textron

ANNUAL REPORT 1966

MANAGING A NEW KIND OF COMPANY

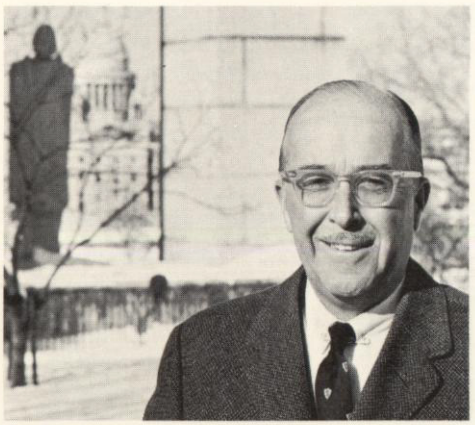
This report emphasizes that Textron's success as a *new kind of company* — a completely diversified, multi-market corporation — to a great extent rests upon the management team which directs the efforts of 50,000 employees, in plants and offices all over the world.

Each Textron company is run by men with long experience in their industry and the responsibility for profitable operations of their unit.

Textron corporate top management executives have the responsibility for establishing overall company objectives and formulating long range plans for their attainment. They are backed up by a group of seasoned corporate supervisory executives, who coordinate divisional operations and over-see Textron's support for new divisional plants and products and for financial and planning services.

The Textron concept results in a divisional management with a close-to-the-customer enthusiasm but still able to call upon Textron's corporate office for the professional assistance ordinarily available only in the largest companies. This brings great flexibility in anticipating and meeting changing technological and market patterns.

Textron's key management is pictured in this report — corporate executives on this page, divisional presidents on the book's inside cover.



Mr. Thompson

Mr. Miller

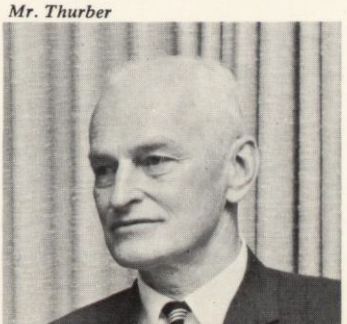
Mr. Ottmar

Mr. Riggs

Mr. Gaylord

Mr. Casler

Mr. Thurber



Mr. Collinson

Mr. Leonard

Mr. Musgrave

Mr. Grant

Mr. Eisenhauer

Mr. Hickey

textron

Providence, Rhode Island

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.
President, Cherokee Securities Corporation, Yemassee, South Carolina

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, New York City

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

Robert E. Grant
Group 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

Lawrence T. Hickey
Vice President — Operations

Thomas M. Leonard
Vice President — Operations

Thomas C. Musgrave, Jr.
Vice President

Robert R. Thurber
Vice President

John B. Henderson
Secretary

Douglas L. Grote
Treasurer

Theodore F. McDonald
Controller

G. Richard Westin
Assistant Treasurer

Charles F. Chapin
Assistant Treasurer

Delbert J. Hayden
Assistant Treasurer

Thomas M. Curtin
Assistant Secretary

Edward O. Handy, Jr.
Assistant Secretary

M. A. Hambly
Assistant Secretary

TRANSFER AGENTS

Common Stock

Rhode Island Hospital Trust Company,
Providence, Rhode Island

Morgan Guaranty Trust Company of New York,
New York City

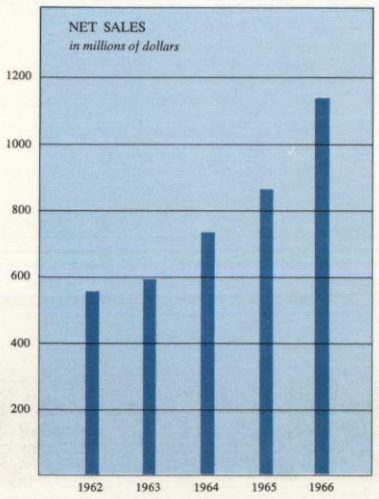
Bank of America National Trust and Savings Association,
Los Angeles, California

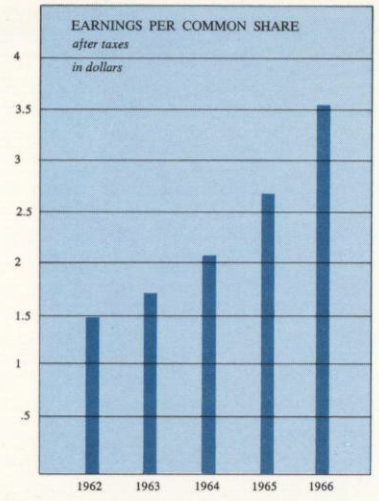
Convertible Preferred Stock

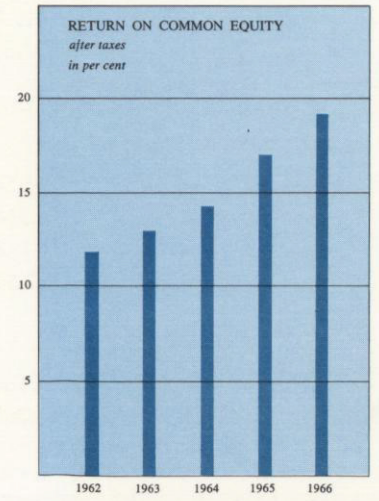
Rhode Island Hospital Trust Company,
Providence, Rhode Island

The Chase Manhattan Bank,
New York City

Bank of America National Trust and Savings Association,
Los Angeles, California







MESSAGE TO SECURITYHOLDERS

Textron's growth continued at a substantial rate in 1966. Sales reached — and exceeded — the billion dollar level for the first time, and earnings also rose to a new high. Net income increased 32 per cent on a 27 percent increase in sales; earnings per share were up 31 per cent. These increases are based on a re-statement to include sales and earnings from pooling of interests with Bostitch, Inc., acquired in 1966.

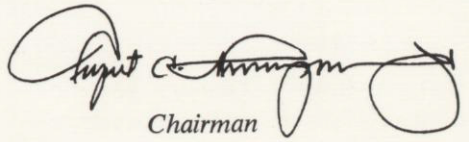
Once again, the sales increase was generated chiefly through internal growth; 85 per cent of the higher sales volume came from greater sales of divisions which were part of Textron before January 1, 1966. The return on sales continued its steady increase, to 3.9 per cent, after-tax. Return on common stock equity also was the highest in Textron history — reaching 19.1 per cent on a substantially larger equity base.

