

# **TEXTRON**

**I N C O R P O R A T E D**

**50 SOUTH MAIN STREET  
PROVIDENCE • RHODE ISLAND**

**26<sup>th</sup>**

**ANNUAL REPORT**

**TO**

**STOCKHOLDERS**

**1953**

## Board of Directors

ROYAL LITTLE, *Chairman*  
HARRY J. BURKART  
HARRY H. BURTON  
CHARLES E. DANIEL  
ERWIN N. DARRIN  
NORMAN B. FROST  
ROBERT L. HUFFINES, JR.  
CONSTANTINE HUTCHINS  
ANTONIO A. ROIG  
GORDON SCHERCK  
JAMES J. SULLIVAN  
T. FRANK WATKINS  
J. LINZEE WELD

## Executive Committee

ROYAL LITTLE, *Chairman*  
HARRY J. BURKART  
HARRY H. BURTON  
ROBERT L. HUFFINES, JR.  
J. LINZEE WELD

This report and the financial statements contained herein are submitted for the general information of the stockholders of this Corporation as such and are not intended to induce, or for use in connection with, any sale or purchase of securities.

## Officers

ROYAL LITTLE	<i>Chairman of the Board</i>
ROBERT L. HUFFINES, JR.	<i>President</i>
HARRY J. BURKART	<i>Vice President</i>
HARRY H. BURTON	<i>Vice President</i>
ROBERT M. CUSHMAN	<i>Vice President</i>
FRANK J. FIORE	<i>Vice President</i>
PAUL F. HELLMUTH	<i>Vice President</i>
EDMON G. LUKE	<i>Vice President</i>
BURKE M. McCONNELL	<i>Vice President</i>
WILLIAM D. MEWHORT	<i>Vice President and Treasurer</i>
ROBERT R. THURBER	<i>Vice President and Secretary</i>
J. LINZEE WELD	<i>Vice President</i>
DOUGLAS L. GROTE	<i>Controller, Asst. Treasurer and Asst. Secretary</i>
ARTHUR A. ERLANDSON	<i>Assistant Treasurer</i>
EDWARDS C. WHITMORE	<i>Assistant Treasurer</i>
WILLIAM H. BURROUGHS	<i>Asst. Controller and Asst. Secretary</i>
WILLIAM J. McEWEN	<i>Assistant Secretary</i>
MARY T. YOUNG	<i>Assistant Secretary</i>

*Counsel:* EDWARDS & ANGELL  
Providence, Rhode Island

*Auditors:* STEWART, WATTS & BOLLONG

*Transfer Agents:* COMMON AND CONVERTIBLE PREFERRED

RHODE ISLAND HOSPITAL TRUST COMPANY  
Providence, Rhode Island

CHEMICAL BANK & TRUST COMPANY  
New York, N. Y.

BANK OF AMERICA NATIONAL TRUST & SAVINGS  
ASSOCIATION  
Los Angeles, Cal.

*Transfer Agent:* 4% PREFERRED

INDUSTRIAL NATIONAL BANK OF PROVIDENCE  
Providence, Rhode Island

*Registrars:* COMMON AND CONVERTIBLE PREFERRED

INDUSTRIAL NATIONAL BANK OF PROVIDENCE  
Providence, Rhode Island

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK  
New York, N. Y.

SECURITY-FIRST NATIONAL BANK OF LOS ANGELES  
Los Angeles, Cal.

April 5, 1954

## *To the Stockholders:*

Sales for the year were \$71,017,000 compared with \$98,745,000 for 1952. The net loss for the year was \$195,000 compared with a loss of \$3,543,000 in the previous year, in each case after tax and other year-end adjustments. Total depreciation charges for the year amounted to \$1,933,000. Three major textile operations were being run out at the end of 1953—the Atlantic Parachute, Blackstone and East Greenwich divisions. In addition, the wide fabric, highly styled suiting operation in our spun blend plants in Anderson, South Carolina was in the process of conversion to production of more staple type merchandise. The aggregate 1953 losses on these four operations amount to \$3,310,000. On the other hand, the net operating profit of the eight plants in the Anderson, S. C. area, in which no major changes occurred during the year amounted to \$1,456,000. Included in the consolidated figures was a profit of \$5,000 before rent in Textron Puerto Rico. Profits at the Ponce cotton mill were almost entirely offset by losses at the Humacao tricot plant.

On March 22, 1954 we adjusted with Indian Head Mills, Inc. the balance of its long-term indebtedness to us amounting to \$4,108,000, of which \$1,758,000 was interest-free until February 7, 1958. In full settlement of this account we accepted \$1,500,000 in cash, a \$500,000 5-year note secured by mortgage on its Cordova, Alabama mill properties and a lien on the Indian Head trade name, and also a \$1,200,000 subordinated note due February 7, 1968, with interest at 6% thereon after February 7, 1958, and with payments of principal at the rate of \$100,000 annually beginning in 1958. Our original sale of assets to Indian Head Mills, Inc. on February 7, 1953 gave us a book profit of \$2,185,000, of which \$1,458,000 has been deferred and \$727,000 reported to date. While this adjustment involved a concession of \$908,000, such amount will be charged to the deferred profit and will not be reflected as a loss in our 1954 income statement.

