Notes to Consolidated Financial Statements (Continued) ▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸▸

Company's net income and earnings per share would have approximated the pro forma amounts indicated below:

(In millions except per share amounts)	**2003**	2002	2001
Reported net income (loss)	**$ 365**	$ (640)	$ (755)
Stock-based compensation expense included in reported net income (loss), net of tax	**5**	4	8
Compensation expense determined under the fair value method for all stock-based awards, net of tax	**(73)**	(63)	(57)
Pro forma net income (loss)	**$ 297**	$ (699)	$ (804)
Reported basic earnings (loss) per share	**$ 0.88**	$(1.59)	$(2.12)
Reported diluted earnings (loss) per share	**0.88**	(1.57)	(2.09)
Pro forma basic earnings (loss) per share	**$ 0.72**	$(1.74)	$(2.25)
Pro forma diluted earnings (loss) per share	**0.72**	(1.71)	(2.23)

The weighted-average fair value of each stock option granted in 2003, 2002, and 2001 was estimated as $8.57, $13.46, and $9.25, respectively, on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2003	2002	2001
Expected life	**4 years**	4 years	4 years
Assumed annual dividend growth rate	**–**	–	1%
Expected volatility	**40%**	40%	40%
Assumed annual forfeiture rate	**8%**	12%	12%

The risk free interest rate (month-end yields on 4-year treasury strips equivalent zero coupon) ranged from 2.0% to 3.0% in 2003, 2.5% to 4.7% in 2002, and 3.7% to 5.0% in 2001.

ACCOUNTING STANDARDS In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46). FIN 46 addresses the consolidation of certain variable interest entities (VIEs) and may be applied prospectively with a cumulative effect adjustment or by restating previously issued financial statements with a cumulative effect adjustment as of the beginning of the first year restated. In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46R). FIN 46R significantly narrowed the original scope of FIN 46 by excluding entities possessing certain characteristics, among other things. FIN 46R deferred the effective date of FIN 46 for interests held in VIEs created before February 1, 2003, except for special purpose entities as defined by FIN 46R, until the end of the first interim period ending after March 15, 2004. The adoption of FIN 46R is not expected to have a material effect on the Company's financial position or results of operations.

In December 2003, the FASB issued Statement of Financial Accounting Standards No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106. Information about foreign plans is required by this accounting standard for fiscal years ending after June 15, 2004, including additional disclosures about assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans.

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

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

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

▸▸▸NOTE B: DISCONTINUED OPERATIONS

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

Among the projects involved were two construction projects, the Mystic Station facility in Everett and the Fore River facility in Weymouth (the "Massachusetts Projects"). Following WGI's abandonment of these projects in 2001, the Company undertook construction efforts on these projects, subsequently delivered care, custody, and control of these projects to their owners, and, as of December 31, 2003, was continuing to perform work on these projects. On February 23, 2004, the Company closed on a settlement agreement with the project owners and other interested parties. The settlement included, among other things, a payment to the Company of approximately $30 million, the return to the Company of approximately $73 million in letters of credit the Company had provided to the project owners, and a release of various claims related to these projects. In addition, under the settlement, the Company remained responsible for all subcontractor and vendor