It will be noted that in this annual report Textron is listing product group results by both sales and earnings, in an effort to provide investors with more detailed information which will assist them in keeping up with Textron's progress and capabilities.

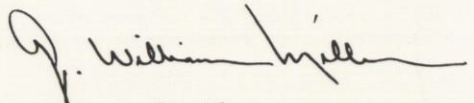
Two well known product names were added by acquisition during 1966: The W. A. Sheaffer Pen Company, a leading manufacturer of writing instruments and electronic hearing aids, was acquired March 1. Acquisition of Bostitch, a leader in manufacture of staples, staplers and nailing and container machinery, took place September 1. Both companies bring nationally-advertised names to Textron and add to its operations abroad. Several small units were also added during 1966 as new product lines for existing divisions. In line with Textron's policy of moving toward fewer, larger divisions, several smaller units were sold during 1966.

The advantages to shareholders of Textron's multi-market form of organization were demonstrated during the year in the company's continued record of growth. For the past five years annual compound rate of growth has been 18 per cent in sales and 28 per cent in earnings per common share. A key element in maintaining this record is the continuing performance of Textron's most important ingredient — people. For this reason a special emphasis is being given in this report to the leaders of Textron's management teams and their approach to problems.

It should be borne in mind that Textron's expansion has been against a background of a favorable United States economy. Some elements of uncertainty in the business climate now have appeared. For many years Textron policies have been directed not only toward building a long history of profitable growth, but also toward preparing for the day when the Textron concept might be more severely tested by business conditions. Textron is ready to meet that test.



Chairman



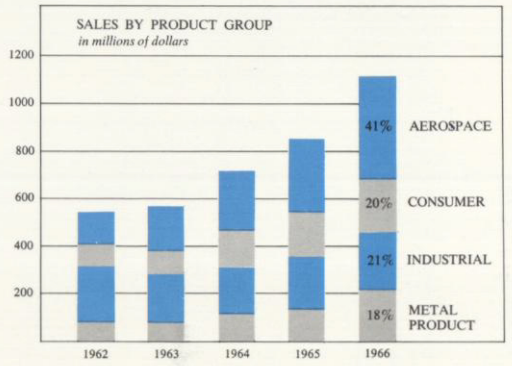
President

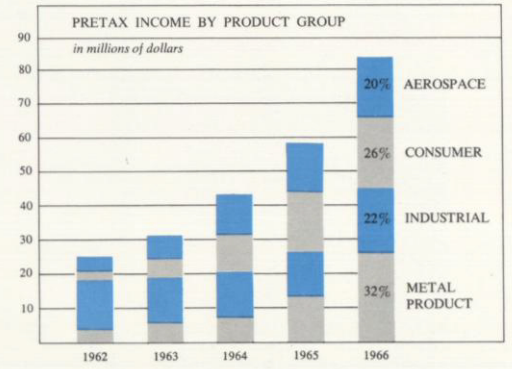
February 15, 1967

SALES AND PRETAX INCOME BY PRODUCT GROUP

(In Thousands of Dollars)

PRODUCT GROUP	1966 SALES	1966 PRETAX INCOME	1966 PER CENT RETURN ON SALES *(Pretax)*
Aerospace	$463,037 41%	$17,088 20%	3.7%
Consumer	223,414 20%	21,916 26%	9.8%
Industrial	239,712 21%	18,244 22%	7.6%
Metal Product	206,011 18%	27,465 32%	13.3%
Total	$1,132,174 100%	$84,713 100%	7.5%





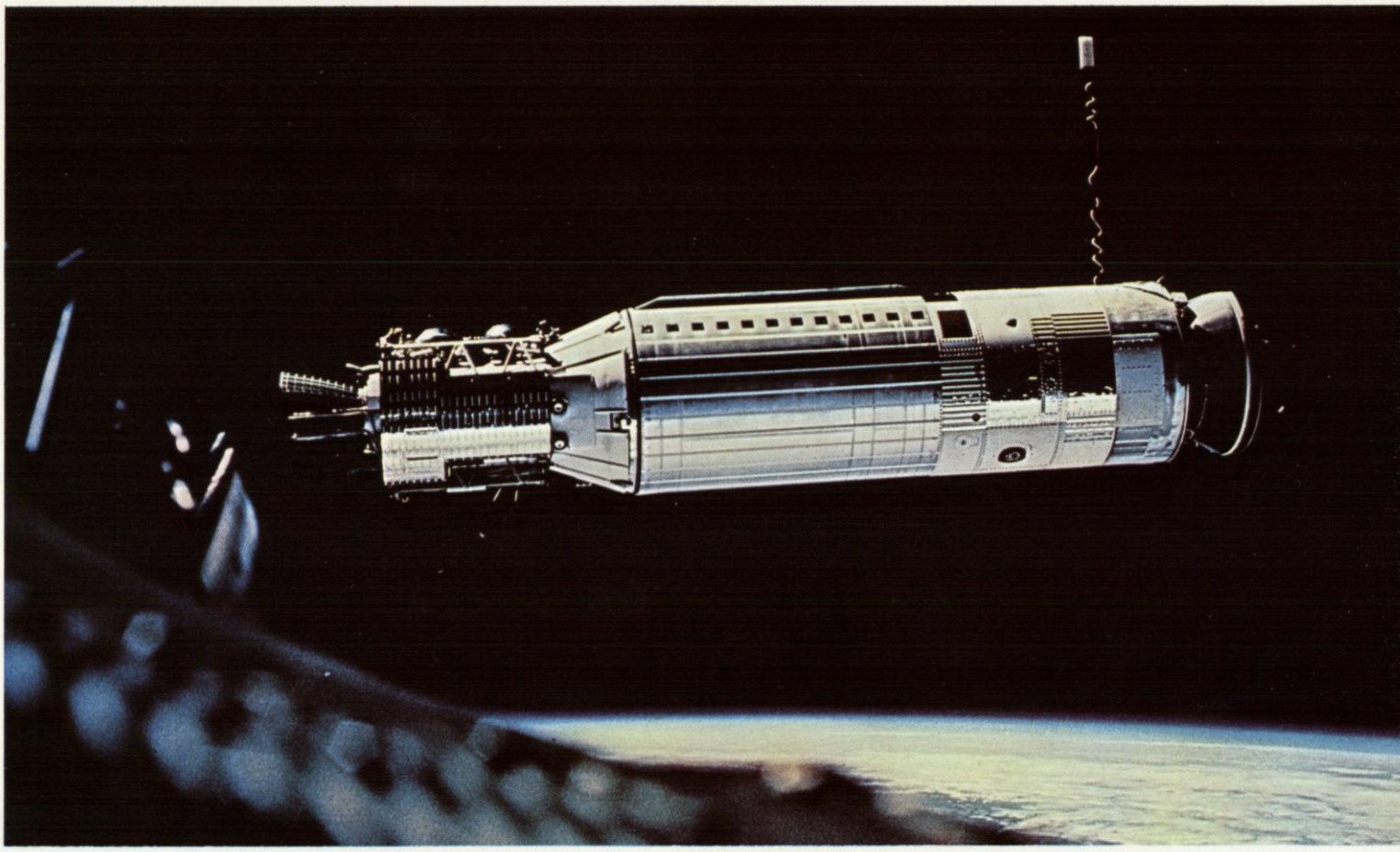
*FIVE YEAR COMPARISONS *(All dollar figures in thousands except amounts per share)*

