Inc.	100.000000% Kansas
	Raytheon Aircraft Services, Inc.	100.000000% Kansas
	Raytheon Philippines, Inc.	99.980000% Republic of the Philippines
	Raytheon Travel Air Company	100.000000% Kansas

	Flight Options, LLC	49.900000%	Delaware
	Travel Air Insurance Company Ltd.	100.000000%	Kansas
	Travel Air Insurance Company (Kansas)	100.000000%	Kansas
	Raytheon Aircraft Systems International	100.000000%	California
(I)	Hughes Europe N.V.	0.100000%	Belgium
	Raytheon Systems Holding Company LLC	35.000000%	Delaware
(JV)	Thales-Raytheon Systems Company Limited	50.000000%	Ireland
	Thales-Raytheon Systems Company LLC	99.000000%	Delaware
	ACCSCO S.A.	27.000000%	Belgium
	Advanced Electronics Systems International L.P.	99.000000%	Delaware
(JV)	Air Command Systems International S.A.S.	50.000000%	France
	Command and Control Systems Company LLC	100.000000%	Delaware
	Advanced Electronics Systems International L.P.	1.000000%	Delaware
	Command and Control Systems International L.P.	1.000000%	Delaware
	Raytheon Aircraft Systems International L.P.	1.000000%	Delaware
	Thales Raytheon Systems Arabia L.P.	1.000000%	Delaware
	Command and Control Systems International L.P.	99.000000%	Delaware
	Raytheon Aircraft Systems International L.P.	99.000000%	Delaware
	Raytheon Mideast Systems Company LLC	100.000000%	Delaware
	First Communications Company	49.000000%	Saudi Arabia
	Thales Raytheon Systems Arabia L.P.	99.000000%	Delaware
(JV)	Thales-Raytheon Systems Company SAS	99.000000%	France
	Air Command Systems International S.A.S.	50.000000%	France
	Thales-Raytheon Systems Company LLC	1.000000%	Delaware
	ACCSCO S.A.	27.000000%	Belgium
	Advanced Electronics Systems International L.P.	99.000000%	Delaware
	Air Command Systems International S.A.S.	50.000000%	France
	Command and Control Systems Company LLC	100.000000%	Delaware
	Advanced Electronics Systems International L.P.	1.000000%	Delaware
	Command and Control Systems International L.P.	1.000000%	Delaware
	Raytheon Aircraft Systems International L.P.	1.000000%	Delaware
	Thales Raytheon Systems Arabia L.P.	1.000000%	Delaware