All our long-term bank indebtedness has now been discharged, except for \$150,000 owed by a subsidiary. We still owe \$4,108,000 on account of machinery and plant purchases on terms, however, which should not prove burdensome and which include no major restrictions. Our present banking accommodations are arranged on a very flexible basis and provide adequate funds for the business in direct relation to volume.

During the past year the management of the Textile Division has made great progress in eliminating excess costs, increasing efficiency, reducing seconds and strengthening key personnel. We now have the necessary executive and supervisory talent, trained employees and physical properties to assure a highly successful textile operation as soon as the price structure of basic fabrics improves. There is, however, currently no indication of such price improvement.

The Company plans no major expansion of its present textile facilities except possibly at the print cloth plant in Ponce, Puerto Rico. As of today there remains only \$205,000 of unexpended capital improvement authorizations. It now appears therefore that capital expenditures for the balance of this year, other than those required by our diversification program, will be substantially less than depreciation provisions.

### **Diversification Program**

Pursuant to the broadened corporate purposes authorized by the shareholders on June 30, 1952, the directors have made the following acquisitions:

On September 30, 1953 we purchased the inventories, trade name and business of F. Burkart Manufacturing Company, of St. Louis, Missouri for \$1,801,052 exclusive of certain assets which were thereafter disposed of without profit or loss. These properties are being operated as a division of the parent company. Burkart is one of the principal producers of batts and pads of

cotton, sisal and other fibers for the automotive, furniture and mattress trades. Since this division's operations are largely dependent upon volume in the automotive industry, sales and profits are less than the first quarter of last year. It is still too early to determine whether the anticipated spring pick-up in the automotive industry will materialize.

On January 8, 1954 the Company purchased all of the outstanding capital stock of Dalmo Victor Company, a California corporation, with six plants in the San Carlos area in that state. It is the leading manufacturer of airborne radar antennae and related equipment. \$300,000 of the purchase price was paid in cash, \$1,200,000 is to be paid commencing in 1955 and for the retention of the stock after December 31, 1963 an additional \$1,500,000 must be paid on or before that date. For further details of the purchase, reference is made to Note A to the financial statements.

The earnings of Dalmo Victor Company have been substantial during the first quarter of 1954, and the present open order backlog of approximately \$16,000,000 will carry full operations well into the latter part of the year. Its employees presently number about 1,200 persons. While all overtime work has recently been abandoned and manufacturing cost substantially reduced, it is felt that this subsidiary's sales volume will be large for some time in the future if the aircraft program is maintained at the present rate. Mr. T. I. Moseley, the founder of the business, continues as the President of Dalmo Victor Company and he has recently acquired a substantial block of Textron common stock.

On March 25, 1954 we purchased all the outstanding stock of The M B Manufacturing Company, Incorporated, of New Haven, Connecticut for \$1,750,000 plus an additional \$250,000 to be paid to the extent that its net worth is not reduced by undisclosed liabilities, such purchase price being approximately its net worth. This Company is a leader in its highly specialized field of aircraft engine mounts and vibration elimination equipment and has an order backlog of about \$6,000,000 which should assure capacity operations the balance of the year with a satisfactory profit margin. It will be operated as a subsidiary, under the present young and aggressive management, Rollin W. Mettler and George H. Mettler, President and Treasurer respectively. The Mettler brothers have recently acquired in the open market a substantial Textron common stock interest.

Textronics, Inc., an 80%-owned subsidiary, has been jointly organized with the Henry J. Kaiser interests to produce urgently needed defense equipment in our former Jackson Mill at Nashua, New Hampshire. It is highly significant that we plan to use this cotton mill not only to further our own diversification program but also to put into practice our theory that New England will be better off in the long run with fewer marginal textile plants and more diversified growth industries.

In summarizing our diversification progress, it will be noted that we are stressing investment in industries directly associated with the aircraft and other vital defense programs. If the current general business recession continues, we believe the Government will increase its expenditures in these fields to offset any further substantial drop in consumer spending. Our diversification program as presently constituted should therefore provide us with an excellent hedge against such an eventuality.

### **American Woolen Company**

On April 5, 1954 the Board of Directors authorized the acceptance of approximately 163,000 shares of common stock of American Woolen Company deposited or committed for deposit under our offer to exchange \$5 in cash, one-fifth ( $\frac{1}{5}$ ) of a share of 4% Preferred Stock Series B and one-half ( $\frac{1}{2}$ ) of a share of Common Stock for each share of American Woolen common. We have already purchased 50,200 shares for cash, which brings total holdings to 213,200 shares, an aggregate sufficient in our opinion to provide the base for ultimate control of American Woolen Company and for new management which will have a very large ownership interest.

The Directors at the same time extended the exchange offer until July 20 on condition that an additional 50,000 shares be deposited prior to 3 P.M. on April 19 and that thereafter the cash part of the offer be reduced to \$3.50 from April 20 to May 20, \$2 from May 21 to June 21 and no cash from June 22 to July 20. The offer may, however, be withdrawn at any time upon 5 days written notice to the depositary bank.