Financial Results	1966	1965	1964	1963	1962
Net sales	$ 1,132,174	$ 850,957	$ 720,206	$ 587,048	$ 549,493
Income before Federal income taxes	84,713	58,889	44,085	32,247	26,672
Net income	43,913	29,139	22,085	18,047	14,772
Depreciation and other non-cash charges	19,744	16,202	13,307	11,137	12,400
Net income per common share[1]	3.53	2.62	2.04	1.71	1.48
Dividends declared per common share	1.10	.93	.80	.70	.63
Financial Position at Year End					
Working capital	$ 161,965	$ 129,454	$ 124,735	$ 105,229	$ 109,046
Long term notes	59,500	45,590	57,911	35,555	73,056
Net properties	123,219	88,746	78,129	62,711	76,368
Common stock equity	234,064	179,360	161,306	145,557	125,069
Common stock equity per share	18.88	16.25	15.08	14.09	12.92
Other Statistics					
Common shares outstanding at year end	12,398,879	11,037,666	10,699,096	10,331,908	9,683,184
Salaries, wages and employee benefits	$ 407,000	$ 300,000	$ 257,000	$ 228,000	$ 210,000

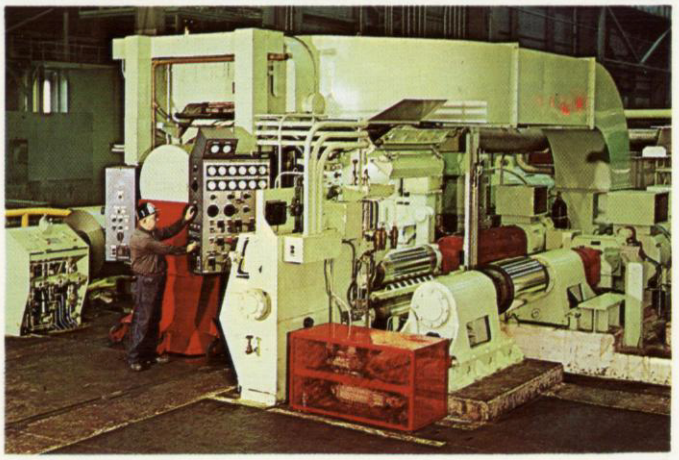
**The above data, with the exception of per share amounts which have been adjusted to reflect the 2 for 1 stock split in 1965, are as reported in Textron Annual Reports for the respective years without retroactive restatement for the pooling of interests with Bostitch, Inc.*

[1] Net income per common share has been calculated on the basis of shares outstanding at the end of each year.

SEARCH, a tape-programmed electronic checkout system for Diesel electric locomotives, developed by the Dalmo-Victor division, is shown in test installation at a Southern Pacific Railroad yard.



Bell Aerosystems' Agena rocket engine played a major role in the 1966 Gemini program, including the propulsion of Gemini XI to a new manned altitude record of 850 miles. In this picture the Agena target vehicle is protographed from the Gemini spacecraft. The Agena was also used during the year in a variety of other space missions. Bell now is developing an advanced power version of the engine, capable of higher performance.



The first rolling mill designed exclusively for commercial production of paper-thin steel foil has been built by Pittsburgh Steel Foundry and Machine division for the United States Steel Corporation.

MANAGING NEW PRODUCT TECHNOLOGY

Under Textron's corporate philosophy, divisional management is encouraged to view new customer demands and developing markets in the broadest possible terms and with the greatest anticipation of future needs. Often this means re-thinking just what business a division is in — or should be in. The tremendous growth of technology has made it imperative for management to plan far more in functional terms than in the past, and not be wedded to narrow product identification.

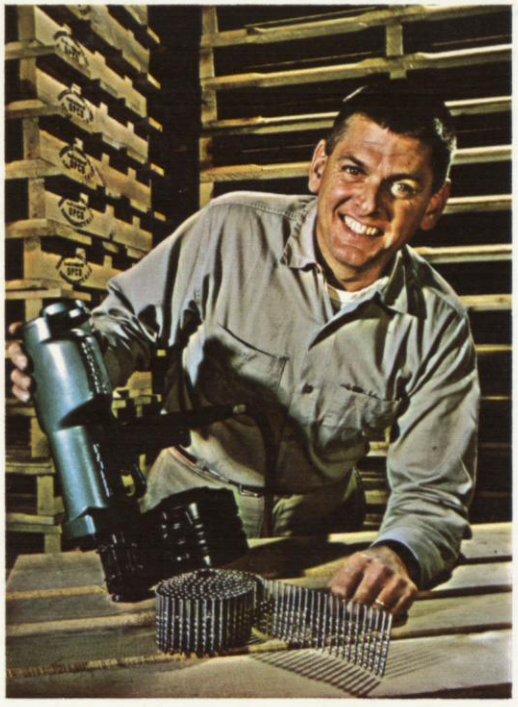
In aerospace, for example, this thinking has gone beyond production of helicopters to the broader concept of development of vertical lift aircraft of a wide variety of types. In fact two Textron divisions are developing vertical lift craft using different principles.

Textron company managements are expanding their research and development in the direction of the next generation of products. Individual divisions also are encouraged to examine the advantages of diversifying within their own industries, to broaden their market participation whenever possible.

The expanded emphasis on research for new products is demonstrated by the increase of 15 per cent during the year in expenditures for company-financed research, which in 1966 totaled $19.5 million.

