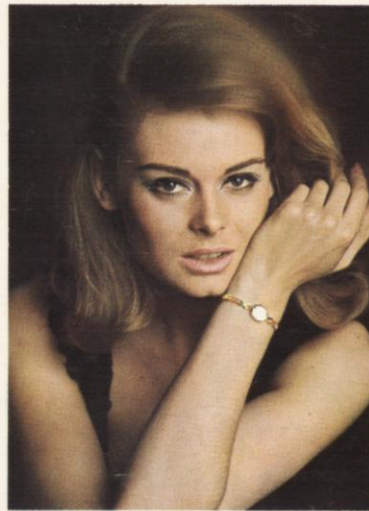




1965  
ANNUAL  
REPORT



**textron**





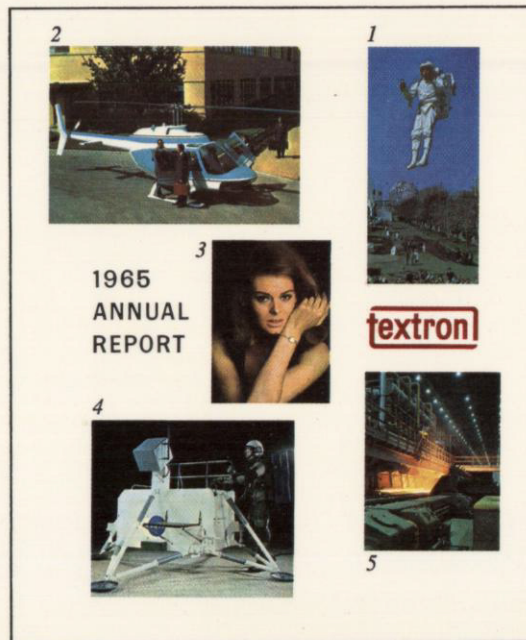
Providence, Rhode Island

### HIGHLIGHTS

	1965	1964
Sales .....	\$850,957,000	\$720,206,000
Pretax income .....	58,889,000	44,085,000
Net income .....	29,139,000	22,085,000
*Earnings per share .....	\$2.62	\$2.04
*Common shares outstanding .....	11,037,666	10,699,096

\*Adjusted to reflect 2 for 1 stock split

Employees 41,000 / Plants 125 / Securityholders 55,000



### THE COVER

1. Bell Aerosystems' rocket belt has been demonstrated in many countries. Bell now has an Army contract to develop an advanced flying belt capable of traveling several miles nonstop.
2. A "new generation" turbine-powered commercial helicopter, the Bell Jet Ranger, is a five-place, high-speed model, to be marketed world-wide.
3. The new Lady Speidel Miniature, a slimmer, daintier watchband incorporating the Twist-O-Flex principle, was two years under development.
4. A full scale NASA model of a lunar flying vehicle, designed by Bell as part of a study of possible transportation on the Moon.
5. A continuous, five zone slab reheating furnace built by Pittsburgh Steel Foundry and Machine Division for Jones & Laughlin Steel Corporation.

## DIRECTORS

- John E. Bierwirth  
*Chairman of the Board, National Distillers and Chemical Corporation, New York City*
- Frederic C. Church  
*Chairman of the Board, Boit, Dalton & Church Inc., Boston, Mass.*
- Georges F. Doriot  
*President, American Research and Development Corporation, Boston, Mass.*
- Henry C. Flower, Jr.  
*Retired Vice-Chairman, J. Walter Thompson Company, New York City*
- Harry B. Freeman  
*Chairman of the Board, Rhode Island Hospital Trust Company, Providence, R. I.*
- Norman B. Frost  
*Frost & Towers, Attorneys, Washington, D. C.*
- Harvey Gaylord  
*Executive Vice President, Textron Inc., Washington, D. C.*
- Herman E. Goodman  
*President, The Franklin Corporation, New York City*
- Robert L. Huffines, Jr.  
*Chairman of the Board, Defiance Industries, Inc., Defiance, Ohio*
- G. William Miller  
*President, Textron Inc., Providence, R. I.*
- Arthur T. Roth  
*Chairman of the Board, Franklin National Bank, Mineola, N. Y.*
- Rupert C. Thompson, Jr.  
*Chairman of the Board, Textron Inc., Providence, R. I.*
- Leslie H. Warner  
*President, General Telephone & Electronics Corporation*

## OFFICERS

- Rupert C. Thompson, Jr., *Chairman of the Board and Chief Executive Officer*
- G. William Miller, *President and Chief Administrative Officer*
- Joseph B. Collinson, *Executive Vice President — Finance and Administration*
- Harvey Gaylord, *Executive Vice President — Operations*
- Jerome Ottmar, *Executive Vice President — Operations*
- Thomas J. Riggs, Jr., *Group Vice President — Operations*
- L. A. Casler, *Vice President — Acquisitions*
- Robert S. Eisenhauer, *Vice President — Public Relations and Advertising*
- Robert E. Grant, *Vice President — Operations*
- Thomas M. Leonard, *Vice President — Operations*
- Thomas C. Musgrave, Jr., *Vice President*
- Robert R. Thurber, *Vice President and Secretary*
- Douglas L. Grote, *Treasurer*
- Theodore F. McDonald, *Controller*
- G. Richard Westin, *Assistant Treasurer*
- Charles F. Chapin, *Assistant Treasurer*
- Thomas M. Curtin, *Assistant Secretary*
- Edward O. Handy, Jr., *Assistant Secretary*
- M. A. Hambly, *Assistant Secretary*

## MESSAGE TO SECURITYHOLDERS

Textron's substantial rate of growth continued during 1965, with both sales and earnings reaching new high levels. Net income rose 32 per cent over 1964, on an 18 per cent increase in sales. Earnings per share rose 28 per cent.

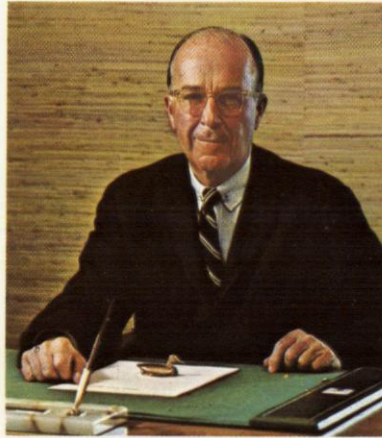
The expansion in sales came principally from internal growth, since no major acquisitions took place during 1965. Of particular importance were increased sales of helicopters, chain saws and metalworking equipment; the consolidation of approximately \$23 million sales of Textron Electronics divisions; and the addition of Speidel division sales for a full year.

The proportionately greater increase in earnings over sales showed the continuing effects of Textron's refinement program. For the fourth year in a row, pretax return on sales increased by at least one half of one per cent. The gain in 1965 was .8 per cent, to a rate of 6.9 per cent. Pretax return on common stock equity rose to 34.3 per cent.

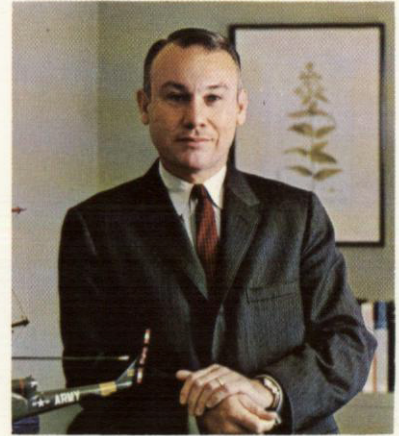
At a special meeting in December, Textron stockholders approved a two for one split of Textron common shares, effective December 17. At the same time the total number of authorized shares was increased to 30,000,000 to provide for possible future requirements. Textron directors also authorized an increase payable January 1, 1966, in the quarterly dividend to 25 cents, equal to 50 cents on the pre-split stock.