If we obtain control of the board of directors of American Woolen Company we are confident that the experience, the "know-how" and the enthusiasm of our organization assures eventual rehabilitation and success for this fine old company. Our Industrial Building Department is particularly well-equipped to bring in fast-growing diversified industries to replace highly marginal textile mills. The record with respect to locating vital new industries in plants in Nashua and Suncook, New Hampshire and in North Smithfield and East Greenwich, Rhode Island, formerly operated by us, demonstrates what can be done for the New England communities in which textile mills are forced to close.

### **General Comments**

Although the textile industry has been through a serious recession for the past three years as a direct result of over-production, particularly in the synthetic branch, and although many other basic industries are showing similar symptoms of excess capacity, an upturn in textiles could occur suddenly if the present Administration should throw its resources back of its program to prevent further increase of unemployment and shrinkage of consumer purchasing power. Business trends for the next two months will determine whether it will be necessary for Washington to launch its anti-deflationary program. In the meantime textiles are facing a particularly bad second quarter.

The efficiency and morale of our textile division has improved tremendously during the year under the leadership of Mr. Huffines. We all appreciate the loyalty and enthusiasm with which our entire organization has attacked the many and difficult problems with which we have been confronted.

By Order of the Board of Directors

ROYAL LITTLE

*Chairman of the Board*

# TEXTRON INCORPORATED

## Ten Years in Review

(EXPRESSED IN THOUSANDS OF DOLLARS)

	1953	1952	1951	1950
Net Sales . . . . .	\$71,017	\$98,745	\$98,290	\$87,547
Earnings Before Taxes on Income . . . . .	(881)	(6,423)	8,510	6,129
Taxes on Income . . . . .	(710)	(2,933)	3,725	2,940
Earnings After Taxes . . . . .	(171)	(3,490)	4,785	3,189
Dividends Declared				
Preferred . . . . .	490	445	369	444
Common . . . . .	120 <sup>6</sup>	299	2,386	1,133
Earnings Retained, exclusive of				
Minority Interests . . . . .	(805)	(4,829)	1,991	1,565
Working Capital . . . . .	10,344	20,834	21,774	24,617
Fixed Assets, at Cost . . . . .	34,838	35,112	28,508	24,465
Accumulated Depreciation . . . . .	6,566	6,738	7,129	6,389
Fixed Assets, Net . . . . .	28,272	28,374	21,379	18,076
Long-Term Debt . . . . .	5,282	11,031	5,972	6,870
Common Stockholders Equity . . . . .	25,119	25,724	30,281	26,575
Common Shares Outstanding <sup>1</sup> . . . . .	1,207	1,197	1,196	1,133

### PER COMMON SHARE (Expressed in Dollars)

Earnings After Taxes, Preferred				
Dividends, and Minority Interests . . . . .	(.57)	(3.33)	3.66	2.38
Special Items . . . . .	—	(.45) <sup>3</sup>	—	—
Cash Dividends Paid . . . . .	— <sup>6</sup>	.75	1.75	1.00
Common Stockholders Equity . . . . .	20.82	21.50	25.31	23.46

(1) Expressed in thousands of shares

(2) Adjusted for stock split 2 for 1, September 10, 1945

(3) Accumulated deficit of Textron Puerto Rico prior to 1952

(4) Transfers out of profits to a Reserve for Contingencies less amount subsequently returned to earned surplus

(5) In addition, stock dividend of one share of common stock of Dorset Fabrics, Inc. for each common share of Textron Incorporated held

(6) Distributed 1/10 share common stock of Indian Head Mills, Inc. per share of Textron Incorporated held.

## AND SUBSIDIARY COMPANIES

1949	1948	1947	1946	1945	1944
\$67,896	\$98,847	\$124,776	\$112,952	\$46,853	\$26,255
(2,716)	11,151	14,904	16,194	2,017	2,348
(1,075)	4,045	6,020	7,204	1,713	1,734
(1,641)	7,106	8,884	8,990	304	614
444	401	260	250	68	25
1,133	2,385	1,076	505	494	111
(3,271)	4,151	6,512	7,091	(709)	478
25,706	22,359	18,567	18,020	7,395	3,751
19,919	21,737	29,419	27,439	1,776	842
6,090	6,104	11,180	11,032	647	186
13,829	15,633	18,239	16,407	1,129	656
4,702	2,052	1,588	6,895	3,017	2,165
24,949	26,796	22,771	16,217	9,666	2,499
1,133	1,133	1,133	1,011	991	443 <sup>2</sup>
(1.89)	5.77	7.11	7.75	(.22)	1.33 <sup>2</sup>
—	—	(.41) <sup>4</sup>	(.23) <sup>4</sup>	—	—
1.00	.75 <sup>5</sup>	1.00	.50	.50	.25 <sup>2</sup>
22.03	23.66	20.10	16.04	9.76	5.64 <sup>2</sup>