Textron product development strategy in its four groups is as follows:

Aerospace: Diversification of market participation both as to customers and products, and building on special technological capabilities in order to expand production for all the armed services, the space agencies and commercial users. There has been a high degree of success in efforts to participate in each important aerospace program.



The new Bostitch automatic nailer can power drive 300 nails with one loading of its magazine.

30% of Sales From Products Not Made 5 Years Ago

The impact of Textron divisions' new product efforts is shown by the fact that 30 per cent of Textron's total 1966 sales volume came from products that were not being manufactured by these companies five years ago. Over this period, an amount equal to 25.8 per cent of pre-tax income has been expended on research and development.

These new products include the Speidel Romunda, a metal watchband with a leather look, Homelite's line of super-lightweight chain saws, new models of Bell helicopters, Bell Aerosystems' air cushion vehicles, Sheaffer's fluoro-carbon tipped pen, the Glidewriter, and Spencer Kellogg urethane resins for seamless flooring.

Among the important aerospace product developments is Bell Helicopter's swift new JetRanger. This faster, five-place, turbine-powered ship is a "new generation" commercial helicopter which has cut costs per seat mile by one third. Another new Bell helicopter development to go into production during 1966 is the HueyCobra, the world's first heli-

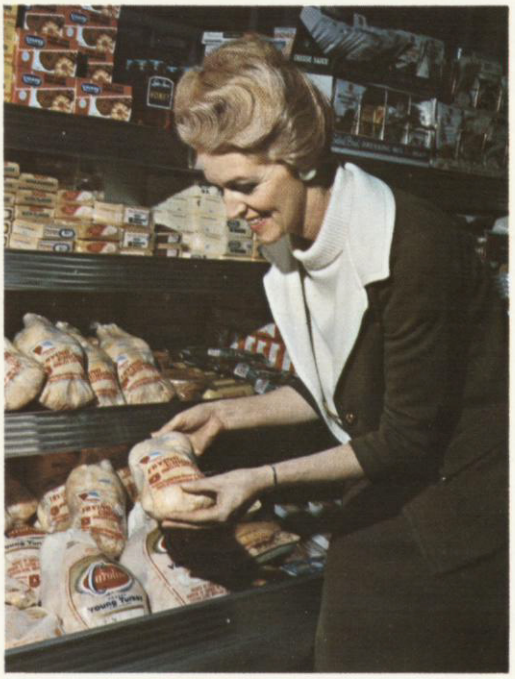
Poured, seamless flooring provides Spencer Kellogg with a growing market for its urethane resins. They can be applied with a paint roller in a variety of designs, are easy to clean and never need waxing.

Earl "Butch" Buchholz, Jr., well-known tennis professional and former U.S. Davis Cup player, is adviser to Walker/Parkersburg in systems for indoor tennis courts, using metal buildings manufactured by that Textron division. Here Mr. Buchholz watches play on courts enclosed by a Walker/Parkersburg building.

The Stylist Foursome, recently introduced by Sheaffer Pen, is the writing instrument industry's first matching four piece set. Left to right are cartridge pen, ballpoint, pencil, and the new Glideriter pen with fluoro-carbon tip.

copter developed as a streamlined weapons platform. The Bell Aerosystems X-22A tri-service vertical and short takeoff and landing (V/STOL) craft began its flight test program during the year.

Bell Helicopter's UH-1 "Hueys" continue to set records of durability and reliability in Vietnam. U. S. Army orders for this ship are now on hand for production through 1968. Bell continued its outstanding production record during 1966; in October the tenth consecutive year of on-schedule deliveries to the armed services was completed.



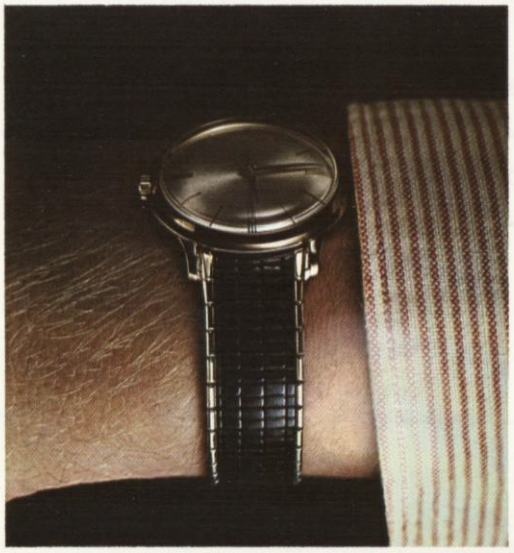
A new Caroline Foods product, free-frozen and glazed chicken parts, is receiving excellent consumer acceptance.

Consumer: Expansion of each division's research and development in the direction of the future generation of products. Strengthening of marketing and distribution activities and addition of other well-known brand names, such as Sheaffer, through acquisition. Sheaffer will be encouraged to think of itself as not only a maker of pens, but also as in the whole field of written communications, with the result that a great area of advanced new product development will be open to it.

Homelite continued during the year to demonstrate its product leadership in the chain saw industry, with the introduction of the first lightweight saw with solid state ignition. Homelite's lightweight models have made it possible for this division to develop successfully new markets for the weekend or leisure time chain saw field.

Industrial: Continuing expansion in products requiring a high degree of technology, in which the amount of capital investment and technical know-how provides protection against sudden shifts in markets.

An industrial group development which has a high potential importance in reduction of air pollution conditions is Spencer Kellogg's new water soluble resins for use in industrial paints and lacquers. These, when drying, cause none of the atmospheric contamination which results from the usual hydro-carbon solvents. In another developing area of materials, Burkart is expanding its production of chemical urethane foam in one of the nation's most modern plants for producing foam used in cushioning for furniture and for automobiles — more and more important with the increased stress on auto safety.



Romunda is the name of Speidel's new Twist-O-Flex watchband, which combines the sturdiness of metal with the look of top grain leather.

Other product developments in Textron industrial group companies are the result of divisional managements' constant seeking of new ways to perform a needed function. An example is Sprague's introduction of a new gas meter which requires no lubrication, an important breakthrough for the gas utility industry.

Metal Product: Further development of products incorporating advanced engineering, especially those which give customers the production increases needed to counter higher costs.

This has been especially evident in machine tool products of this group. For instance, the Jones & Lamson unit of the Waterbury Farrel division is a world leader in tape-programmed turret lathes for machining of precision parts. The increased productivity of these machines is welcomed by businesses anxious to offset increasing pressure on costs. Pittsburgh Steel Foundry and Machine not only is the leading manufacturer of aluminum foil mills, but now has also installed the first mill to roll the new steel foil.

