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, the age of outstanding receivables, and collateral to the extent applicable. Activity related to the allowance for doubtful accounts was as follows:

(In millions)	
Balance at December 31, 2000	$132
Provisions	2
Utilizations	(21)
Balance at December 31, 2001	113
Provisions	2
Utilizations	(42)
Balance at December 31, 2002	73
Provisions	**1**
Utilizations	**(39)**
Balance at December 31, 2003	**$ 35**

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 at December 31, 2002 was $48 million of restricted cash from the sale of the Company's corporate headquarters. This cash was used to fund the construction of the Company's new corporate headquarters and the acquisition of three other properties. In June 2003, the restrictions related to the use of this cash expired, therefore, the remaining $10 million that had not yet been spent was reflected in the statement of cash flows as proceeds from sales of property, plant, and equipment in 2003.

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. A provision for excess or inactive inventory is recorded based upon an analysis that considers current inventory levels, historical usage patterns, and future sales expectations.

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. Gains and losses resulting from the sale of property, plant, and equipment at the defense businesses are included in overhead and reflected in the pricing of products and services to the U.S. government.

Provisions for depreciation are generally computed using 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 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 and 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 fair value of Raytheon Aircraft was determined using a discounted cash flow approach. The total goodwill impairment charge in 2002 was $545 million pretax, $509 million after-tax, or $1.25 per diluted share. The Company performs 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 2003 and 2002.

The amount of goodwill by segment at December 31, 2003 was $751 million for Integrated Defense Systems, $1,349 million for Intelligence and Information Systems, $3,438 million for Missile Systems, $2,306 million for Network Centric Systems, $2,639 million for Space and Airborne Systems, $868 million for Technical Services, and $128 million for Other. Information about additions to goodwill in 2003 is included in Note C, Acquisitions and Divestitures and Note H, Other Assets.