Raytheon Company Organizational Chart

	Command and Control Systems International L.P.	99.000000%	Delaware
	Raytheon Aircraft Systems International L.P.	99.000000%	Delaware
	Raytheon Mideast Systems Company LLC	100.000000%	Delaware
	First Communications Company	49.000000%	Saudi Arabia
	Thales Raytheon Systems Arabia L.P.	99.000000%	Delaware
	Raytheon Appliances Asia, Inc.	100.000000%	Delaware
	Raytheon Australia International PTY Limited	0.001667%	Australia
	Raytheon Australia Pty Ltd.	100.000000%	Australia
	Aerospace Group Pty Ltd.	100.000000%	Australia
	Aerospace Technical Services Pty Ltd.	100.000000%	Australia
	Raytheon Brasil Sistemas De Integracao Ltda	99.999081%	Brazil
	Raytheon Canada Ltd.	100.000000%	Canada
	Advanced Toll Management Corp.	100.000000%	Canada
	Raytheon Charitable Foundation	100.000000%	Massachusetts
	Raytheon Commercial Ventures, Inc.	100.000000%	Delaware
	Raytheon Corporate Operations, Washington Inc.	100.000000%	Delaware
	Raytheon Credit Company	100.000000%	Delaware
	Raytheon Deutschland GmbH	100.000000%	Germany
	Raytheon Marine G.m.b.H.	100.000000%	Germany
	Anschutz Japan Co. Ltd.	80.000000%	Japan
	Raytheon ESSM Co.	100.000000%	California
(I, P)	Raytheon Engineering and Maintenance Company	100.000000%	Delaware
	Raytheon Saudi Arabia Limited	35.000000%	Saudi Arabia
	Raytheon Engineers & Constructors International, Inc.	100.000000%	Delaware
	RE&C Receivables Corporation	100.000000%	Delaware
	Raytheon Espana Limited	100.000000%	Delaware
	Raytheon Espana, S.A.	99.999836%	Spain
	Raytheon Europe International Company	100.000000%	Delaware
	Raytheon Europe Management Services Ltd.	100.000000%	Delaware
	Raytheon European Management Co., Inc.	100.000000%	Delaware
	Raytheon European Management and Systems Company	100.000000%	Delaware
	Raytheon Exchange Holdings II, Inc.	100.000000%	Delaware
(P)	Exostar LLC	5.503000%	Delaware
	Raytheon Exchange Holdings III, Inc.	100.000000%	Delaware
(P)	Exostar LLC	5.503000%	Delaware
	Raytheon Exchange Holdings IV, Inc.	100.000000%	Delaware
(P)	Exostar LLC	5.503000%	Delaware
	Raytheon Exchange Holdings V, Inc.	100.000000%	Delaware
(P)	Exostar LLC	5.503000%	Delaware
	Raytheon Exchange Holdings, Inc.	100.000000%	Delaware
(P)	Exostar Corporation	25.000000%	Delaware
(P)	Exostar LLC	11.800000%	Delaware
	Raytheon Gulf Systems Company	100.000000%	Delaware
	Raytheon Hanford, Inc.	100.000000%	Delaware
	Raytheon Holding LLC	100.000000%	Delaware
	Raytheon International Liaison Company	100.000000%	Delaware
	Raytheon Limited	0.000010%	England
	Raytheon Flight Training Limited	100.000000%	England
	Groom Aviation Limited	100.000000%	England
	Raytheon Microelectronics Europa Limited	100.000000%	United Kingdom
	Raytheon Microelectronics Limited	100.000000%	United Kingdom
(I)	Hughes Asia Pacific Hong Kong Limited	99.900000%	Hong Kong MARCOS
	Vermögensverwaltung GmbH	100.000000%	Germany
	Raytheon Training International GmbH	100.000000%	Germany
	Raytheon Australia International PTY Limited	99.998333%	Australia
(I, JV)	The Gulf Industrial Technology Company (KSC)	49.000000%	Kuwait