MANAGING FOR MARKETING STRENGTH

An essential for successful introduction of new products is management emphasis on the systematic strengthening of distribution, merchandising and advertising efforts. This is especially important to Textron since it is moving more heavily into the marketing of consumer goods. Product advertising of Textron divisions rose to $18.5 million in 1966, mainly through increased expenditures in television and magazines.

The concept of "total marketing" was expanded in Textron divisions during 1966. This is a systems approach to the organization of design, sales, distribution and service. Advance planning on new products, use of computers in sales analysis and market research and attention to new methods of distribution are tools in this program.

One of the basic elements of total marketing is discovery of customer needs and planning product services to meet them. The Waterbury Farrel division has become one of the leaders in the machine tool industry in imaginative development of this area.

The Waterbury Farrel sales development program is based on finding answers to the question, "What can we do for you?" The prospective customer is brought to Waterbury's headquarters in Cheshire, Connecticut, where the company has opened new physical facilities designed to spur this marketing effort. A wide variety of the latest Waterbury machines are shown in actual operation in a new demonstration room. After hearing the customer's production problem, Waterbury engineers show him solutions to similar problems among displays of thousands of representative parts made by the Waterbury machines. Then he can watch a machine turn out such a part at production-run speeds. In some cases, the machines are set up to make that particular customer's problem part. With the customer confident that a Waterbury product can satisfy his need, specific machines are discussed.

This demonstration process is supported by a comprehensive sales educational program of motion pictures, slides, bulletins and exact scale models.

A feature of Waterbury Farrel's new sales development program is this demonstration room, where prospective customers can see Waterbury machines in operation at production speeds.

MANAGING EXPANSION ABROAD

Textron's policy of planned, steady expansion in international markets continued in 1966. Foreign sales, by export or foreign manufacture, rose to $95 million, almost double the preceding year.

The largest increase — $17 million — was provided by Sheaffer Pen and Bostitch, two divisions which joined Textron in 1966. The two companies have a total of ten plants outside the United States. Nearly every Textron division contributed to the rise, however, with Spencer Kellogg showing a 240 per cent increase and Bell Helicopter, 87 per cent.

Bell Helicopter's foreign license income also increased — by 30 per cent. In May, a production contract was signed with the West German government for 200 Bell UH-1D transport helicopters, to be coproduced with the German aircraft industry during the next two years.

Sheaffer Pen's newest overseas plant is located in Hempstead, England. The complete Sheaffer line is manufactured there for sale in England, Ireland, Europe, Africa and the Middle East.

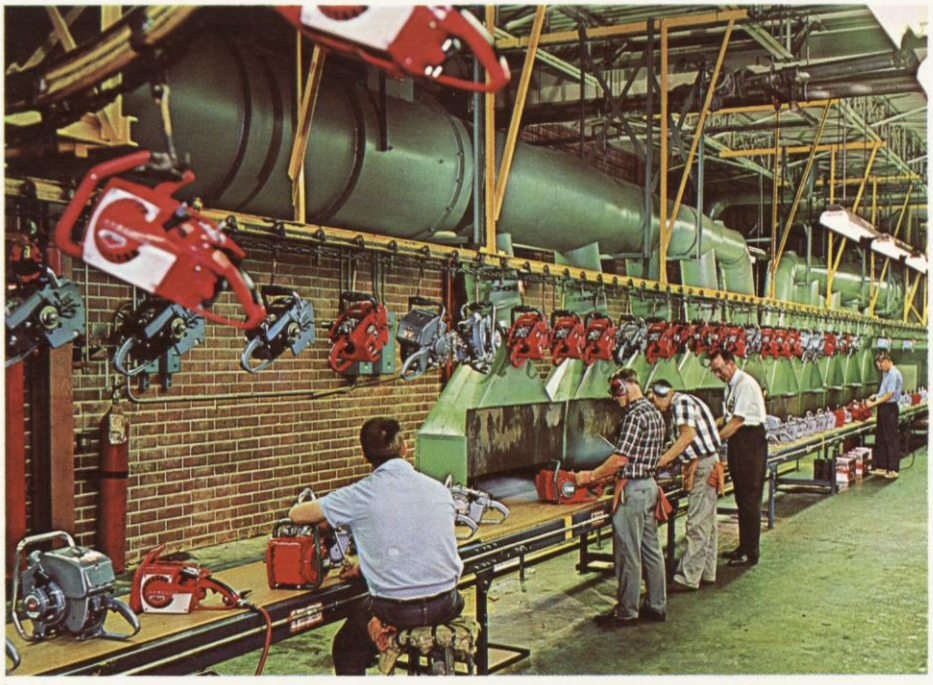
REFINEMENT OF MANAGEMENT TECHNIQUES

Textron management, corporate and divisional, for several years has directed an important part of its efforts toward improving efficiency of operations. Management has felt that the time to improve operations is when business is good, rather than waiting for a decline in the economy.

A large number of cost savings projects were completed in 1966 as part of the company-wide Performance Improvement Program and new ones are scheduled for the current year. Textron is now benefiting from the cumulative effect of the hundreds of projects initiated since the program was begun in 1962. The Group Capacity Program was extended to a number of additional divisions during the year. This program, as part of the PIP, is aimed at improving paperwork efficiency.

Expanded use of electronic data processing took place in Textron companies during 1966. Textron computer activity follows the corporate organizational concept of decentralization, with coordination from the corporate home office. Appropriate equipment is being installed in each location and divisional management is charged with the responsibility for its intelligent and profitable utilization.

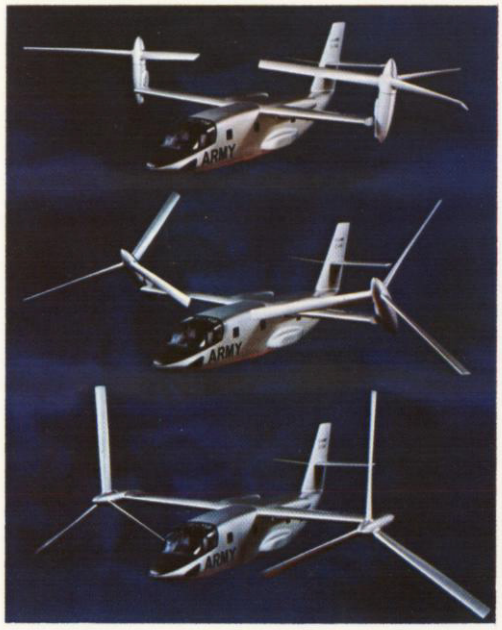
Nearly all divisions already have the new third generation computers or will shortly convert to them. Because of the power and versatility of these machines, Textron is moving aggressively toward uniformity in equipment and applications. Current plans call for more extensive utilization of data transmission capabilities of the new computers.