Although Textron acquired no large divisions during 1965, five companies of moderate size were purchased as product line additions to existing divisions. Toward the end of 1965 an agreement was made for purchase of the W. A. Sheaffer Pen Company, a leading manufacturer of writing instruments and electronic hearing aids. Sheaffer stockholders approved the proposal in January, and the company is scheduled to become a part of Textron on March 1. The acquisition is for approximately \$19.7 million in cash.

The acquisition of Sheaffer will bring to Textron two well-known brand



*Rupert C. Thompson, Jr.*



*G. William Miller*

names, Sheaffer in pens and Maico in hearing aids, each highly respected for quality throughout the world. The step is in line with Textron's emphasis on expanding its participation in the market for consumer products and in adding to its volume overseas.

The Textron Employees Stock Savings Plan, established in 1960, has become increasingly important. Eligible employees may contribute to the plan up to 10 per cent of base salary for purchase of Textron common stock in the open market, and Textron adds an amount equal to one half of participants' payments. To date individual and company contributions plus dividends have resulted in the purchase of \$19.2 million in Textron stock. After distribution of shares because of retirements, the amount owned by employees in the plan, exclusive of that owned outside the plan by directors and officers and other employees, at the end of 1965 was 796,230 shares, or 7.2 per cent of outstanding Textron common stock. At present, 6,700 employees are saving at the rate of \$4.5 million per year, which, with Textron's contribution and dividends, results in investment under the plan at an annual rate of \$7.5 million.

Harvey Gaylord, executive vice president, became a director in 1965, and in February 1966, Leslie H. Warner, president of General Telephone & Electronics Corporation, joined the board.

Textron should have a good year in 1966. Backlogs are the highest in the company's history, and sales should

show an increase of more than \$100 million, with earnings keeping pace.

Textron management is looking beyond this year, however, in its determination to continue the company's rapid growth, which for the past five years has been at an annual compound rate of 17 per cent in sales and 15 per cent in net income. Special efforts were made in 1965 and are continuing in 1966 on new product research, which provides a basis for sustaining a high level in the years 1967 and beyond. Emphasis has also been placed on modernization of plant and equipment, and on creating the marketing strength necessary to expand successfully in these new product areas. All this has been done against a background of continuing operational refinement and development of highly-motivated corporate and divisional management teams.

The following pages of this report give a more comprehensive review of the factors contributing to Textron's continuing growth.

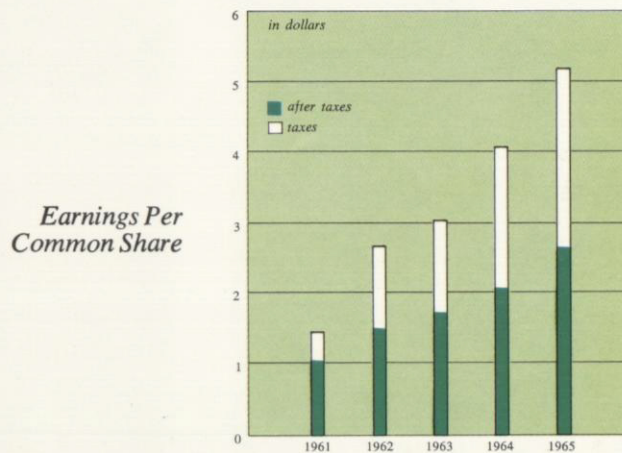
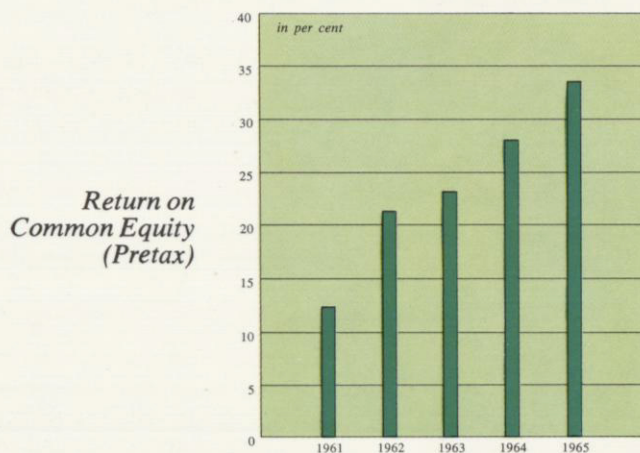
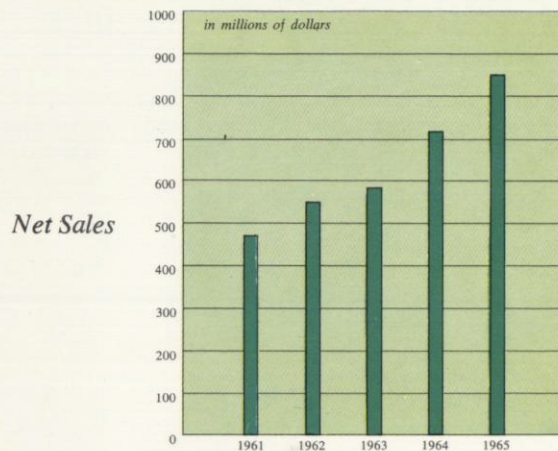
*Chairman*

*President*

February 23, 1966

## CONTINUED GROWTH

Textron's growth was extended in 1965 with marked increases in sales, earnings and percentage of return on investment. For the past five years annual compound rate of growth has been 17 per cent in sales and 12 per cent in earnings per common share. Textron's pretax return on common equity reached 34.3 per cent in 1965.



## FIVE YEAR COMPARISONS (All dollar figures in thousands except amounts per share.)

Financial Results	1965	1964	1963	1962	1961
Net sales . . . . .	\$ 850,957	\$ 720,206	\$ 587,048	\$ 549,493	\$ 473,120
Income before Federal taxes . . . . .	58,889	44,085	32,247	26,672	14,445
Net income . . . . .	29,139	22,085	18,047	14,772	10,545
Depreciation and other non-cash charges . . . . .	16,202	13,307	11,137	12,400	12,142
*Earnings per common share . . . . .	2.62	2.04	1.71	1.48	1.03
*Dividends declared per common share . . . . .	.93	.80	.70	.63	.63

### Financial Position at Year End

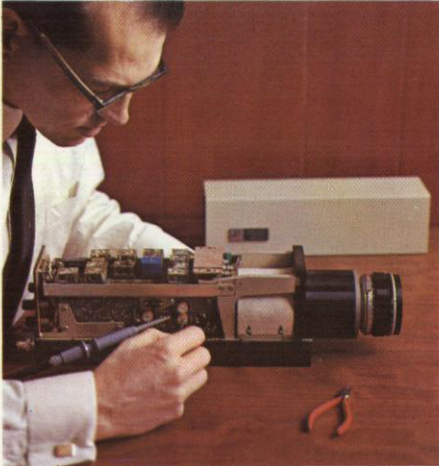
Working capital . . . . .	\$ 129,454	\$ 124,735	\$ 105,229	\$ 109,046	\$ 114,461
Long term notes . . . . .	45,590	57,911	35,555	73,056	89,826
Net properties . . . . .	88,746	78,129	62,711	76,368	84,808
Common stock equity . . . . .	179,360	161,306	145,557	125,069	118,429
*Common stock equity per share . . . . .	16.25	15.08	14.09	12.92	12.08

### Other Statistics

*Common shares outstanding at year end . . . . .	11,037,666	10,699,096	10,331,908	9,683,184	9,807,472
Salaries, wages and employee benefits . . . . .	\$ 300,000	\$ 257,000	\$ 228,000	\$ 210,000	\$ 180,500

\*Adjusted to reflect 2 for 1 stock split effective December 17, 1965.