## Raytheon Company Organizational Chart

	Raytheon International Support Company	100.000000%	Delaware
	Raytheon International Trade Ltd.	100.000000%	Virgin Islands
	Raytheon International, Inc.	100.000000%	Delaware
	Raytheon Do Brasil Ltda.	99.980000%	Sao Paolo
	Raytheon International Korea, Inc.	100.000000%	Korea
	Raytheon International, Mid-East Limited	100.000000%	Delaware
(JV)	Hughes Arabia Limited	49.000000%	Saudi Arabia
	Raytheon Investment Company	100.000000%	Delaware
	Raytheon Italy Liaison Company	100.000000%	Delaware
	Raytheon Jordan Company	100.000000%	Delaware
	Raytheon Korean Support Company	100.000000%	Delaware
(JV)	Raytheon Kuwait Enterprises General Trading & Contracting Co. W.L.L.	49.000000%	Kuwait
	Raytheon Logistics Support & Training Company	100.000000%	Delaware
	Raytheon Logistics Support Company	100.000000%	Delaware
	Raytheon Marine Sales and Service Company	100.000000%	Delaware
	Raytheon Mediterranean Systems Company	100.000000%	Delaware
	Raytheon Middle East Systems Company	100.000000%	Delaware
	Raytheon Nadge Corporation	100.000000%	Delaware
	Raytheon Overseas Limited	100.000000%	Delaware
	Raytheon Pacific Company	100.000000%	Delaware
	Raytheon Patriot Support Company	100.000000%	Delaware
	Raytheon Peninsula Systems Company	100.000000%	Delaware
	Raytheon Procurement Company, Inc.	100.000000%	Delaware
(JV)	Comlog GmbH	50.000000%	Germany
(JV)	Systems For Defense Company	50.000000%	Delaware
	Raytheon Professional Services LLC	100.000000%	Delaware
	Shanghai Raytheon Professional Services Consulting Company Ltd.	100.000000%	People's Republic of China
	Raytheon Radar Ltd.	100.000000%	Delaware
	Raytheon Receivables, Inc.	100.000000%	Delaware
	Raytheon STI Company	100.000000%	Delaware
	Raytheon Seismic Company	100.000000%	Delaware
	Raytheon Simulation International, Inc.	100.000000%	California
	Raytheon Southeast Asia Systems Company	100.000000%	Delaware
	Raytheon Spanish Support Company	100.000000%	Delaware
	Raytheon Systems Company LLC	100.000000%	Delaware
	Raytheon Systems Development Company	100.000000%	Delaware
	Raytheon Systems France S.A.R.L.	99.500000%	France
	Raytheon Systems Holding Company LLC	65.000000%	Delaware
	Thales-Raytheon Systems Company Limited	50.000000%	Ireland
(A)	Thales-Raytheon Systems Company LLC	99.000000%	Delaware
	ACCSCO S.A.	27.000000%	Belgium
	Advanced Electronics Systems International L.P.	99.000000%	Delaware
	Air Command Systems International S.A.S.	50.000000%	France
	Command and Control Systems Company LLC	100.000000%	Delaware
	Advanced Electronics Systems International L.P.	1.000000%	Delaware
	Command and Control Systems International L.P.	1.000000%	Delaware
	Raytheon Aircraft Systems International L.P.	1.000000%	Delaware
	Thales Raytheon Systems Arabia L.P.	1.000000%	Delaware
	Command and Control Systems International L.P.	99.000000%	Delaware
	Raytheon Aircraft Systems International L.P.	99.000000%	Delaware
	Raytheon Mideast Systems Company LLC	100.000000%	Delaware
	First Communications Company	49.000000%	Saudi Arabia
	Thales Raytheon Systems Arabia L.P.	99.000000%	Delaware
(JV)	Thales-Raytheon Systems Company SAS	99.000000%	France
	Air Command Systems International S.A.S.	50.000000%	France

## Raytheon Company Organizational Chart

	Thales-Raytheon Systems Company LLC	1.000000%	Delaware
(A)	ACCSCO S.A.	27.000000%	Belgium
	Advanced Electronics Systems International L.P.	99.000000%	Delaware
	Air Command Systems International S.A.S.	50.000000%	France
	Command and Control Systems Company LLC	100.000000%	Delaware
	Advanced Electronics Systems International L.P.	1.000000%	Delaware
	Command and Control Systems International L.P.	1.000000%	Delaware
	Raytheon Aircraft Systems International L.P.	1.000000%	Delaware
	Thales Raytheon Systems Arabia L.P.	1.000000%	Delaware
	Command and Control Systems International L.P.	99.000000%	Delaware
	Raytheon Aircraft Systems International L.P.	99.000000%	Delaware
	Raytheon Mideast Systems Company LLC	100.000000%	Delaware
	First Communications Company	49.000000%	Saudi Arabia
	Thales Raytheon Systems Arabia L.P.	99.000000%	Delaware
	Raytheon Systems International Company	100.000000%	Delaware
	Raytheon Brasil Sistemas De Integracao Ltda	0.000027%	Brazil
	Raytheon Systems Israel Company	100.000000%	Delaware
	Raytheon Systems Management International	100.000000%	California
	Raytheon Systems Support Company	100.000000%	Delaware
	Raytheon Technical Services Company LLC	100.000000%	Delaware
(JV)	EUREST Raytheon Support Services	50.000000%	Kazakhstan
	Range Systems Engineering Company	100.000000%	Delaware
	Range Systems Engineering Support Company	100.000000%	Delaware
(I)	Raytheon Canada Services Company Ltd.	100.000000%	Canada