# TEXTRON INCORPORATED

*Consolidated*

## ASSETS

	January 2, 1954	January 3, 1953
<b>Current assets:</b>		
Cash in banks and on hand . . . . .	\$ 4,708,488	\$ 3,526,028
Accounts receivable — trade (Note C):		
Assigned . . . . .	11,402,610	—
Less advances against assigned receivables . . . . .	4,685,013	—
Equity in assigned receivables . . . . .	\$ 6,717,597	
Unassigned . . . . .	219,538	10,996,486
Less reserve for doubtful accounts, discounts and allowances	426,069	505,022
	<u>\$ 6,511,066</u>	<u>\$10,491,464</u>
Inventories (Note B) . . . . .	10,063,303	12,153,577
Current installments on sale of Indian Head Division (Note A)	600,000	—
Prepaid and deferred expenses . . . . .	722,268	701,119
Other current assets . . . . .	493,095	414,929
<b>Total current assets</b> . . . . .	<u>\$23,098,220</u>	<u>\$27,287,117</u>
Installments on sale of Indian Head Division due after one year (Note A) . . . . .	3,658,336	—
Notes receivable due after one year . . . . .	141,291	98,628
Common stock of Textron Incorporated (Note I) . . . . .	501,240	—
Property, plant and equipment, at cost — less reserve for de- preciation: 1953 — \$6,566,022; 1952 — \$6,737,629 (Note D)	28,271,541	28,374,268
<b>Other assets:</b>		
Cash surrender value of life insurance . . . . .	147,415	136,205
Deposits with mutual insurance companies . . . . .	288,433	310,892
Sundry other assets . . . . .	148,858	373,955
Long-term rental deposits . . . . .	600,000	600,000
<b>Total assets</b> . . . . .	<u>\$56,855,334</u>	<u>\$57,181,065</u>

The Notes to Financial Statements are an integral part of

D AND SUBSIDIARY COMPANIES

Balance Sheet

LIABILITIES AND CAPITAL

	January 2, 1954	January 3, 1953
<b>Current liabilities:</b>		
Notes payable (Note C) . . . . .	\$ 4,802,911	\$ 485,833
Accounts payable . . . . .	4,596,948	3,494,446
Accrued liabilities — salaries, wages, taxes and other expenses	1,752,722	1,938,075
Federal tax liability assumed upon acquisition of F. Burkart Manufacturing Company assets (Note A) . . . . .	1,066,509	—
Employees' deposits for income and social security taxes, etc.	177,728	246,367
Current maturities of ten-year 4½% debentures . . . . .	202,500	199,500
Other current liabilities . . . . .	154,893	88,440
<b>Total current liabilities</b> . . . . .	<u>\$12,754,211</u>	<u>\$ 6,452,661</u>
Notes Payable (Note E) . . . . .	4,512,723	10,027,204
Ten-year 4½% debentures, due April 1, 1958 — less current maturities (Note E) . . . . .	769,000	1,004,000
Other liabilities . . . . .	143,871	354,603
Deferred income from sale of Indian Head Division (Note A) . . . . .	1,457,893	—
Reserve for contingencies (Note G) . . . . .	1,250,000	2,157,000
Minority interests in preferred stock of a subsidiary . . . . .	529,948	519,649
<b>Total</b> . . . . .	<u>\$21,417,646</u>	<u>\$20,515,117</u>
<b>Capital stock and surplus (Note J):</b>		
\$1.25 convertible preferred, no par value, authorized 293,809 shares. Issued and outstanding 291,491 shares . . . . .	\$ 7,287,275	\$ 7,287,400
4% preferred, par value \$100:		
Series A — authorized 50,000 shares. Issued 44,650 26/30, retired 8,930, outstanding 35,720 26/30 shares . . . . .	3,572,087	3,948,490
Series B — authorized 200,000 shares. Issued and outstand- ing — none		
Common, par value \$.50, authorized 3,000,000 shares. Issued and outstanding 1,206,540 shares . . . . .	603,270	598,268
<b>Surplus (per statement of surplus):</b>		
Paid-in surplus . . . . .	10,145,745	9,911,343
Capital surplus . . . . .	4,323,353	4,323,353
Earned surplus . . . . .	10,046,880	10,890,709
<b>Total</b> . . . . .	<u>\$35,978,610</u>	<u>\$36,959,563</u>
Less treasury stock at cost — 10,000 shares \$1.25 convertible preferred and 5,523 26/30 shares 4% preferred . . . . .	540,922	293,615
<b>Total capital stock and surplus</b> . . . . .	<u>\$35,437,688</u>	<u>\$36,665,948</u>
<b>Total liabilities and capital</b> . . . . .	<u>\$56,855,334</u>	<u>\$57,181,065</u>

his statement and should be read in conjunction herewith.