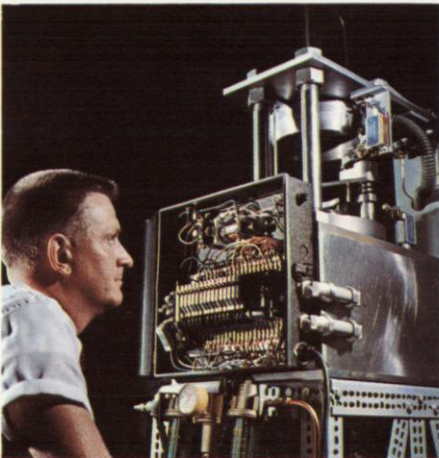
## GROWTH IN RESEARCH AND DEVELOPMENT FOR EXPANDING MARKETS



*A new low light level television camera, developed by Dalmo Victor for the Air Force, can obtain pictures in the dark.*



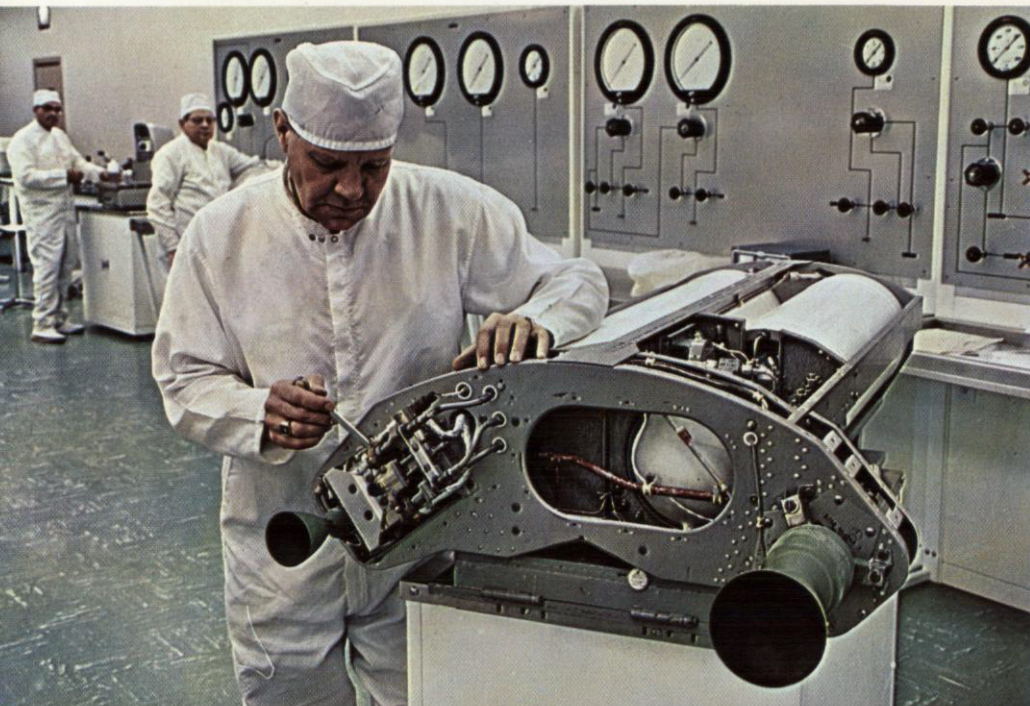
*Experimental stress analysis test on a new Waterbury Farrel automatic machine, to be marketed in 1967.*



*Sprague Meter engineers developed this automated diaphragm assembly machine to improve production and quality.*



*Spencer Kellogg research scientists have synthesized a urethane which foams and insulates, for use in fire retardant coatings.*



The characteristic of the American industrial pattern today is change: change in markets, change in customer desires and needs, change in materials, change in manufacturing techniques and even change in nature of the customers themselves. The key to any company's future growth is the ability to develop new products to meet changing needs.

As a company with a large percentage of its products in areas of high technology, Textron places more than the ordinary amount of emphasis on research and development, not only for new products, but also to increase the growth potential of present lines. Special attention is placed on product development in areas considered to have special future potential. In addition a substantial degree of technical effort is being directed toward improving manufacturing processes — to assure use of the most modern methods.

This stress on research activities is demonstrated by the 50 per cent increase during the year in expenditures for company-financed research, which in 1965 totaled \$17 million. Currently 425 company-funded research projects are underway in Textron divisions, implemented by approximately 1,400 scientists and their associates. Including projects for the government, Textron research expenditures in 1965 amounted to \$48 million and 550 research projects are now being carried out by 2,750 technical personnel. Expansion of research facilities continued in 1965, with five Textron companies making important physical additions to such departments.

A representative list of new products and services flowing from Textron research and development activities follows:

*Electronics:* A television camera which can obtain pictures in very low level light conditions, for both military and commercial use. A gas detector, using both infrared and laser techniques, with commercial applications in

◆ *The secondary propulsion system developed by Bell Aerosystems for the Gemini-Agena target vehicle undergoes final check.*

the fields of air pollution and detection of pesticide residues in water and food. Solar simulators for the nation's space program and for commercial exposure testing. The automatic radar homing and warning system for the F-111 fighter-bomber aircraft.

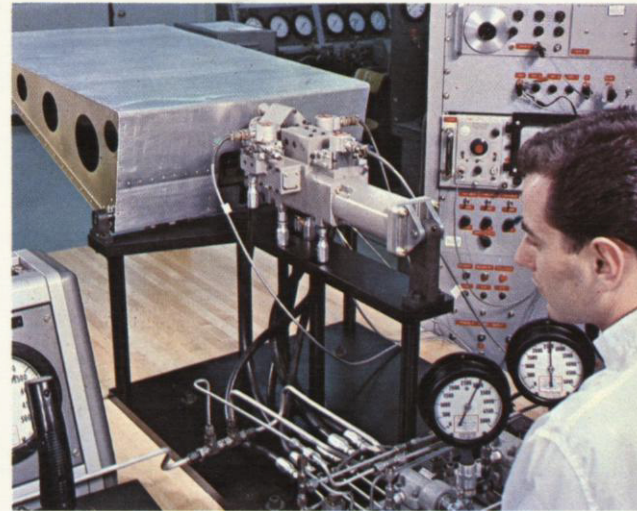
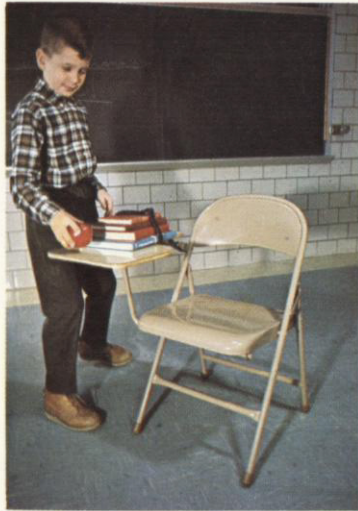
*Interplanetary exploration:* For the Apollo project to send humans to the Moon, the Lunar Excursion Module (LEM) ascent engine, designed to lift astronauts off the Moon on their return trip to Earth and the accelerometers for this engine. Positive expulsion tanks, which force fuel into rocket engines, to be used in the LEM engine and the Saturn booster rocket. The Lunar Flying Vehicle or "moonhopper" which could carry astronauts on short trips over the Moon's surface. Steerable communications antennas, for both the Apollo and LEM vehicles. Satellite tracking antennas on four continents. A vibration test system to prove reliability of Saturn booster components.