Raytheon Services Company Puerto Rico	100.000000%	Delaware
Raytheon Technical Services Guam, Inc.	99.700000%	Guam
Raytheon Technical Services International Company	100.000000%	Delaware
Raytheon Technical Services Ukraine	1.000000%	Ukraine
Raytheon Technical Services Ukraine	99.000000%	Ukraine
Raytheon Technical and Administration Services Ltd.	100.000000%	Delaware
Raytheon Technologies Incorporated	100.000000%	California
Raytheon United Kingdom Limited	100.000000%	England
Computer Systems & Programming Limited	100.000000%	England
Data Logic Altergo, Ltd.	100.000000%	England
Data Logic Limited	100.000000%	England
Data Logic Properties Limited	100.000000%	England
Hallams (Electrical Contractors) Limited	100.000000%	England
Penmar & Company Ltd.	100.000000%	England
Raycab (North) Limited	100.000000%	England
Raycab (South) Limited	100.000000%	England
Raytheon Marine Europe Limited	100.000000%	England
Raytheon Systems Ltd.	100.000000%	England
Raytheon Limited	99.000000%	England
Raytheon Flight Training Limited	100.000000%	England
Groom Aviation Limited	100.000000%	England
Raytheon Microelectronics Europa Limited	100.000000%	United Kingdom
Raytheon Microelectronics Limited	100.000000%	United Kingdom
Raytheon Aircraft Services Ltd.	100.000000%	England
Raytheon Computer Products Europe Limited	99.000000%	England
Raytheon E-Systems Limited	100.000000%	England
Raytheon Microelectronics Espana, S.A.	99.999496%	Spain
Raytheon TI Systems, Ltd.	100.000000%	England
Raytheon-Tag Components Limited	100.000000%	England
Square One Computer Services Limited	100.000000%	England
Seismograph Service Corporation	100.000000%	Delaware
(I) Seismograph Service France	100.000000%	France

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#### Raytheon Company Organizational Chart

SilentRunner, Inc.	100.000000%	Delaware
Space Imaging, Inc.	30.600000%	Delaware
Subsidiary X Company	100.000000%	Delaware
Switchcraft de Mexico S.A. de C.V.	100.000000%	Mexico
(I) Thoray Electronics Corporation	50.000000%	Delaware
(I) Translant, Inc.	50.000000%	Texas
Tube Holding Company, Inc.	100.000000%	Connecticut
(JV) Valeo Raytheon Systems, Inc.	56.521300%	Delaware
Xyplex Foreign Sales Corporation, Inc.	100.000000%	Virgin Islands

A = Affiliate

I = Inactive, status unknown

JV = Joint Venture

P = Partnership

X = Pending formation

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CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (File Nos. 333-85648; 333-71974; 333-58474 and 333-82529), Form S-4 (File Nos. 333-40646 and 333-78219) and Form S-8 (File Nos. 333-56117, 333-52536, 333-45629 and 333-78219) of Raytheon Company of our report dated January 21, 2003, except as to the eighth paragraph in Note H as to which the date is February 14, 2003, except as to the information in Note T as to which the date is February 24, 2003, and except as to the second, fifth and tenth paragraphs and all of the tables in Note B as to which the date is March 20, 2003, relating to the financial statements, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Boston, Massachusetts  
March 21, 2003

March 21, 2003

Board of Directors  
Raytheon Corporation  
141 Spring Street  
Lexington, MA 02421

Dear Directors:

We are providing this letter to you for inclusion as an exhibit to your Form 10-K filing pursuant to Item 601 of Regulation S-K.