The Homelite division makes extensive use of electronic data processing in all areas of operations. This includes the market studies which led to the decision to build the saws here shown receiving final tests; the scheduling of raw material purchases; control of the actual manufacturing process, and the maintaining of service parts inventories for branch locations.

Bell Aerosystems late in 1966 initiated plans to begin production of three models of air cushion vehicles. These amphibious machines can travel at high speeds over land or water supported by a cushion of air. In photo, a Bell commercial ACV skims over Lake Ontario.

A new vertical takeoff and landing (VTOL), ship of revolutionary design is Bell Helicopter's entry in the U.S. Army competition for a composite research aircraft. A scale model of the tilt rotor plane is shown at top in takeoff or landing attitude with rotors in helicopter flight position; center, midway through conversion; and bottom, completion of conversion to high-speed flight position, with rotors used as propellers. The ship is designed to have speeds up to 400 miles per hour.



MANAGING FOR THE FUTURE

A consistently high rate of return on shareholders' investment remains Textron's major objective. A number of elements are being combined by management in its efforts to continue profitable growth. These have been mentioned earlier in this report, and include:

The flexibility of the multi-market form, which brings with it the ability to react quickly to change and to shift capital to promising new areas through selective product developments and acquisitions. Broad thinking in new product areas with increased emphasis on research and marketing. Refinement of operations and modernization of physical facilities. High motivation of divisional management.

The organization of these forces can put Textron in position to develop effectively a number of areas of high potential in which the company already has a foothold, including: New transportation systems, space propulsion and guidance systems, advanced materials, tape-controlled machine tools and other metalworking systems, and new families of consumer products.

The new transportation concepts cover the fields of both vertical lift aircraft and air cushion vehicles. The VTOL aircraft include new and revolutionary helicopter concepts, for both commercial and military use. The ACV, a completely new form of transportation, has great promise for the future. A Textron company, Bell Aerosystems, is the leading United States producer of these machines.

textron INC.

CONSOLIDATED STATEMENT OF INCOME

Years Ended December 31, 1966 and January 1, 1966

	December 31, 1966	*January 1, 1966*
Net sales	$1,132,174,000	$890,419,000
Cost and expenses:		
Cost of sales	899,342,000	701,011,000
Selling and administrative expenses	143,770,000	118,698,000
Interest expense	4,349,000	4,047,000
	1,047,461,000	823,756,000
Income before Federal income taxes	84,713,000	66,663,000
Provision for Federal income taxes	40,800,000	33,372,000
Net income	$ 43,913,000	$ 33,291,000
Net income per common share	$3.53	$2.69

CONSOLIDATED STATEMENT OF EARNED SURPLUS

Year Ended December 31, 1966

Balance at January 1, 1966 (including $25,608,000 from pooling of interests with Bostitch, Inc.)		$120,804,000
Net income for the year		43,913,000
		164,717,000
Textron dividends — $1.25 convertible preferred stock	$ 116,000	
— Common stock — $1.10 per share	13,101,000	
Bostitch dividends prior to acquisition (including 2% stock)	2,031,000	
Total dividends	15,248,000	
Charge resulting from the issuance of treasury shares in pooling of interests with Bostitch, Inc.	3,988,000	19,236,000
Balance at December 31, 1966		$145,481,000

See notes to financial statements

ASSETS	*December 31, 1966*	*January 1, 1966*
Current assets:		
Cash	$ 22,859,000	$ 15,044,000
Marketable securities	—	1,683,000
Accounts receivable (less allowances of $4,552,000 and $4,068,000)	138,113,000	110,378,000
Inventories, at lower of cost or market:		
Finished goods	52,497,000	52,460,000
Work in process (less progress payments of $69,180,000 and $32,464,000)	96,247,000	71,938,000
Raw materials and supplies	47,587,000	41,549,000
	196,331,000	165,947,000
Prepaid expenses	2,717,000	2,017,000
Total current assets	360,020,000	295,069,000
Property, plant and equipment, at cost:		
Land and buildings	52,695,000	44,794,000
Machinery and equipment	167,195,000	144,271,000
	219,890,000	189,065,000
Less accumulated depreciation and amortization	96,671,000	87,740,000
	123,219,000	101,325,000
Unamortized debt discount and expenses	4,238,000	5,553,000
Other assets (including patents, at cost less amortization)	13,144,000	11,568,000
	$500,621,000	$413,515,000

See notes to financial statements

BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY	*December 31, 1966*	*January 1, 1966*
Current liabilities:		
Notes payable	$ 12,735,000	$ 4,900,000
Accounts payable	59,672,000	49,573,000
Accrued expenses and other current liabilities	80,809,000	55,696,000
Federal income taxes	30,212,000	26,917,000
Current maturities of long term notes	10,832,000	8,834,000
Dividends payable	3,795,000	—
Total current liabilities	198,055,000	145,920,000
Long term notes	59,500,000	45,790,000
Other liabilities	6,872,000	6,545,000
Shareholders' equity:		
Capital stock:		
$1.25 convertible preferred	2,130,000	2,824,000
Common	3,187,000	3,164,000
Capital surplus	100,729,000	98,633,000
Earned surplus	145,481,000	120,804,000
	251,527,000	225,425,000
Less common stock in treasury, at cost	15,333,000	10,165,000
Total shareholders' equity	236,194,000	215,260,000
	$500,621,000	$413,515,000

textron INC.