The Bell Agena engine, the United States' most reliable space rocket motor, has been given a multi-start capability and in its new version is scheduled to provide the second stage propulsion for the Gemini 8 launching this Spring. During 1965 the Agena engine powered Ranger to the Moon and Mariner around Mars. Textron companies also have a part in the program for scientific investigations in space, with the production of solar cell systems for many of the scientific satellites launched in 1965.

*Vertical lift aircraft:* Three new commercial helicopter models, including a "new generation" helicopter — the Bell Jet Ranger — a five-place, turbo-jet-powered, high-speed ship, and two new models of the famous Bell 47-G light helicopter. Other helicopter developments in 1965 included unveiling of the Bell HueyCobra, a heavily-armed, high-speed version of the famous Bell UH-1; a twin-turbine helicopter; and a compound jet-assisted helicopter flown at



The HueyCobra, a swift, streamlined version of the Army's famous UH-1, designed by Bell for the armed helicopter mission.



New products being marketed as a result of Textron companies' research and development activities include those on this page:

Tablet armchair for schools, a new Randall educational supply product (left above).

An advanced control system developed by Hydraulic Research and Manufacturing division for detection and prevention of control failures in air and sea vehicles and industrial systems (above).

A Dalmo Victor tape-programmed electronic checkout system for diesel locomotives (left).

The first of a new line of Waterbury Farrel high-speed automatic transfer presses for deep draw of large parts.



## Growth in Research and Development for Expanding Markets, continued

250 miles per hour. In addition Bell Helicopter has designed a trailing rotor helicopter to take off and hover like a helicopter and then, with rotors folded down, fly at speeds of a jet airplane. During 1965 the X-22A vertical and short take off and landing (V/STOL) airplane began its ground tests prior to initial flight.

**Air cushion vehicles:** Initiation of the United States' first commercial air cushion vehicle service, between San Francisco and Oakland airports, and downtown San Francisco, using Bell-Westland ships produced in England. Production of the SK-5, the first U. S. military version of an air cushion vehicle, using basic hulls produced abroad, with final assembly by Bell Aerosystems.

**Automatic control and test systems:** The HydroLogic advanced control concept for instantaneous detection and correction of control system failures, to be used in supersonic aircraft, high-speed submarines and industrial systems. SEARCH, automatic test equipment for diesel locomotives. The EPIC 50, the largest optical comparator yet produced and the first with digital readout of data.

**High speed metalworking equipment:** New models of numerically-controlled turret lathes, including the Specialmatic, in which dial settings supply input to a computer and positioning system. The world's first production steel foil mill,

Two Textron companies — Townsend and Camcar — produce sophisticated, cold formed metal fastening parts used in nearly every major U. S. industry. Townsend also makes machines to apply some of these parts.

Upper photo: Rivets and automatic assembly machines manufactured by Townsend are used by Automatic Electric Company a subsidiary of General Telephone and Electronics, in assembly of this new Starlite® Touch Calling Telephone.

Lower photo: Examples of high technology Textron special metal parts (from left): striker bolt for doors of General Motors and Chrysler automobiles; part for Ford station wagon door latch; precision bolt used in Saturn rocket engines; ball stud for automobile steering systems; tuning screw for RCA radio and television sets; aircraft lock-bolt — at least 100,000 are in each of the

installed during 1965 at United States Steel Corporation's plant in Gary, Indiana. A large high speed temper pass mill for U. S. Steel, being built for delivery in 1966. A mill to produce the widest aluminum foil ever commercially rolled. A giant, high-speed, cam-operated press for production of deep-drawn metal parts. Further extension of the use of the famed Sendzimir mill with the manufacture of the first Z-mills for rolling of titanium and sheet steel. Rolling mills for production of laminated metals for the new "sandwich" coins.

**Protective coating materials:** New urethane products for concrete sealing and hardening of buildings and roadways, for use in new types of adhesives, for poured, seamless flooring, and for flame resistant clear coatings for natural wood paneling.

**Consumer products:** After several years of research and testing, the perfection of two new watchband designs to be marketed this Spring — a new synthetic leather watchband combining metal and plastic to give the look and feel of leather but with superior wearing qualities of Twist-O-Flex, and a

more slender ladies' watchband applying the Twist-O-Flex principle. British Sterling, a new prestige line of men's toiletries. The first use of Teflon non-stick coating in cast iron cookware. More powerful versions of lightweight chain saws, including a new model with automatic oiling.

### Bell Huey Is Key Vietnam Helicopter

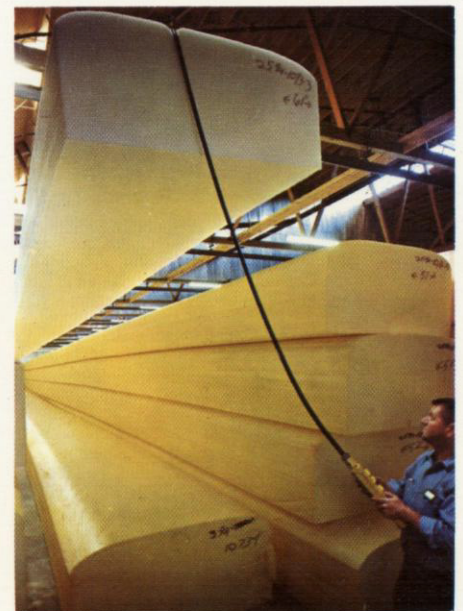
The UH-1 (Huey) series of helicopters which Bell Helicopter Company manufactures for the U. S. armed forces continued to make worldwide headlines in 1965 with success in Vietnam combat and in evacuation of wounded.

Bell in 1965 received UH-1 orders insuring continued production through 1967 at maximum rates. Orders from all 3 armed services in 1965 totaled more than \$300 million.

A production record believed to be without equal in the aerospace industry — 111 consecutive months of on schedule deliveries to the U. S. government — was achieved by Bell early in 1966.



new commercial airliners, including the Douglas DC-9 and the Boeing 737; titanium bone screw for orthopedic use.



A 200-foot-long bun of flexible urethane foam is moved by vacuum lift crane in new Burkart foam plant.



## NEW STRENGTH IN MARKETING

An important part of Textron's program for future growth is the strengthening of divisional marketing activities. The objective is twofold: to take maximum advantage of the market potential for new products and to discover additional marketing areas for existing and future products. The search for broader markets may lead to the addition of new products through research and development activities or by acquisition of supplemental product lines for present Textron companies. In many cases these new lines can make use of the established marketing and distribution systems.

Emphasis is being placed on the concept of "total marketing" — the systematic organization and coordination of sales, product design, distribution, and service. Elements in this program include long-range product planning, use of computers for market analysis, innovations in packaging and distribution, and wider use of market research. Divisions endeavor to anticipate customer needs and to plan better ways of serving these needs, through new or improved products and services.