TEXTRON INCORPORATED AND SUBSIDIARY COMPANIES

*Consolidated Statement of Profit and Loss*

	Year Ending January 2, 1954	Year Ending January 3, 1953
Net sales . . . . .	\$71,017,104	\$98,744,849
Cost of sales (including gains incident to adjustments of Lifo inventory base: 1953 — \$646,128; 1952 — \$458,069) . . . . .	<u>68,860,464</u>	<u>98,306,959</u>
<b>Gross profit on sales</b> . . . . .	<b>\$ 2,156,640</b>	<b>\$ 437,890</b>
Selling, advertising and administrative expenses . . . . .	<u>2,630,910</u>	<u>3,490,648</u>
<b>Loss from operations</b> . . . . .	<b>\$ 474,270</b>	<b>\$ 3,052,758</b>
Other income:		
Profit on sale of Indian Head Division (Note A) . . . . .	\$ 727,436	—
Sundry other income . . . . .	<u>553,163</u>	<u>\$ 166,243</u>
	<u>\$ 1,280,599</u>	<u>\$ 166,243</u>
<b>Profit or (loss) after other income</b> . . . . .	<b>\$ 806,329</b>	<b>\$(2,886,515)</b>
Other charges:		
Interest expense including customers' anticipation . . . . .	\$ 810,138	\$ 875,159
Loss on disposal of fixed assets . . . . .	185,941	1,881,552
Sundry other charges . . . . .	<u>691,417</u>	<u>780,060</u>
	<u>\$ 1,687,496</u>	<u>\$ 3,536,771</u>
<b>Loss before provision for Federal taxes on income*</b> . . . . .	<b>\$ 881,167</b>	<b>\$ 6,423,286</b>
Federal taxes on income:		
Adjustment of excess provisions for Federal income tax in prior years . . . . .	(710,000)	—
Estimated carry-back credit under provision of Internal Revenue Code . . . . .	<u>—</u>	<u>(2,933,000)</u>
<b>Net loss after adjustment of provision for Federal taxes on income</b> . . . . .	<b>\$ 171,167</b>	<b>\$ 3,490,286</b>
Portion of earnings applicable to minority interests in a subsidiary . . . . .	<u>24,299</u>	<u>53,074</u>
<b>Net loss</b> . . . . .	<b>\$ 195,466</b>	<b>\$ 3,543,360</b>
Special item — Accumulated deficit of Textron Puerto Rico prior to 1952 . . . . .	<u>—</u>	<u>541,978</u>
<b>Net loss and special item</b> . . . . .	<b>\$ 195,466</b>	<b>\$ 4,085,338</b>

\*Including depreciation: 1953 — \$1,933,256; 1952 — \$2,066,486.

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction herewith.

**TEXTRON INCORPORATED AND SUBSIDIARY COMPANIES**  
*Consolidated Statement of Surplus*

<b>PAID-IN SURPLUS</b>	<b>Year Ending January 2, 1954</b>
<i>Balance at beginning of year</i> . . . . .	\$ 9,911,343
Additions:	
Discount on 4% preferred stock retired . . . . .	\$139,280
Amount arising from sale of common stock and conversion of \$1.25 convertible preferred stock . . . . .	95,122
	234,402
<i>Balance at end of year</i> . . . . .	\$10,145,745
<b>CAPITAL SURPLUS</b>	
<i>Balance at beginning and end of year</i> . . . . .	\$ 4,323,353
<b>EARNED SURPLUS</b>	
<i>Balance at beginning of year</i> . . . . .	\$10,890,709
Deductions:	
Net loss from profit and loss statement . . . . .	\$195,466
Excess cost of investment in a subsidiary over equity acquired . . . . .	39,131
Dividends declared:	
\$1.25 convertible preferred stock — \$1.25 per share . . . . .	351,876
4% preferred stock — \$4.00 per share . . . . .	137,702
Common stock — 1/10 share common stock of Indian Head Mills, Inc. per share . . . . .	119,654
	843,829
<i>Balance at end of year</i> . . . . .	\$10,046,880

The Notes to Financial Statements are an integral part of this statement  
and should be read in conjunction herewith.

# TEXTRON INCORPORATED

## Notes to Financial Statements

### NOTE A General

The accompanying consolidated financial statements include the accounts of Textron Incorporated and all subsidiaries.

The Company sold as of February 7, 1953 at a profit of \$2,185,329 machinery and equipment, inventories and other assets, subject to certain liabilities, having a net book value of \$2,987,439 to Indian Head Mills, Inc., a subsidiary at that date. The sales price was \$5,172,768 of which \$414,432 was billed and paid for on open account, \$3,000,000 was payable at the rate of \$50,000 per month with interest at 4% during the ensuing five years and the balance of \$1,758,336 payable without interest on February 7, 1958. Discounts to a maximum amount of \$400,000 are allowable for prepayment of the entire balance prior to specified dates. Of the \$2,185,329 profit, \$727,436 has been taken into income for the period ended January 2, 1954 and the balance of \$1,457,893 has been deferred.

On September 30, 1953, the Company acquired from F. Burkart Manufacturing Company, St. Louis, Missouri, its inventories, patents, trademarks, trade names, good will, the capital stock of its wholly-owned subsidiary, Ware Cotton Batting Co., Inc., and other miscellaneous assets at a cost of \$1,801,052. In addition the Company purchased for \$599,726 the fixed assets of the Burkart shoe division and certain other assets, all of which have since been liquidated without profit or loss. Payment for all such properties was made by cash of \$1,109,368 and assumption of liabilities of \$1,291,410. On the same date the Trustees of The Market Square Trust, the profit-sharing trust for the Company, acquired the remaining fixed assets of Burkart and leased them to the Company for a period of 10¼ years (with rights of renewal) beginning October 1, 1953, at an annual rental of 20% of the first \$1,000,000 of Burkart Division annual net profit before provision for Federal and State taxes on income, plus 10% of the amount of any such profit in excess of \$1,000,000.