We have audited the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and issued our report thereon dated January 21, 2003, except as to the eighth paragraph in Note H as to which the date is February 14, 2003, except as to the information in Note T as to which the date is February 24, 2003, and except as to the second, fifth and tenth paragraphs and all of the tables in Note B as to which the date is March 20, 2003. Note F to the consolidated financial statements describes a change in accounting principle from the last-in, first-out (LIFO) method of costing aircraft inventories to the first-in, first-out (FIFO) method. It should be understood that the preferability of one acceptable method of accounting over another for costing inventory has not been addressed in any authoritative accounting literature, and in expressing our concurrence below we have relied on management's determination that this change in accounting principle is preferable. Based on our reading of management's stated reasons and justification for this change in accounting principle in the Form 10-K, and our discussions with management as to their judgment about the relevant business planning factors relating to the change, we concur with management that such change represents, in the Company's circumstances, the adoption of a preferable accounting principle in conformity with Accounting Principles Board Opinion No. 20.

Very truly yours,

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

## POWER OF ATTORNEY

## RAYTHEON COMPANY

The undersigned hereby constitutes Jay B. Stephens and Edward S. Pliner, and each of them, jointly and severally, his or her lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him or her and in his or her name, place and stead, in any and all capacities, including, but not limited to, that listed below, in connection with the preparation, execution and filing with the Securities and Exchange Commission (the "Commission"), under the Securities Exchange Act of 1934 of an Annual Report on Form 10-K of Raytheon Company (the "Company") and any amendments thereto for the Company's fiscal year ended December 31, 2002 with exhibits thereto, including, but not limited to, the Company's Audited Consolidated Financial Statements as of December 31, 2002 and 2001 and for each of the three years in the period ended December 31, 2002 and Management's Discussion and Analysis of Financial Condition and Results of Operations for the Company's fiscal year ended December 31, 2002, 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 21, 2003

/s/ Barbara M. Barrett

-----

Barbara M. Barrett  
Director

## POWER OF ATTORNEY

## RAYTHEON COMPANY

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Dated: March 21, 2003

/s/ Daniel P. Burnham

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Daniel P. Burnham  
Chairman and Chief Executive Officer

POWER OF ATTORNEY

RAYTHEON COMPANY

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Dated: March 21, 2003

/s/ Ferdinand Colloredo-Mansfeld

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Ferdinand Colloredo-Mansfeld  
Director

POWER OF ATTORNEY

RAYTHEON COMPANY

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Dated: March 21, 2003

/s/ John M. Deutch  
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John M. Deutch  
Director

POWER OF ATTORNEY

RAYTHEON COMPANY

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Dated: March 21, 2003

/s/ Thomas E. Everhart  
-----

Thomas E. Everhart  
Director

POWER OF ATTORNEY

RAYTHEON COMPANY

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Dated: March 21, 2003

/s/ Frederic M. Poses

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Frederic M. Poses  
Director

POWER OF ATTORNEY

RAYTHEON COMPANY

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Dated: March 21, 2003

/s/ Warren B. Rudman

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Warren B. Rudman  
Director

POWER OF ATTORNEY

RAYTHEON COMPANY

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Dated: March 21, 2003

/s/ Michael C. Ruettgers

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Michael C. Ruettgers  
Director

POWER OF ATTORNEY

RAYTHEON COMPANY

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Dated: March 21, 2003

/s/ Ronald L. Skates

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Ronald L. Skates  
Director

POWER OF ATTORNEY

RAYTHEON COMPANY

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Dated: March 21, 2003

/s/ William R. Spivey

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William R. Spivey  
Director

POWER OF ATTORNEY

RAYTHEON COMPANY

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Dated: March 21, 2003

/s/ John H. Tilelli, Jr.

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John H. Tilelli, Jr.  
Director

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

In connection with the Annual Report of Raytheon Company (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel P. Burnham, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

/s/ DANIEL P. BURNHAM

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Daniel P. Burnham  
Chairman and Chief Executive Officer

March 21, 2003

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

In connection with the Annual Report of Raytheon Company (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward S. Pliner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

/s/ EDWARD S. PLINER

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Edward S. Pliner  
Senior Vice President and Chief Financial Officer

March 21, 2003