In 1965 Textron divisions used both consumer and trade advertising in support of their marketing programs. This included prime television network time, radio, national magazines, newspapers and industrial publications. The total 1965 expenditure for advertising services was more than \$12 million.

The extension of present product lines into new markets and the use of new products to take advantage of existing distribution facilities are illustrated by these examples of 1965 marketing activities:

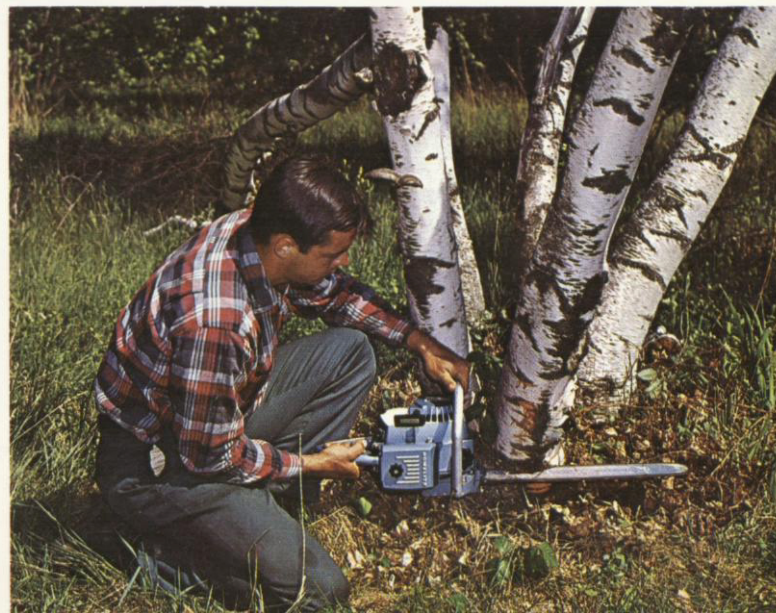
Homelite entered in intensive fashion a new chain saw marketing area — sales to the suburbanite or casual user, such as the weekend woodsman who engages in cutting firewood, repairing storm damage or clearing a camp site. Traditionally, chain saw sales had been predominantly to professional loggers, for large scale tree cutting. The development of the XL line of lightweight saws gave Homelite a product ideally suited for a new group of potential users. Early in 1965 Homelite began an intensive advertising and sales promotion campaign directed toward this group.

For the first time Homelite moved heavily into consumer media advertising, including television, radio, magazines and newspapers. A national "sweepstakes" with 15,000 prizes and special premiums for saw demonstrations was part of the promotion. The Homelite XL now has become the fastest-selling chain saw in the world and the campaign is being continued in 1966.

The Speidel division used the strong jewelry store distribution system of its traditional watchband line as a base to enter the men's toiletries field. Among the factors in this decision were the rapid national growth of the men's toiletries market, estimated at a rate of 20 to 30 per cent per year, the appeal of the product to the increasingly important youth market, and the possibility of giving Speidel a consumed product. The Speidel toiletries line — British Sterling — was introduced through jewelry and department stores in October. By strong sales representation and extensive advertising, British Sterling in the short time since has already become one of the leading brands among the approximately 100 men's toiletries lines.



Speidel successfully introduced its new British Sterling men's toiletries in the Fall on television shows estimated to reach a total of 86 per cent of all TV homes in the United States. Additional shows are on the 1966 TV schedule.



Broadened television and radio schedules and increased use of magazines (photo above is from Homelite ad in Life) are important elements in Homelite's development of the new suburban market for lightweight chain saws.

## TECHNOLOGICAL ADVANCES IN MANUFACTURING



Textron's continuing effort to provide the most modern production facilities was marked in 1965 by the largest capital expenditures in the company's history — the fifth consecutive year of increase. New plant and equipment additions during 1965 cost \$25 million. In the last five years Textron's capital expenditure program totaled \$83 million. The upgrading pattern will continue in 1966 with \$26 million already approved for new plant and machinery.

Such expenditures are made carefully and selectively in order to achieve maximum long-range results and to keep Textron competitive. Each divisional request for capital expenditure must be justified on the basis of standards for return on investment, either through improvement of manufacturing efficiency or by providing capacity for new and profitable product lines.

Eight Textron divisions undertook the expansion of production facilities during 1965, including construction of 420,000 square feet of new plant space.

Bell Helicopter moved into one new manufacturing building, began building another major plant, and leased still another production facility. Burkart began operation of its new urethane foam plant, one of the largest in the industry, and Bell Aerosystems neared completion of a substantial plant addition. Three Townsend units — Engi-

neered Fasteners, Cherry Rivet, and Dunn Steel — have enlarged their production facilities.

Shuron/Continental has consolidated its offices and ophthalmic frame production through a plant addition, and both Precision Methods and Machine and Electronic Research divisions have completed expansion increasing production space at least 50 per cent. The Ledeen unit of Hydraulic Research and Manufacturing division has doubled its production space.

In addition, five divisions have made important research facility expansions.

The first step in a comprehensive production modernization at Campbell, Wyant and Cannon was completed in 1965 with the start of operation of a new \$3 million automatic cam shaft casting line, the most modern facility of its kind in the world. The new line not only increases cam shaft production capacity but also assures better quality control, with reduced scrap. The installation provides for both cupola and electric furnace melting, high pressure automatic molding, continuous sand control and a six-station electrically-controlled metal pouring area. Future planning for this unit includes, in addition to cam shaft casting, the production of a variety of high-volume, closely-controlled grey iron castings for the automotive industry.

*New Bell Helicopter plant under construction near Fort Worth (left).*

*This high pressure, completely-automated molding machine is part of the new cam shaft production facility at Campbell, Wyant and Cannon, most modern in the industry (right).*

## INTERNATIONAL EXPANSION

Textron's program for expansion of international sales continued in 1965. Foreign sales, by export or foreign manufacture, rose 14 per cent, to approximately \$45 million, with almost every division contributing. Export volume was chiefly in helicopters, chain saws, machine tools, rolling mills, oilseed products and frozen dressed poultry.

Foreign licensing income showed an increase — to \$2.7 million, compared to \$.9 million in 1964.

In September a substantial interest was acquired for Townsend division in a leading South American fastener manufacturer — American Screw (Chile) S. A. Waterbury Farrel during 1965 expanded its manufacturing and marketing activities in Europe, using as a base Progres Jones & Lamson, a Belgian machine tool company of which control was acquired early in the year.

The West German government in 1965 announced selection of the UH-1D helicopter, made by Bell Helicopter, for use by the German air force, army and navy and said 406 of the helicopters, to cost approximately \$125 million, would be ordered. The German production program is based on a license agreement with Bell. The Textron company will participate in manufacturing to a limited degree, with the prime contractor in West Germany.

*Exterior of the Santiago plant of American Screw (Chile) S.A., in which Textron acquired a substantial interest in 1965 (right above).*

*The most popular American made chain saw in Europe, a Homelite here is being used in a large Finnish timber operation (right). Homelite has 3,700 dealers outside the U.S.*

## WIDENING OF MANAGEMENT CAPABILITIES

*Textron divisional controllers meet for annual two-day exchange of ideas on financial subjects, including the Performance Improvement Program, electronic data processing and corporate planning.*

Textron's concept of coordinated diversification has as its goal the establishment of a growth company with a high return on stockholders' investment on a continuing basis. Under this concept, Textron brings to its divisions the highly professional management techniques of a major American corporation.