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS

Year Ended December 31, 1966

Balance at January 1, 1966 (including $7,156,000 from pooling of interests with Bostitch, Inc.)	$ 98,633,000
Additions:	
Capital in excess of par value of shares issued upon:	
Conversion of 27,750 shares of $1.25 preferred stock into 59,725 common shares	673,000
Exercise of warrants for 276,580 common shares	4,080,000
Exercise of Bostitch employees' stock options	709,000
Declaration of Bostitch stock dividend	809,000
	104,904,000
Deductions:	
Charge resulting from issuance of treasury shares in pooling of interests with Bostitch, Inc.	4,175,000
Balance at December 31, 1966	$100,729,000

CONSOLIDATED STATEMENT OF CHANGES IN WORKING CAPITAL

Year Ended December 31, 1966

Source of working capital:	
Net income	$ 43,913,000
Depreciation and other non-cash charges	19,744,000
Long-term borrowings	30,000,000
Proceeds from exercise of options and warrants	4,868,000
Property, plant and equipment sold	8,376,000
	106,901,000
Application of working capital:	
Additions to property, plant and equipment	38,516,000
Dividends	14,447,000
Purchase of 275,000 shares of treasury stock	13,358,000
Reduction of long term notes	16,594,000
Non-current assets of companies acquired for cash	10,789,000
Other	381,000
	94,085,000
Increase in working capital during 1966	$ 12,816,000

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

General

During 1966 Textron acquired the net assets of The Cleveland Metal Abrasive Company, W. A. Sheaffer Pen Company, and certain other companies for an aggregate of $26,400,000 in cash. Also during the year the Company realized $17,100,000 from the disposition of certain divisions. Operating results of these companies have been included in the statement of income from the dates of acquisition or to the dates of disposition.

On September 1, 1966 Textron acquired the assets and business of Bostitch, Inc. in exchange for 1,299,808 shares of common stock, 299,808 of which were issued from the treasury. The acquisition of Bostitch was accounted for as a pooling of interests and accordingly, operating results of Bostitch have been included in the consolidated statement of income for the entire year 1966. In addition, Textron's 1965 consolidated financial statements have been restated to include the accounts of Bostitch.

Inventories

Cost of $173,043,000 of inventory was determined generally on a first-in, first-out or average method and the balance of $23,288,000 on a last-in, first-out method.

Long Term Notes

Exclusive of amounts due in 1967, the debt consists of the following:

Notes payable to banks (5% and 5⅞%) — $2,500,000 due quarterly to 1971	$38,500,000
5% Subordinated Debentures due May 1, 1984 ($100,000 and proceeds received upon exercise of warrants are payable to sinking fund quarterly)	20,144,000
Other notes	856,000
	$59,500,000

Capital Stock

At December 31, 1966, 85,205 shares of $1.25 Convertible Preferred Stock, cumulative, $25 stated value, were authorized and outstanding. One million shares of $5 Preference Stock, cumulative, no par value, are authorized but no shares have been issued. At December 31, 1966, 30,000,000 shares of common stock, 25¢ par value, were authorized of which 12,398,879 were outstanding after deducting 347,286 held in the treasury. Shares of common stock reserved were as follows:

$1.25 Convertible Preferred Stock (each share convertible into 2.157 shares of common stock)	183,788
Warrants (exercisable at $15 per share until May 1, 1969 with $2.50 price increases each five years until expiration in 1984)	580,080
Options granted to employees of Bostitch	3,860
	767,728

Upon the acquisition of Bostitch, Textron substituted options on 3,960 shares of its common stock, exercisable at $26.27 per share, for options on shares of Bostitch common stock. Options on 100 shares were exercised and options on 3,860 shares were outstanding at December 31, 1966. These options are exercisable at any time until September, 1970. No shares are reserved for the granting of future options.

Leases

Annual rentals payable under long term leases on property, plant and equipment are approximately $5,700,000 and the aggregate rentals payable under these leases, discounted to December 31, 1966, are approximately $30,200,000. 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 December 31, 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 December 31, 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, 1967

Arthur Young & Company

DIVISIONAL PRESIDENTS—A PROVEN TEAM

One of Textron's greatest strengths lies in the seasoned divisional managements headed by the men whose pictures and short biographies are on these pages — executive teams with proven records of success in their industries.

Each divisional president is the operating head of his company. His leadership combines the specific industry know-how of his management group with the Textron ingredient of corporate planning and financial support. Incentive compensation for the president and his management team is based on the division's return on Textron shareholders' investment in his company.

The Textron system of delegating operating responsibility has produced highly-motivated divisional management and a continuing record of growth.

Mr. Ducayet

J. Allan Abbott
Homelite — B. S. Massachusetts Institute of Technology; 35 years with company.

Walter E. Ausenheimer
Walker/Parkersburg — B. S. C. Ohio University; with division since formation 3 years ago.

Louis S. Bishop
Electronic Research — Northwest Missouri State College; founded ERC 8 years ago.

Charles D. Brown
MB Electronics — B. S. Northwestern University; graduate study, Illinois Institute of Technology; 6 years with company.

Thomas E. Butz
Fanner — B. A. Butler University; LL.B. Indiana University; 17 years with company.

Robert Campbell
Camcar — DePaul University; co-founder of Camcar 23 years ago.

Joseph A. Cooper
Caroline Foods—B. S. Purdue University; executive program, Columbia University Graduate School of Business; one year with company.

Frederick R. Dickenson
Townsend — B. S. University of Toronto; 20 years with company.

Edwin J. Ducayet
Bell Helicopter — B. S. Massachusetts Institute of Technology; 16 years with company.

Richard L. Eubanks
Randall — B. A. University of Kentucky; graduate study University of Cincinnati; 14 years with company.

Albert C. Fisher
Pittsburgh Steel Foundry & Machine — Carnegie Institute of Technology; 8 years with company.

William F. Gates
Dalmo Victor — B. S. University of California; 23 years with company.

Mr. Abbott

Mr. Keenan *Mr. Morrow*

Mr. Nippes

Mr. Dickenson

Mr. Levinger *Mr. Schuler*

• Aerospace Product Group

Accessory Products
Valves, pressure regulators, fluid controls.
Fuel Engineering — Autoclaves, hydroclaves, heat exchange equipment.

Bell Aerosystems
Rocket engines, missile and spacecraft propulsion systems, positive expulsion rocket fuel tanks, vertical lift aircraft, air cushion vehicles, inertial guidance, automatic landing systems, other avionic devices.

Bell Helicopter
Helicopters, vertical lift aircraft.

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.

Spectrolab
Electro-optics, solar cells, space power arrays, solar simulators.

• Consumer Product Group

Caroline Foods
Processed broilers and other poultry products.

Hall-Mack
Bathroom accessories.

Homelite
Chain saws, power lawn mowers, generators, pumps.
E-Z-Go — electric golf cars, in-plant vehicles.
Terry Industries (Canada) — Chain saws, pumps, generators, portable space heaters.

Patterson-Sargent
BPS, Vita-Var and Allied paints and varnishes.