On January 8, 1954 the Company purchased all the outstanding capital stock of Dalmo Victor Company, San Carlos, California, manufacturers of airborne radar antennae and related equipment. Concurrently the Company made a \$500,000 subordinated working capital loan to Dalmo Victor Company and the sellers similarly subordinated \$350,846 of Dalmo Victor notes payable to them. The fixed part of the purchase price of the capital stock is \$1,500,000 of which \$300,000 was paid in cash and \$1,200,000 was paid by notes which are payable in equal monthly installments over the four years 1955, 1956, 1957 and 1958. An additional \$1,500,000 is to be paid on or before December 31, 1963 out of one-half of the dividends received from Dalmo Victor Company after the Company has received repayment of its working capital loan and dividends totaling \$1,500,000. Payments on the notes are subject to acceleration to the extent that dividends received from Dalmo Victor Company exceed \$300,000 in any calendar year. The Company is entitled to receive certain payments from Dalmo Victor Company, including a cumulative Company service charge, repayment of subordinated loan and dividends and the sellers are entitled to repayment of their subordinated loan, subject, however, to the restriction that the Dalmo Victor Company consolidated working capital and its consolidated net worth be at least equal to \$1,750,000 and \$2,750,000 respectively after any such payments. There is a further restriction that one-half of Dalmo Victor Company's earnings are not available for the payment of dividends until the Company has received \$1,500,000 in dividends, after which one-quarter of its subsequent earnings are similarly not available until the Company has paid the full purchase price for the Dalmo Victor Company stock.

Subsequent to the close of the year, the Company offered to holders of the 978,342 outstanding shares of common stock of American Woolen Company the privilege of exchanging each such share of stock for ½ of a share of Textron 4% preferred stock Series B, ½ of a share of Textron common stock and \$5.00 in cash. The Company has the right to withdraw the offer at any time upon the happening of certain events, and its obligation to make the exchange is expressly conditioned upon the deposit of not less than 300,000 shares of common stock of American Woolen Com-

pany (less any shares owned by the Company) or such smaller number as may be determined by the Company with the approval of its counsel. Further information with respect to this offer is contained in the Prospectus of Textron Incorporated dated March 1, 1954 as supplemented March 5, 1954.

### NOTE B Inventories

Approximately \$4,600,000 of the material content of the merchandise inventories was valued at cost on the last-in, first-out basis. The replacement market value of these inventories at January 2, 1954 was approximately \$1,145,000 in excess of the stated values. The excess at the end of the prior year was approximately \$1,000,000. The remaining portion of the inventories was valued on the basis of the lower of cost (first-in, first-out) or market.

At the close of the year the Company was committed for the purchase of materials to cost approximately \$8,400,000. The cost of the materials was not in excess of their then market value.

Supply inventories stated at \$619,000 were valued not in excess of cost.

### NOTE C Assigned Accounts Receivable

At January 2, 1954 assigned accounts receivable were additional security for certain current mortgage notes payable amounting to \$3,536,500.

### NOTE D Property, Plant and Equipment

During the year a throwing plant under construction at the end of 1952 was completed. Payment of the purchase price to the extent of \$1,725,488 was made prior to the end of the year, and the balance of \$313,932 was paid in January 1954.

The Board of Directors has authorized the discontinuance of operations at the mills located in North Smithfield, Rhode Island, East Greenwich, Rhode Island and Lowell, Massachusetts. No provision has been made in the accompanying financial statements for the indeterminate losses, if any, which may result from the disposition of plants and machinery at these locations.

Properties having an original cost of \$13,966,298 are subject to mortgages or conditional sales contract liens having an unpaid balance of \$9,153,134.

### NOTE E Long-Term Debt

Long-term debt at January 2, 1954 consisted of obligations for machinery acquired under conditional sales contracts, \$2,061,667; mortgage notes on buildings and machinery, \$2,338,556; Ten-year 4½% Debentures due April 1, 1958, \$769,000; and unsecured bank loans, \$112,500.

The payment requirements on this long-term debt are as follows:

1955.....	\$1,499,175
1956.....	1,471,877
1957.....	907,138
1958.....	458,728
1959.....	254,294
1960 or later.....	690,511

### NOTE F Leases

In addition to the lease covering the properties of the Burkart Division described in Note A, the Company and its subsidiaries have entered into lease agreements covering other mill properties and offices which provide for rental payments totaling \$580,115 in the year 1954 plus, in the case of certain leases, the cost of taxes, maintenance and protection. The original terms of these leases expire at varying times during the next ten years. The rental payments required for periods subsequent to January 2, 1954 amount to \$3,050,000.