Textron exercises management super-



vision over divisional operations through its corporate group executives, all with many years of high level managerial experience. Each group executive, who supervises several divisions, counsels with divisional management and becomes intimately familiar with the operation, coordinating divisional activities with Textron plans.

Each Textron division is a complete, fully-staffed unit. The divisional president is responsible for day-to-day operations, including his division's return on investment, the primary criterion by which divisional managements are judged. Textron provides opportunities for higher rate of divisional growth by furnishing capital for new plants and new products, funding of research facilities, and financial and long range planning services.

The Textron concept thus results in a divisional management able to keep the close-to-the-customer, vital personal touch of a smaller size company, but with the advantages of corporate planning and financial assistance ordinarily available only in the largest corporations.

Close coordination and management development is enhanced by regular meetings of divisional and corporate managements, which cover a wide range of subjects. These gatherings assist in implementing Textron's continuing refinement program, aimed at improving

operations to achieve a higher return, as well as strengthening management in all areas.

The Performance Improvement Program, now in its fourth year, has developed a large volume of individual projects, involving such areas as production control systems, work simplification, process improvement, new techniques in marketing, inventory control, facility utilization, and budget procedures. Hundreds of projects have been completed with substantial annual savings; large numbers are being worked on currently; and additional new projects are scheduled for consideration in 1966.

The Group Capacity Program, which as a part of the PIP endeavors to improve paperwork efficiency, was extended in 1965. Through standards, staffing formulas, and effective reporting, data is provided to enable management more intelligently to plan, budget and control manpower. Further expansion will take place in 1966.

Extension of electronic data processing continued in 1965 with new computers installed at 10 divisions. Emphasis is on use of computers not only for conventional areas of payroll accounting and record keeping, but also for more sophisticated uses such as engineering calculations, inventory and production control, product design, labor efficiency, and market research.

## GROWTH AHEAD

The future expansion of American business enterprise depends, in addition to a stable economy, on development of markets in broad new areas of growth, a continuous flow of new products to satisfy these markets, management of a uniformly high level of competence, a sound financial base, and ability to generate the necessary capital to finance expansion. Textron is making progress in all of these areas, as discussed in previous sections of this report.

Textron's concept of non-related diversification should be particularly advantageous in the coming years of rapidly-changing business patterns. It provides the ability to move into new areas having high potential.

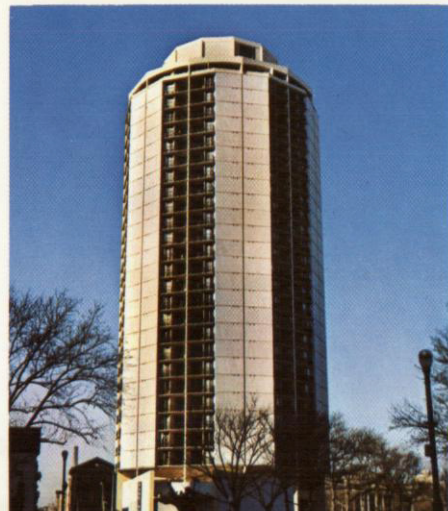
In the past few years Textron has become active in a number of such areas; planning is now underway for expansion in others. A partial list of Textron's capabilities in fields of emerging technologies or special growth potential would include the following:

*New commercial transportation concepts*, including vertical lift (both helicopter and V/STOL) and air cushion vehicles, and automatic aircraft landing systems.

*Space exploration*, with important propulsion, inertial guidance and satellite communication roles in the Gemini and Apollo programs.

*Electronic systems*, including military reconnaissance and countermeasure sys-

*Spencer Kellogg synthetic resins are the base for new protective coatings for masonry surfaces. Concrete used for the exterior of the new Plaza apartment building in Philadelphia is protected with S-K chemicals.*



tems of advanced radar and low light level television equipment, and solar power and simulation systems.

*Materials development*, including special urethane chemicals for the coating and adhesives industries, liquid seamless flooring, and production of flexible urethane foam.

*Automation and test systems*, numerically-controlled machine tools and other metalworking systems, automatic control and test systems, and optical comparators.

*Automotive, railroad and agricultural equipment*, including castings, special parts, seating, trim and bearings.

*Population growth areas*, including gasoline-powered hand tools, watchbands, writing instruments, optical goods, cookware, school seating, hearing aids, and men's toiletries.

These areas of opportunity not only provide Textron with a foundation for future expansion; they have already produced an increasingly-accelerated standard of growth.

Textron's continuing emphasis on research and its flow of new products in areas having special potential should enable it to maintain a high rate of growth. Expansion from within should be supplemented by selected acquisitions of growth companies and will be spurred by efficiencies developed through Textron's continuing refinement program.

*The leadership of Bell Aerosystems in the field of air cushion vehicles was emphasized in 1965 with the initiation of the first ACV passenger ferry service in the U. S. — between San Francisco and Oakland airports.*



*Bell commercial helicopters are opening up many parts of the world previously inaccessible to industry. Here a Bell 204-B carries equipment to an oil drilling project in a remote part of Canada.*



*Jones & Lamson has developed a "new breed" of numerically-controlled turret lathes, in which dial settings program the machine through a solid state, built-in computer and positioning system.*



CONSOLIDATED STATEMENT OF INCOME

Years ended January 1, 1966 and January 2, 1965

	January 1, 1966	January 2, 1965
Net sales . . . . .	\$850,957,201	\$720,205,997
Cost of sales . . . . .	680,084,294	583,422,294
Gross profit on sales . . . . .	<u>170,872,907</u>	<u>136,783,703</u>
Selling, advertising and administrative expenses . . . . .	108,982,340	89,911,790
Operating profit . . . . .	61,890,567	46,871,913
Interest expense . . . . .	(3,992,583)	(3,493,683)
Sundry other income — net . . . . .	991,109	707,113
Income before Federal income taxes . . . . .	<u>58,889,093</u>	<u>44,085,343</u>
Provision for Federal income taxes . . . . .	29,750,000	22,000,000
Net income . . . . .	<u>\$ 29,139,093</u>	<u>\$ 22,085,343</u>

CONSOLIDATED STATEMENT OF EARNED SURPLUS

Year Ended January 1, 1966

Balance at January 2, 1965 . . . . .		\$ 77,415,031
Add:		
Net income for the year . . . . .	\$29,139,093	
Earned surplus of companies acquired through poolings of interests . . . . .	<u>994,261</u>	<u>30,133,354</u>
		107,548,385
Deduct:		
Dividends — \$1.25 convertible preferred stock . . . . .	175,880	
— Common stock — \$.925 per share . . . . .	10,169,092	
Charge resulting from consolidation of Textron Electronics, Inc. . . . .	<u>2,007,696</u>	<u>12,352,668</u>
Balance at January 1, 1966 . . . . .		<u>\$ 95,195,717</u>