Randall *(Housewares Division)*
Cast aluminum and cast iron cooking ware, styled mail-boxes, tubular furniture.

Sheaffer Pen
Writing instruments, electronic hearing aids.

Shuron/Continental
Eyeglass frames, lenses, cases, optical machinery.

Speidel
Wristwatch bands, identification bracelets, jewelry chain, men's toiletries.

• Industrial Product Group

Aetna Bearing
Ball and roller bearings.

Burkart
Cushioning materials, polyurethane foam.

Campbell, Wyant and Cannon
Grey iron castings for engine blocks, camshafts, parts.

Electronic Research
Frequency control products.

Fanner
Chaplets and chills used in casting, electrical line products, service fittings for utilities, metal abrasives, hand tools, special forgings, malleable iron hardware, plastic products.

MB Electronics
Environmental test systems, balancing machines, electronic instrumentation.

Randall *(Automotive and Appliance Parts Division)*
Automobile and appliance trim, automobile door frames and body parts.

Spencer Kellogg
Chemical products, linseed oil and other oilseed and corn milling products.

Sprague
Gas meters and regulators, marine fittings, liquid gas containers and fittings.

Walker/Parkersburg
Underfloor electrical distribution systems, pre-engineered metal buildings.

• Metal Product Group

Bostitch
Staplers and staples, stapling hammers, pneumatic nailers, container machinery.

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, appliance and construction industries, fastening tools, automatic fastening machines.

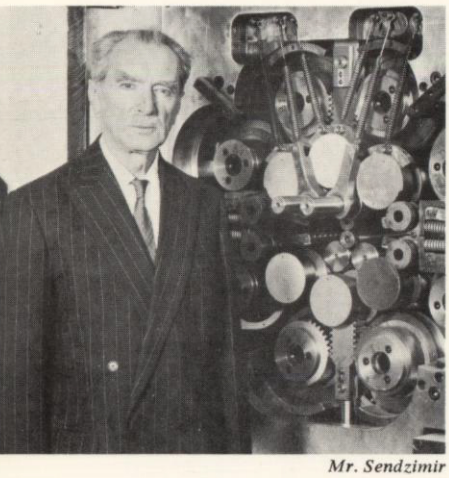
Waterbury Farrel
Waterbury cold heading machines, Sendzimir and other rolling mills, presses, Cleveland hobbing machines.
Jones & Lamson — Turret lathes, grinders, optical comparators.
Progres Jones & Lamson (Belgium) — Lathes, small grinders, Cridan pipe threading machines.
Thompson Grinder — Precision grinders.

Employees 50,000 / Plants 126 / Securityholders 55,000

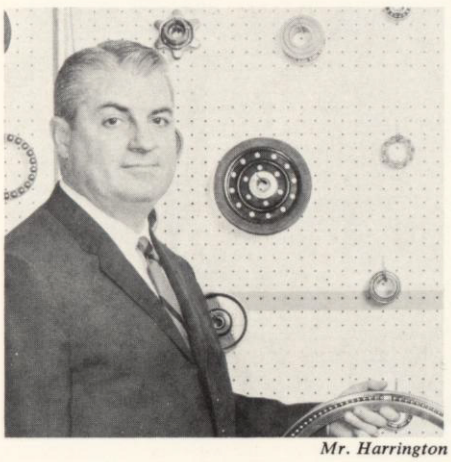
Mr. Ausenheimer

Mr. Eubanks

Mr. McDonald



Mr. Sendzimir



Mr. Harrington

Mr. Cooper

Mr. Lindland

Mr. Bishop

Mr. Fisher

Mr. Gates

Mr. Mann

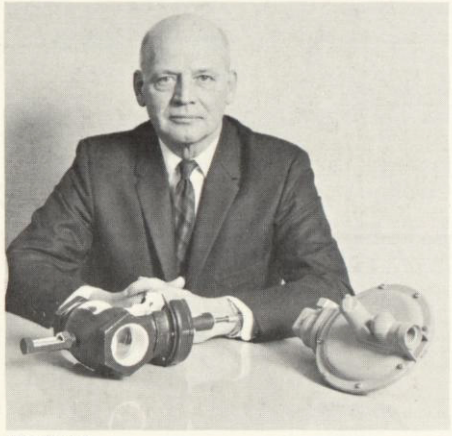
Mr. Brown

Mr. Butz

Mr. Gisel *Mr. Terrill*

Mr. Campbell

Mr. Martenson *Mr. Maple*



Mr. Haist

Mr. Ruud

William G. Gisel
Bell Aerosystems — B. S. Miami University (Ohio); 26 years with company.

William A. Haist, Jr.
Sprague Meter — B. A. Dartmouth College; 8 years with company.

Richard F. Harrington
Aetna Bearing — B. S. University of Alabama; 12 years with company.

John A. Keenan
Sheaffer Pen — B. A., M. S. & Ph. D. University of Wisconsin; 2 years with company.

Paul Levinger
Speidel — Educated in Germany; with company 32 years.

Richard L. Lindland
Campbell, Wyant and Cannon — Ph.B. and J. D. University of Chicago; 24 years with company.

Alfred E. Mann
Spectrolab — B. S. University of California at Los Angeles; 10 years with company.

Robert L. Maple
Accessory Products — B.A. Pomona College; M.B.A. Stanford University Graduate School of Business Administration; 16 years with company.

Carroll M. Martenson
Hydraulic Research and Manufacturing —B. S. and M. S. University of Minnesota; M. S. Massachusetts Institute of Technology; 11 years with company.

James L. McDonald
Hall-Mack — B. S. C. University of Notre Dame; graduate study, University of Southern California and U. C. L. A.; 33 years with company.

Robert B. Morrow
Burkart — B. S. University of Missouri; 38 years with company.

Arthur S. Nippes
Waterbury Farrel — B. S. Penn State; 7 years with company.

Egil G. Ruud
Shuron/Continental — B. A. Hobart College; graduate work, Rochester and Indiana universities; 17 years with company.

M. Claude Schuler
Bostitch — Marketing executives course; 21 years with company.

T. Sendzimir
Precision Methods and Machines — B. S. University of Lwow, Austria; founded PM&M 21 years ago; internationally-famous inventor of metal processing equipment.

Robert L. Terrill
Spencer Kellogg — B.S. Eastern Kentucky State College; graduate work University of Buffalo; 28 years with company.

PROVIDENCE textron RHODE ISLAND

Bell's swift new JetRanger flies past the United Nations Building in New York City during world demonstration tour.