## AND SUBSIDIARY COMPANIES

... January 2, 1954

Textron Puerto Rico has leased the property and equipment of the plants at Humacao and Ponce, Puerto Rico for a period of twenty-five years from June 30, 1952 with renewal options for periods aggregating seventy years. The lease agreement provides for annual rentals to be paid out of earnings during the initial term of the lease (1) cumulative annual rental of 4% of the original cost as adjusted for property additions and for payments of contingent rental, and (2) contingent rental of 50% of net earnings as defined in the lease with certain adjustments for losses in prior years, such contingent rental to be payable only after elimination of Textron Puerto Rico accumulated deficit. Because of the cumulative loss for the period from the commencement of the lease to January 2, 1954, the sum of \$381,151 calculated under (1) above will be payable as accumulated rental out of future earnings.

### NOTE G Contingencies

The Federal income and excess profits tax liability of the Company and certain of its subsidiaries is subject to final determination by the United States Treasury Department for the years since 1942.

In determining taxable income during prior years the Company or its subsidiaries claimed certain deductions, the allowability of which has not been passed upon by the United States Treasury Department. The management believes all of said deductions were properly claimed in determining taxable income. Should any disallowances by the Treasury Department of such deductions be made and sustained, additional taxes would be assessed in an amount which cannot be estimated at this time; in consequence, no specific reserve therefor has been provided in the accounts. The reserve for contingencies at the close of the year, \$1,250,000, is considered by the management to be more than sufficient to cover possible additional Federal income and excess profits taxes. During the year, the reserve for contingencies was determined to be in excess of requirements, and \$710,000 representing excess provisions for Federal income taxes in prior years was returned to income.

Approximately 20% of 1951, 23% of 1952 and 9% of 1953 merchandise sales were made either directly or indirectly to the United States Government and are subject to the Renegotiation Act of 1951. The amount of refund if any, which may be required is not presently determinable. Management is of the opinion that profits were not excessive and therefore, no provision for refund has been made in the accounts.

The Company is contingently liable as endorser of discounted notes in the amount of \$272,165.

### NOTE H Litigation

A civil action has been filed against the Company by Victor D. Lindeman claiming \$270,000 as commission in connection with the sale of the assets of F. Burkart Manufacturing Company to the Company and Midland Enterprises, Inc. The Company filed an amended answer denying all liability with respect to this claim on January 26, 1954.

The Company is defendant in a suit brought by the Textile Workers Union of America claiming approximately \$250,000 for two 5% wage increases retroactive to October 1, 1951 and October 1, 1952, respectively, for former employees of the Company at certain New England plants, under agreements negotiated in September of 1950 but never approved by the Wage Stabilization Board.

In the opinion of counsel, the above claims are without merit and the Company should be successful in its defense of these actions, therefore, no provision for either claim has been made in the accounts.

### NOTE I Option Agreements and Profit-Sharing Plan

Option agreements between the Company and certain of its officers and employees providing for the purchase of common shares of the Company at \$25 per share have been approved by

The letter of the Chairman of the Board should be read in conjunction with these Notes.

the stockholders. No consideration was paid for the options which expire at various dates to April 30, 1963 or earlier, if the optionee shall cease to be an employee of the Company or any subsidiary. At January 2, 1954, options for the purchase of 151,367 common shares were outstanding.

The Company has purchased 44,900 shares of its common stock at a cost of \$501,240 in connection with an option agreement with Mr. Robert L. Huffines, Jr. This agreement gives Mr. Huffines the option to purchase any or all of these shares from the Company at cost at any time before December 15, 1963. However, beginning at December 15, 1954, rights with respect to 10% of such options must be exercised annually or the options to such shares will be forfeited to the Company. These shares are stated in the financial statements at January 2, 1954 at acquisition cost. The market quotation at the close of business March 12, 1954 was \$404,100 at the rate of \$9.00 per share.

A deferred compensation plan was established in 1951 by the Company and certain subsidiaries for the benefit of employees not entitled to receive compensation at more than regular rates for overtime work. This plan, as amended, requires annual contributions equal to 10% of the consolidated net profit before taxes, limited to 15% of the total annual compensation of the member employees. No contribution was required for the fiscal year ended January 2, 1954.

### NOTE J Capital Stock

#### TEXTRON INCORPORATED

The \$1.25 convertible preferred stock (cumulative) is entitled in the event of voluntary liquidation or redemption to \$26 per share and accrued dividends, and in the case of involuntary liquidation to \$25 per share and accrued dividends. It is convertible into common stock on a share for share basis.

The 4% preferred stock of which there are 50,000 shares of Series A and 200,000 shares of Series B authorized is entitled to cumulative dividends of \$4 per share per annum, and upon any liquidation to \$100 per share and accrued dividends, subject to the prior rights of the \$1.25 convertible preferred stock. This stock is also entitled, subject to certain exceptions, to the benefit of a sinking fund requiring quarterly deposits of \$2.50 for each share theretofore issued, such funds to be used for the purchase of 4% preferred stock tendered by holders at prices not in excess of \$100 per share. Deposits in excess of amounts expended to purchase tendered stock are returnable to the Company prior to the end of each calendar year. To January 2, 1954, 8,930 Series A shares costing \$673,638 were retired through sinking fund operations and cannot be reissued.