See notes to financial statements

ASSETS	<i>January 1, 1966</i>	<i>January 2, 1965</i>
<b>Current assets:</b>		
Cash . . . . .	\$ 12,051,263	\$ 15,605,963
Accounts receivable (less allowances of \$3,775,191 and \$2,180,263) . . . . .	104,056,108	88,295,990
<b>Inventories, at lower of cost or market:</b>		
Raw materials and supplies . . . . .	39,142,108	28,595,484
Work in process (less progress payments of \$32,463,596 and \$29,258,737) . . . . .	67,018,713	57,474,101
Finished goods . . . . .	45,319,270	39,831,967
	<u>151,480,091</u>	<u>125,901,552</u>
Prepaid expenses . . . . .	1,810,153	2,397,497
Total current assets . . . . .	<u>269,397,615</u>	<u>232,201,002</u>
Investment in Textron Electronics, Inc. . . . .	—	9,628,982
<b>Property, plant and equipment, at cost:</b>		
Land and buildings . . . . .	34,110,597	30,227,420
Machinery and equipment . . . . .	132,624,166	110,027,633
	<u>166,734,763</u>	<u>140,255,053</u>
Less accumulated depreciation and amortization . . . . .	77,988,834	62,125,828
	<u>88,745,929</u>	<u>78,129,225</u>
Unamortized debt discount and expenses . . . . .	5,552,740	6,181,625
Other assets (including patents, at cost less amortization) . . . . .	10,561,539	11,957,377
	<u>\$374,257,823</u>	<u>\$338,098,211</u>

See notes to financial statements

# BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY	<i>January 1, 1966</i>	<i>January 2, 1965</i>
<b>Current liabilities:</b>		
Notes payable . . . . .	\$ 4,750,000	\$ —
Accounts payable . . . . .	47,563,327	36,086,192
Accrued expenses and other current liabilities . . . . .	54,385,870	42,285,861
Federal income taxes . . . . .	24,436,554	24,336,509
Current maturities of long term notes . . . . .	8,807,804	4,757,441
Total current liabilities . . . . .	139,943,555	107,466,003
Long term notes . . . . .	45,589,664	57,910,870
Other liabilities . . . . .	5,412,251	4,765,517
Unamortized net excess of equity in companies acquired over cost	1,128,487	2,037,611
<b>Shareholders' equity:</b>		
Capital stock:		
\$1.25 convertible preferred . . . . .	2,823,875	4,612,625
Common . . . . .	2,852,465	2,781,874
Capital surplus . . . . .	91,477,119	89,771,372
Earned surplus . . . . .	95,195,717	77,415,031
	192,349,176	174,580,902
Less common stock in treasury, at cost . . . . .	10,165,310	8,662,692
Total shareholders' equity . . . . .	182,183,866	165,918,210
	\$374,257,823	\$338,098,211

Prior year's figures have been restated to conform to current year's classifications.



## CONSOLIDATED STATEMENT OF CAPITAL SURPLUS

Year Ended January 1, 1966

Balance at January 2, 1965 . . . . .		\$89,771,372
Additions:		
Capital in excess of par value of shares issued upon:		
Conversion of 71,550 shares of \$1.25 preferred stock into 153,746 common shares . . . . .		1,729,276
Exercise of warrants for 117,820 common shares . . . . .		1,737,845
Exercise of employees stock options for 10,800 common shares . . . . .		132,300
Credit resulting from the consolidation of Textron Electronics, Inc. . . . .		294,870
		<u>93,665,663</u>
Deductions:		
Excess of cost of 57,000 treasury shares issued over capital acquired through poolings of interests . . . . .	\$1,222,144	
Excess of cost of 120,000 treasury shares over proceeds from employees' stock options . . . . .	966,400	2,188,544
		<u>2,188,544</u>
Balance at January 1, 1966 . . . . .		<u><u>\$91,477,119</u></u>

## CONSOLIDATED STATEMENT OF CHANGES IN WORKING CAPITAL

Year Ended January 1, 1966

Source of working capital:		
Net income . . . . .		\$29,139,093
Depreciation and amortization . . . . .		16,202,215
Proceeds from exercise of options and warrants . . . . .		3,377,300
Net current assets of companies acquired for stock . . . . .		9,375,502
Property, plant and equipment sold . . . . .		2,568,943
Other . . . . .		342,864
		<u>61,005,917</u>
Application of working capital:		
Additions to property, plant and equipment . . . . .		22,319,783
Dividends . . . . .		10,344,972
Purchase of 271,470 shares of treasury stock . . . . .		8,492,410
Reduction of long term notes . . . . .		12,321,206
Non-current assets of companies acquired for cash . . . . .		2,808,485
		<u>56,286,856</u>
Increase in working capital during 1965 . . . . .		<u><u>\$ 4,719,061</u></u>

See notes to financial statements



## NOTES TO FINANCIAL STATEMENTS

### General

Common shares in the financial statements have been restated to reflect the two-for-one stock split effective December 17, 1965.

During the year Textron increased its interest in Textron Electronics, Inc. from 75% to 98%, by the issuance of 150,674 treasury shares and now consolidates the accounts of that company. Textron also acquired, through poolings of interests, two other companies in exchange for 57,000 shares of treasury stock. Operating results of these companies have been included in the statement of income for the entire year 1965.

In January 1966, Textron acquired the net assets of The Cleveland Metal Abrasive Company and has agreed to purchase in March 1966, the net assets of W. A. Sheaffer Pen Company for an aggregate of \$25,300,000.

### Inventories

Cost with regard to inventories aggregating \$130,300,000 has been determined generally on a first-in, first-out or average basis. Cost of other inventories, totaling \$21,200,000, has been determined on a last-in, first-out basis.

### Long Term Notes

Exclusive of amounts due in 1966, the debt consists of the following:

Notes payable to banks (5%) due serially to 1969 . . . . .	\$20,000,000
5% Subordinated Debentures due May 1, 1984 . . . . .	24,597,000
Other notes . . . . .	992,664
	<u>\$45,589,664</u>

The amount payable in 1967 is \$8,767,000; in 1968 — \$8,524,000; in 1969 — \$4,523,000; in 1970 — \$523,000. In January 1966 Textron arranged additional borrowings of \$30,000,000 from a group of banks to be payable over the period from December 1968 to December 1971.

### Capital Stock

The \$1.25 Convertible Preferred Stock is entitled to cumulative dividends and has no par value. There were 112,955 shares authorized and outstanding at January 1, 1966. The stock 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 at the rate of 2.157 shares of common stock for each share of preferred stock. One million shares of \$5 Preference Stock, cumulative, no par value, is authorized but no shares have been issued. At a special meeting on December 9, 1965, shareholders approved a two-for-one split of the common stock and changed the authorized shares from 10,000,000 shares, 50¢ par value, to 30,000,000 shares, 25¢ par value. At January 1, 1966, 11,037,666 shares were outstanding after deducting 372,194 held in the treasury. Shares of common stock reserved were as follows:

\$1.25 Convertible Preferred Stock . . . . .	243,644
Warrants (exercisable at \$30 for two shares until May 1, 1969 with \$5 price increases each five years until expiration in 1984) . . . . .	856,660
	<u>1,100,304</u>

During the year 130,800 shares of common stock were issued upon exercise of options (at prices of \$11.25 to \$12.50 per share) and options on 320 shares were cancelled. There are no options outstanding nor are any shares reserved for the granting of future options.

### Leases

Annual rentals payable under long term leases are approximately \$6,000,000 and the aggregate rentals payable under these leases, discounted to January 1, 1966, are approximately \$33,500,000. Under certain leases Textron is also required to pay insurance, taxes and repairs.

## AUDITORS' REPORT

### ARTHUR YOUNG & COMPANY

The Board of Directors and Shareholders  
Textron Inc.