The Articles of Association contain certain restrictive provisions for the benefit of the preferred stockholders with respect to the purchase or redemption of junior shares and the payment of dividends thereon. As of January 2, 1954 the use of earned surplus for the purchase or redemption of common shares and the payment of dividends thereon was restricted to the extent of \$8,272,071, leaving \$1,774,809 of earned surplus available for these purposes.

#### TEXTRON PUERTO RICO

There were outstanding in the hands of the public 19,719 shares of preferred stock, par value \$25 per share. These shares are entitled to cumulative annual dividends at the rate of \$1.25 per share. The preferred stock may be redeemed by the Company in the year 1954 at \$37.50 per share and in each following calendar year at an increase of \$2.50 per share per year until 1959 and thereafter at \$50 per share plus, in each case, dividends accrued to the redemption date.

### NOTE K Prepaid and Deferred Expenses

As at January 2, 1954 the Company has reclassified certain prepaid and deferred items as current assets. For comparative purposes the balance sheet as at January 3, 1953 has been restated on a similar basis.

**STEWART, WATTS & BOLLONG**

ACCOUNTANTS & AUDITORS

50 STATE STREET

BOSTON 9

NEW YORK

ATLANTA

To the Stockholders of **TEXTRON** Incorporated:

We have examined the consolidated balance sheet of Textron Incorporated and subsidiary companies as at January 2, 1954, and the related consolidated statements of profit and loss and surplus for the fiscal year then ended. We did not, however, examine the balance sheet and related statement of profit and loss and surplus of Textron Puerto Rico included in the consolidated statements but accepted after review the report of examination by other independent public accountants. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We were present at the several plants of the companies when the inventories were being physically checked and observed the work of the companies' employees in that connection. We reviewed the methods used in taking and compiling the inventories and made physical tests sufficient to satisfy ourselves as to the substantial accuracy of the inventory quantities. Goods at outside finishing plants and other locations were confirmed by direct correspondence. We made extensive tests of the pricing of the inventories and satisfied ourselves as to the substantial accuracy thereof.

In our opinion, subject to the determination of the liability for Federal income and excess profits taxes, commented upon in Note G to the financial statements, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus, together with notes to the financial statements present fairly the consolidated financial position of Textron Incorporated and its subsidiary companies at January 2, 1954, and the consolidated results of operations for the year then ended, in conformity with generally accepted accounting principles which, except for the change in classification of prepaid expenses referred to in Note K to the financial statements, were applied on a basis consistent with that of the preceding year.

STEWART, WATTS & BOLLONG

Boston, Massachusetts, March 12, 1954

## MANUFACTURING PLANTS AND OFFICES

### TEXTRON INCORPORATED

EXECUTIVE OFFICE:  
50 South Main Street  
Providence 1, Rhode Island

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#### TEXTILE DIVISION

(Manufacturers of cotton lawns and print cloths, synthetic filament and blended fabrics and synthetic tricot cloth, and dyeing and finishing services)

EXECUTIVE AND SALES OFFICES: 1407 Broadway, New York 17, N. Y.

#### MANUFACTURING PLANTS

Gossett Finishing Plant — Anderson, S. C.	Ponce Mill* — Ponce, Puerto Rico
Hartwell Mill* — Hartwell, Ga.	Riverside Mill — Anderson, S. C.
Honea Path Mill — Honea Path, S. C.	R. W. Bates Piece Dye Works* — Garnerville, N. Y.
Humacao Plant* — Humacao, Puerto Rico	Southside Mill — Anderson, S. C.
Ladlassie Mill — Anderson, S. C.	Toxaway Mill — Anderson, S. C.
Louise Mill* — Charlotte, N. C.	Williamston Cotton Mill — Williamston, S. C.
Peerless Mill — Belton, S. C.	Williamston Rayon Mill — Williamston, S. C.

Williamston Throwing Plant — Williamston, S. C.

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#### F. BURKART MANUFACTURING CO. DIVISION

(Manufacturers of cotton and sisal batts and pads)

EXECUTIVE AND SALES OFFICES: 4900 North Second Street, St. Louis 7, Mo.

#### MANUFACTURING PLANTS

Cairo, Ill.*	New Orleans, La.
Carlisle, Ark.*	Philadelphia, Pa.*
Detroit, Mich.*	St. Louis, Mo.*

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#### DALMO VICTOR COMPANY

(Manufacturers of airborne radar antennae)

EXECUTIVE AND SALES OFFICES: 1414 El Camino Real, San Carlos, Calif.

#### MANUFACTURING PLANTS

San Carlos, California Area — 6 Plants\*\*

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#### THE M B MANUFACTURING COMPANY, INCORPORATED

(Manufacturers of aircraft engine mounts and vibration eliminating and testing equipment)

Executive and Sales Offices: 1060 State Street, New Haven, Conn.

#### MANUFACTURING PLANTS

New Haven, Connecticut Area — 3 Plants\*\*\*

\*Leased Property  
\*\*Leased Property 5 Plants  
\*\*\*Leased Property 2 Plants

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THE UNIVERSITY OF CHICAGO

PHYSICS DEPARTMENT

CHICAGO, ILL.

1950

PHYSICS 101

LECTURE NOTES

BY

ROBERT R. WATSON

PHYSICS 101

LECTURE NOTES

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