277 PARK AVENUE  
NEW YORK, N. Y. 10017

We have examined the accompanying consolidated balance sheet of Textron Inc. at January 1, 1966 and the related consolidated statements of income, earned surplus, capital surplus and changes in working capital for the year then ended. 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.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Textron Inc. at January 1, 1966 and the consolidated results of operations and changes in working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 15, 1966

*Arthur Young & Company*

### AEROSPACE PRODUCT GROUP — 35% of 1965 Sales

Accessory Products — valves, pressure regulators, fluid controls, heat exchange equipment.  
Bell Aerosystems — rocket engines, positive expulsion rocket fuel tanks, VTOL aircraft, air cushion vehicles, inertial guidance, automatic landing systems, other avionic devices.  
Bell Helicopter — helicopters.  
Dalmo Victor — aerospace antennas, electronic warfare systems, electro-optics, magnetic systems, automatic test equipment.  
Hydraulic Research and Manufacturing — electro-hydraulic valves and servo control systems, hydraulic-pneumatic control systems, high performance filters.  
Nuclear Metals — nuclear and metallurgical research and prototype production.  
Spectrolab — electro-optics, semi-conductor devices.

### AGROCHEMICAL PRODUCT GROUP — 12% of 1965 Sales

Spencer Kellogg — chemical products, linseed oil and other oilseed products.  
Beacon — Beacon and Professional Feeds — poultry and livestock feeds, corn milling products.  
Caroline Farms — processed broilers and other poultry products.

### CONSUMER PRODUCT GROUP — 16% of 1965 Sales

GC Electronics — electronic parts and components.  
Hall-Mack — bathroom accessories.  
Homelite — chain saws, power lawn mowers, generators, pumps, outboard motors, E-Z-Go electric golf cars.  
Terry Industries (Canada) — chain saws, pumps, generators, portable space heaters.  
Patterson-Sargent — paints and varnishes.  
Randall (Housewares Division) — cast aluminum and cast iron cooking ware, styled mail-boxes, tubular furniture.  
Shuron/Continental — eyeglass frames, lenses, cases, optical machinery.  
Speidel — wristwatch bands, identification bracelets, jewelry chain, men's toiletries.  
Weinbrenner — work shoes, men's dress shoes, golf shoes, hunting boots, special footwear.

### INDUSTRIAL PRODUCT GROUP — 20% of 1965 Sales

Aetna Bearing — ball and roller bearings.  
Burkart — cushioning materials, polyurethane foam.  
Campbell, Wyant and Cannon — grey iron castings for engine blocks, camshafts, brake drums and parts.  
Electronic Research — frequency control products.  
Fanner — chaplets and chills used in casting, electrical line products, service fittings for utilities, metal abrasives, hand tools and special forgings, malleable iron hardware, plastic products.  
MB Electronics — environmental test systems, balancing machines, electronic instrumentation.  
Parkersburg — pumps, brakes and other equipment for the oil production industry.  
Randall (Automotive and Appliance Parts Division) — automobile and appliance trim, automobile door frames and body parts.  
Sprague — gas meters and regulators, marine fittings.  
Walker/Parkersburg — underfloor electrical distribution systems, pre-engineered metal buildings.

### METAL PRODUCT GROUP — 17% of 1965 Sales

Camcar — cold flow metal parts, fasteners.  
Pittsburgh Steel Foundry and Machine — heavy duty rolling mills and auxiliary equipment, aluminum and steel foil mills, metallurgical furnaces, steel castings.  
Precision Methods and Machines — rolling mill components, precision machining.  
Townsend — special fasteners for aerospace, automotive, home appliance and construction industries; fastening tools; automatic fastening machines.  
Waterbury Farrel — Waterbury cold heading machines, Sendzimir and other rolling mills, presses, Cleveland hobbing machines.  
Jones & Lamson — turret lathes, grinders, optical comparators.  
Progres Jones & Lamson (Belgium) — lathes, small grinders, pipe threading machines.

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### TRANSFER AGENTS

#### *Common Stock*

Rhode Island Hospital Trust Company,  
Providence, Rhode Island  
Morgan Guaranty Trust Company of New York,  
New York City  
Bank of America National Trust and Savings Association,  
Los Angeles, California

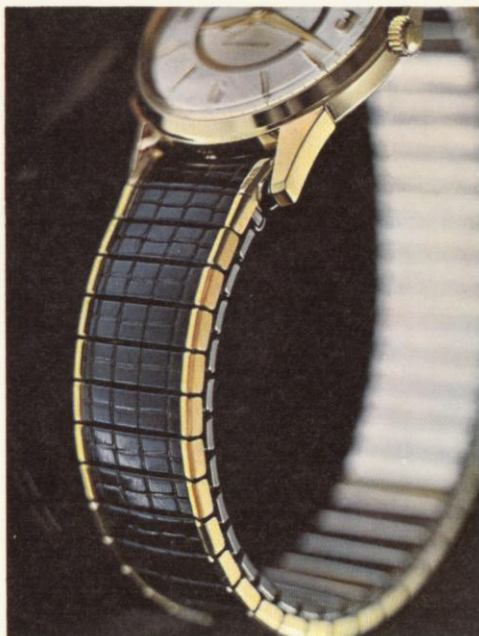
#### *Convertible Preferred Stock*

Rhode Island Hospital Trust Company,  
Providence, Rhode Island  
The Chase Manhattan Bank,  
New York City  
Bank of America National Trust and Savings Association,  
Los Angeles, California



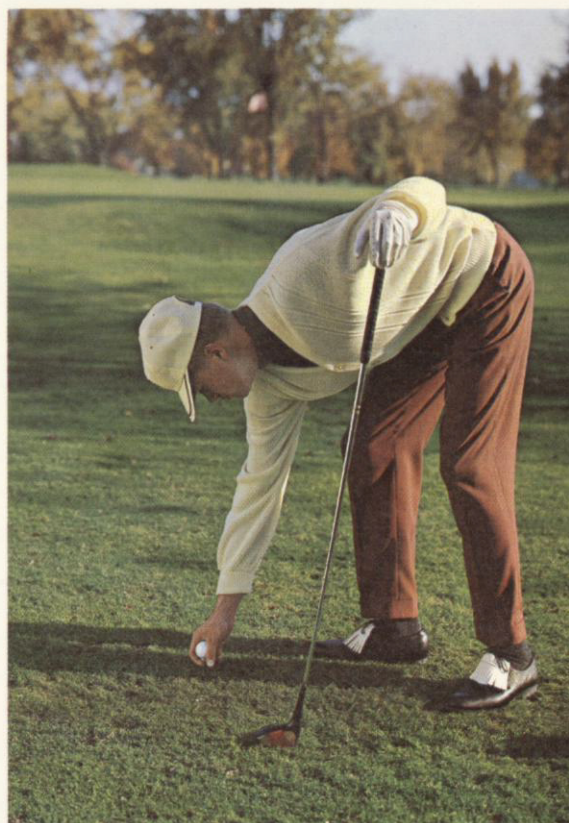
*The new, 1966 Sheaffer pen and pencil line is freshly-styled to an elegant slimness. Textron is scheduled to acquire the W. A. Sheaffer Pen Company on March 1.*

*Jasmine, one of the latest Shuron/Continental eyewear frames, combines plastic and aluminum in a flattering, classic shape.*



*Romunda, the new Speidel men's Twist-O-Flex watchband, is a combination of metal and leather-like plastic to give the appearance and feel of leather without its disadvantages.*

*The first waterproof golf shoes with all leather uppers are a feature of the new Spring Mulligans line by Weinbrenner.*



PROVIDENCE **textron** RHODE ISLAND